

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

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Introduction

Welcome to the second issue of the *Retail Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with trends from a variety of retail industries. The enclosed information is based on GA’s appraisal and liquidation experience, industry publications, press releases of major public retailers, and contact with key industry personnel.

The *Retail Monitor* covers trends in the most commonly appraised and liquidated retail industries. GA internally tracks elements such as comparable store sales for major retailers, gross margin trends, consumer spending habits, unemployment levels, and other factors that impact overall results at major retailers. Should you need any further information or wish to discuss the range of recovery values that could be achieved for a specific industry, please feel free to contact your GA Business Development Officer or utilize our contact information shown in this and all *Retail Monitor* issues.

GA’s expertise is not confined to purely the retail segments outlined in this *Retail Monitor*, but is also utilized in assuring the accuracy and insight for other retail sectors. All appraisals from GA reflect the full scope of our experience and insight.

Overview

The first quarter of 2011 showed continued momentum in the retail sector following a promising holiday 2010 season, and can best be summed up as a pleasant surprise. Overall, consumer spending continues to show signs of life, particularly for commodities.

Certain economic factors have been leading many to believe that consumer spending will decline. Gas prices increased by approximately \$0.50 per gallon between the beginning and the end of the first quarter of 2011, and have further increased in April. In addition, cotton prices reached a record

high in the first quarter of 2011, up close to 140% during the middle of the first quarter, compared to the same time in 2010.

In light of consistently rising prices, and in addition to a later Easter that was anticipated to shift some of March’s sales into April, analysts have been waiting for the other shoe to drop, and for consumer spending to once again constrict. All in all, first quarter results were promising, as consumers have not yet completely put on the brakes when spending.

Playing a role in the continued spending has been progress seen in unemployment levels. U.S. unemployment declined an entire percentage point in the five months between November 2010 and March 2011. However, the unemployment rate remains well above levels in mid-2008.

Furthermore, the housing market remains in its slump. In February 2011, home prices achieved what they had been threatening to do for months, by double-dipping to levels near the rock bottom lows seen in mid 2009. Following eight months of declines, home values are now more than 30% below peaks set in mid 2006. While some markets have undoubtedly shown more strength than others, overall the market is weak. Foreclosures remain prevalent, driving down prices. Home owners unwilling to sell in the down market are holding onto homes longer, and mortgages for new home buyers continue to be difficult to obtain in many cases. Going forward, spring 2011 housing market activity will be compared to last year, when government incentives may have artificially inflated results.

While the economy managed to amble along during the first quarter, results in the second quarter of 2011 could taper off, as consumers’ response to economic factors will play a pivotal role in spending and retail sales overall.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms.

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EXPERIENCE

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Movie Gallery	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Whitehall Jewelers	Mervyns	Gottschalks
Jo-Ann Fabrics	Hancock Fabrics	A&P	KB Toys
Ritz Camera	Hollywood Video	S&K Menswear	Max Rave

These experiences, in addition to numerous others, provide GA with valuable insight as to the market trends and consumer responses that can be expected in liquidation scenarios. They allow us to gain an understanding as to recovery values that can be achieved for retailers within these industries.

In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country. Recently, GA performed an appraisal for a well-known retailer of children's apparel and accessories, with nearly 1,000 stores nationwide.
- Retailers of consumer electronics, including smaller, more localized chains, as well as national and international retailers with close to 4,500 store locations.
- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.
- Local grocery chains as well as larger grocery store retailers and pharmacies, including one with a store base of close to 400, which achieves net sales of nearly \$8.0 billion.

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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APPAREL AND ACCESSORIES

Department Stores



Industry Trends

Department store retailers experienced strong comparable store sales throughout the holiday season, which continued into the first quarter of 2011, due to improvements in merchandise mix and targeted promotional activity.

The following table illustrates comparable store sales trends for major department store retailers that report these results:

	Sep. '10	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11
Neiman Marcus	4.7%	11.5%	5.5%	4.7%	9.8%	12.7%	8.8%
Saks	6.5%	8.1%	5.3%	11.8%	4.4%	15.3%	11.1%
Nordstrom	7.5%	3.4%	5.1%	8.4%	4.8%	7.3%	5.1%
Macy's	4.8%	2.5%	6.1%	3.9%	2.6%	5.8%	0.9%
Dillard's	3.0%	(1.0%)	8.0%	7.0%	6.0%	(1.0%)	(1.0%)
J.C. Penney	5.1%	(1.9%)	9.2%	3.7%	(1.2%)	6.4%	(0.3%)
Kohl's	3.0%	(2.5%)	6.1%	3.9%	1.4%	5.0%	(6.5%)

Department store sales remained strong earlier in the first quarter of 2011, due to after-holiday promotions and clearance events. Higher-end department store retailers in particular posted gains, which were driven by increased luxury spending. Luxury sales increased 8.5% in March 2011 alone, according to MasterCard Advisors. Luxury retailers attribute gains to increased full price sales.

Other, lower-tier department store retailers, such as Dillard's, J.C. Penney, and Kohl's, blamed inclement weather and an Easter calendar shift for lackluster comparable store sales later in the quarter. However, these retailers noted that due to the shift, April comparable store sales increases will be significant. J.C. Penney also noted that its lower levels of clearance inventory compared to last year dampened sales in March.

In order to attract new customers and increase sales, department store retailers have targeted teens and young adults aged 13 to 25 by tailoring their marketing campaigns and merchandise offerings.

Macy's tested a new marketing campaign, which debuted in February and was aimed at teens, students, and young adults shopping for spring break apparel and accessories.

The marketing campaign promoted the Macy's Star Beach Party event in Chicago, Illinois, which advertised the retailer's offerings and featured sales and giveaways in a "beach party" atmosphere. Additionally, the retailer is stocking more items in its stores that appeal to a younger demographic, including brands such as BCBG Max Azria, RACHEL Rachel Roy, and Material Girl (a collaboration between pop icon Madonna and her teen daughter, Lordes Leon), as well as its own private label brand, Bar III, which debuted in early March.

J.C. Penney is also courting the teen customer. After announcing in early January that it was exiting its catalog business and closing 19 of its catalog outlet stores, the retailer revealed in February it had joined with Stardoll.com, an online interactive fashion community with over 90 million users, to create an exclusive line of Stardoll apparel and accessories for the 2011 back-to-school season, which will be available in over 300 J.C. Penney stores nationwide. Additionally, the retailer debuted its "Wear It, Rock It, Give It" prom dress donation drive in March. Customers who bring in a gently-used prom dress will receive 20% off their prom dress purchase; donated dresses will be distributed to local underprivileged teens.

Going forward, department store retailers are expected to face increased gross margin and pricing pressures due to rising cotton, transportation, and labor costs. In order to preserve gross margin, retailers must either pass along the price increase to consumers, or find alternative means to cut costs.

Recent Appraisal Trends

Net recovery values for department store retailers increased during the first quarter of 2011 compared to the prior year, by 1.0 to 3.0 percentage points. These increases are consistent with trends seen in the previous quarter, as well as compared to first quarter 2010, and were driven by a decrease in discounting cadences needed to sell through aged and clearance inventory. This has resulted in continued gross margin improvements over the previous year. Retailers continue to stay focused on maintaining appropriate inventory levels, as well as enacting timely inventory markups, which have also improved net recovery value trends.

Positive comparable store sales, which increased in the first quarter despite an Easter calendar shift, have also boosted net recovery values.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Increasing

Discounting:
Decreasing

APPAREL AND ACCESSORIES

Specialty Apparel Stores



Industry Trends

Specialty apparel retail sales received a boost during the fourth quarter of 2010 due to promotional activity surrounding the holiday season, as well as improved economic conditions that spurred consumers to trade up from discount and off-price stores. However, several factors in the first quarter of 2011 pressured specialty apparel retailers to increase discounting activity in order to drive customer traffic, including inclement weather and rising fuel costs.

Although the majority of specialty apparel retailers topped analysts' forecasts in the first quarter, comparable store sales were hard won as snowstorms pelted several parts of the country during January and February, while March remained unseasonably cold, keeping shoppers away from stores and malls. Gas prices, due to unrest in the Middle East, also began to skyrocket, reducing many Americans' discretionary spending funds. Furthermore, an Easter calendar shift pushed related spending into April, causing sales toward the end of the quarter to decline. However, Valentine's Day spending, as well as clearance sales and promotional events, such as those surrounding Presidents' Day, increased consumer activity in an otherwise austere quarter for many specialty apparel retailers.

The following table illustrates comparable store sales trends for major specialty apparel retailers that report these results:

	Sep. '10	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11
Gap	(1.0%)	5.0%	5.0%	(8.0%)	0.0%	(1.0%)	(9.0%)
Victoria's Secret	13.0%	14.0%	13.0%	8.0%	35.0%	15.0%	19.0%
Banana Republic	0.0%	(1.0%)	0.0%	1.0%	4.0%	(4.0%)	(8.0%)
Old Navy	(5.0%)	2.0%	5.0%	(2.0%)	(3.0%)	(4.0%)	(12.0%)
Zumiez	17.0%	21.5%	20.7%	9.2%	15.3%	12.8%	8.9%
Wet Seal	(0.7%)	(0.7%)	7.0%	(2.1%)	6.2%	7.0%	4.7%
Buckle	3.0%	2.6%	7.9%	6.1%	4.3%	2.1%	8.4%

Specialty retailers catering to teens, such as Wet Seal, Zumiez, The Buckle, as well as H&M, experienced positive monthly comparable store sales during the quarter, due to strategic discounting and new spring fashion merchandise, which was well-received by customers.

However, after roller-coaster comparable store sales trends during the previous year, teen retailers Aeropostale, American Eagle, and Abercrombie & Fitch recently announced they would follow in the steps of American Apparel, Chico's, and Wal-Mart by no longer reporting monthly sales results. Although quarterly sales reporting allows companies to better cater to long-term investors and shareholders by reducing the focus on short-term results and stock volatility, the lack of detailed performance visibility reduces analysts' and investors' abilities to thoroughly understand and judge a company's business.

Going forward in 2011, this sector could see an uptick in merger and acquisition activity, especially as many specialty retailers hope to generate capital or take their businesses private. In addition to J. Crew finalizing its sale to TPG Capital and Leonard Green & Partners in early March 2011, teen retailer Delia's is purportedly seeking a buyer amongst other options to increase capital.

Recent Appraisal Trends

GA appraised several specialty apparel retailers during the first quarter of 2011, including those that cater to teens and children. Net recovery values for companies appraised were mixed, ranging from down 3.0 percentage points to up 2.0 percentage points in both the low and high selling periods. Although most specialty retailers continued to struggle with deteriorating gross margin levels due to increased discounting activity and inventory acquisition costs, strong brand recognition allowed specialty apparel retailers to retain their value in a retail marketplace currently experiencing low liquidation activity.

Comparable store sales for the majority of specialty apparel retailers were mixed; while some retailers continue to experience improving sales trends due to smart inventory management and discounting activity, others continue to suffer due to increased competition and recession aftershocks.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Mixed

Gross Margin:
Mixed

Discounting:
Mixed

APPAREL AND ACCESSORIES

Off-Price Stores



Industry Trends

Although many consumers traded up to department stores and specialty retailers during the fourth quarter of 2010 due to increased promotional activity, off-price retailers performed moderately well during the first quarter of 2011 amidst fears of rising gas and commodity prices. The following table illustrates comparable store sales trends for major off-price retailers that report these results (Big Lots represents fiscal quarter results that most directly correlate with the calendar year):

	Sep. '10	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11
TJX	1.0%	0.0%	3.0%	2.0%	2.0%	3.0%	(1.0%)
Ross Stores	2.0%	4.0%	6.0%	4.0%	3.0%	3.0%	(1.0%)
Stein Mart	0.4%	(6.5%)	0.0%	(1.9%)	(1.2%)	8.2%	(3.9%)
Stage Stores	1.8%	(3.5%)	2.4%	1.9%	5.1%	(7.2%)	(5.3%)
Big Lots	0.7%	-	-	0.0%	-	-	(3.6%)

Mixed first quarter comparable store sales at off-price retailers were primarily affected by double-digit sales increases the previous year, poor weather conditions throughout the Northeast, Southeast, and Midwest, as well as an Easter calendar shift.

TJX's January, February, and March 2011 comparable store sales were up against 12%, 10%, and 12% increases the previous year, respectively. Ross Stores' first quarter comparable store sales were up against similar 2010 comparable store sales results.

Although SteinMart experienced mixed comparable store sales, sales were bolstered by strong performances in the men's and women's categories, as well as home goods. Similarly, Stage Stores experienced mixed first quarter comparable store sales due to extremely inclement weather in areas where it has a concentration of locations, primarily in Texas, Oklahoma, Arkansas, and Missouri. However, the retailer announced it maintained overall strong sales in its apparel and accessories categories.

With uncertainty building around cotton and gas prices, off-price retailers will most likely acquire new customers and continue to experience positive sales growth in 2011. However, off-price retailers are expected to face increased competition from department and specialty store outlet concepts such as Nordstrom Rack, Off 5th, and Last Call Studio.

Recent Appraisal Trends

Gross margin levels declined an average of 0.5 to 1.0 percentage point. Overall, off-price retailers worked to manage inventory levels closely in the quarter, in order to keep inventory in line with demand.

Despite the decrease in margin, net recovery values increased, on average, 0.5 to 1.0 percentage point in the low and high selling periods during the first quarter, primarily based on changes in the inventory mix. Several retailers experienced slight declines in the level of packaway inventory as a percentage of total inventory, which typically receives a lower recovery value.

Although some retailers blame lower levels of packaway inventory on a decrease of opportunistic buys in the marketplace, others reported managing down packaway inventory by increasing sell-through of current season goods.

Overall, sales for off-price retailers appraised by GA during the first quarter were mixed. Several companies posted moderate sales increases; however, comparable store sales slightly declined for many retailers.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Mixed

Gross Margin:
Decreasing

Discounting:
Consistent



APPAREL AND ACCESSORIES

Discount/Dollar Stores



Industry Trends

Since the recession, discount and dollar stores have become mainstays of the retail landscape, as both low and middle-income consumers continue to focus on value. However, as unemployment levels and discretionary spending continue to improve in 2011, discount and dollar retailers have tailored their offerings, expanded into new markets, and retooled store formats in order to maintain sales and market share.

Overall, discount retailers' comparable store sales results were mixed during the first quarter, primarily due to increased fuel prices and an Easter holiday calendar shift. Some discount retailers, such as Target, indicated that sales performances were lower than expected, as customers focused on staples, such as groceries. Wal-Mart continued to experience store traffic and comparable store sales declines, as it struggled to adjust its merchandise assortment and pricing strategy to woo dollar store customers.

The following table illustrates comparable store sales trends for Wal-Mart and Target (Wal-Mart represents quarterly results):

	Sep. '10	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11
Wal-Mart	-	(1.3%)	-	-	(1.8%)	-	-
Target	1.3%	1.7%	5.5%	0.9%	1.7%	1.8%	(5.5%)

Comparable store sales at Wal-Mart, the largest discount retailer in the world, have declined for seven straight quarters, partly due to apparel merchandising missteps, as well as failed pricing and merchandising strategies that considerably reduced in-store offerings. In order to stem declining sales, the retailer has revamped its marketing and merchandising strategies, and plans to aggressively expand into urban and rural areas with new formats. The company recently unveiled plans to open several hundred small-format stores beginning in the first half of 2011, including the 25,000 to 70,000 square foot Wal-Mart Market (formerly Neighborhood Market), and the newly developed 15,000 square foot Wal-Mart Express, which would provide staple items and may contain a pharmacy within. Wal-Mart has also continued to campaign in the first quarter of 2011 for approval to build a store in the Brooklyn area of New York City.

Similar to Wal-Mart, Target unveiled its urban-centric format, CityTarget, in February 2011. CityTarget stores will range from 60,000 to 100,000 square feet, and carry a reduced product selection. The company plans to open at least four CityTarget stores in 2012. In the past, Target has also utilized several pop-up store formats to showcase new products and guest designers.

Furthermore, Target plans to open over 200 stores in Canada in the next five to 10 years; the company previously purchased 220 leases from Canadian discount retailer Zellers.

Dollar stores continued to take market share from discount mass merchants during the first quarter of 2011 with increased product offerings and value-oriented packaging that appeals to shoppers on tight budgets.

The following table illustrates quarterly comparable store sales trends for major dollar stores that report these results. (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
Dollar General	6.7%	5.1%	4.2%	3.8%
Family Dollar	7.0%	6.1%	6.9%	5.1%
Dollar Tree	6.5%	6.7%	8.7%	3.9%

Due to continued positive comparable store sales, the top three dollar store companies have announced considerable store expansion in 2011. Dollar General, which currently maintains 9,372 stores in 35 states, recently announced plans to open 625 new stores, as well as remodel or relocate 550 stores across the country in 2011. Family Dollar, which currently operates approximately 6,800 stores, rejected a recent \$7.6 billion buyout bid by Triun Group, and projected it will open 300 new stores in 2011. Dollar Tree, which operates approximately 4,100 stores, recently acquired 86 Canadian Dollar Giant stores and announced it could open up to 1,000 stores in Canada.

Recent Appraisal Trends

Net recovery values for discount and dollar store retailers appraised by GA improved slightly during the first quarter of 2011, averaging a 0.5 percentage point increase in both the low and high selling periods. Changes in recovery values were primarily driven by increases in the average markup.

Sales trends during the fourth quarter for companies appraised were mixed, although gross margin levels remained flat. Specifically, some retailers appraised endeavored to maintain gross margin levels by absorbing a percentage of rising acquisition costs and passing along the remainder of the price increase to consumers.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Mixed

Gross Margin:
Consistent

Discounting:
Mixed

APPAREL AND ACCESSORIES

Jewelry



Industry Trends

While global economic conditions remain murky as the result of natural disasters, events in Middle Eastern countries, as well as other worldly events, the U.S. jewelry market has remained relatively unaffected for the most part.

According to recent reports, affluent consumers have apparently loosened their purse strings to splurge on high-priced items, as it was reported that luxury spending increased during the quarter. Positive luxury sales gains in March equaled the six consecutive month luxury retailers had experienced an increase in sales. Projections for the year show luxury spending may increase as much as 8% to \$359 billion.

Coinciding with positive luxury spending trends, jewelry sales also increased during the quarter to an estimated \$5.6 billion in February, up more than 7% from gains posted the month prior. The following table illustrates quarterly comparable store sales trends for major jewelry retailers that report these results. (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
Zale	(2.2%)	(2.1%)	(1.1%)	7.9%
Sterling	7.2%	4.5%	9.7%	6.7%
Tiffany & Co.	15.0%	5.0%	5.0%	9.0%
Blue Nile	18.7%	9.7%	0.9%	11.5%

The jewelry market has fared well on both ends of the spectrum, as low-priced and high-priced merchandise have experienced strong demand. Conversely, moderately-priced jewelry that maintained a price range of \$500 to \$1,000 showed relatively lower sales growth.

While there have been indications that customers have become more willing to spend in recent months, the majority of the population continues to avoid excessively high-priced items. Economic uncertainty has caused many to invest in precious metals and diamonds, pushing up prices, which has led some jewelry retailers to become more reluctant to purchase inventory.

For instance, the price for polished diamonds has experienced a notable increase as of late for various sizes, ranging between half-carat and three-carat diamonds. It seems the increase in diamond pricing has been driven by consumer demand in the Far East and India, which has been reinforced by strong dealer trading.

Similar to rising diamond prices, the price of gold hit a new record high of \$1,500 an ounce during the quarter. The price of silver has also increased, which market watchers attribute to perceived indications of global instability.

Going forward, jewelry retailers are expected to experience sales gains for the remainder of the year, with sales of jewelry and watches forecasted to increase approximately 4% year-over-year to reach more than \$66 billion.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Decreasing

Discounting:
Consistent

Recent Appraisal Trends

Overall recovery values continued to increase slightly, with increases ranging from 1.0 to 1.5 percentage points. Companies appraised have demonstrated consistent sales increases during the first quarter months, and they experienced strong sales due to the Valentine's Day holiday. In addition to a rebound in consumer spending and slowly improving economic conditions, companies have put a lot of effort in making sure they have the right merchandise mix and employing more effective promotional tactics.

The continual increase in precious metal (gold, silver, and platinum) and diamond prices resulted in a decline in gross margin, as companies are just beginning to pass on price increases to customers yet. Due to a high level of competition, companies must carefully analyze competitor pricing in order to minimize the impact price increases will have on sales.

Inventory levels have increased slightly to align with the sales demand. In managing merchandise mix, companies continue to fine tune the overall assortments of goods and have generally shied away from rapidly changing fashion jewelry and focused more on core inventory, with more emphasis on bridal and solitaires. Carrying inventory basic in nature has allowed companies to reduce the level of slow-moving and aged inventory.

In addition, improving customer satisfaction continues to be of focus. Companies are working on changes that will enhance customers' experience at the stores, whether it be free jewelry cleaning, extended warranties, or improved customer service.

APPAREL AND ACCESSORIES

Footwear



Industry Trends

Overall, footwear sales have generally been on the upswing during the first quarter of 2011, following a 7.2% increase in total fashion footwear sales during 2010, as reported by MasterCard Advisors' SpendingPulse. Performance has varied in different footwear categories in recent months. Overall however, footwear retailers are facing a struggle between conservative pricing to attract consumers, versus gross margin protection. Many footwear retailers have managed to find a balance, and have posted comparable store sales gains for most of 2010. The following table illustrates quarterly comparable store sales trends for major footwear retailers that report these results. (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
DSW	17.7%	12.5%	10.6%	14.9%
Payless	(3.3%)	(6.4%)	(4.6%)	(0.4%)
Johnston & Murphy	10.0%	0.0%	7.0%	12.0%
Footlocker	4.8%	2.5%	8.1%	7.3%
Nike Retail	-	-	9.0%	11.0%
Famous Footwear	15.5%	11.8%	12.4%	4.9%

A major trend developing in the footwear retail sector has been a general awareness of price on the part of the consumer. In recent months, discretionary spending has only started to gradually make its comeback. As such, retailers of items such as footwear have noticed a pattern with respect to the range of price points that customers are most comfortable spending for new shoes. Consumers in the majority of the demographic are leaning toward affordable footwear, with some companies estimating that over half of sales are generated from shoes that are priced at under \$100.

There are, however, certain segments of the population that seem to be sticking their toes back into the water for spending on higher priced footwear, particularly for categories that are in high demand. In the men's and women's dress shoe market, some customers have returned to purchasing shoes in the \$300 to \$400 range; however, spending in this price point range has not returned to pre-recession levels by any means. It has lately been dominated by the higher-earning echelons of society, as opposed to middle-class Americans who might have been more willing to spend on these shoes prior to the recession.

That said, when a product line proves popular, the demand has been seen in recent months for expensive versions. For example, rain boots sold extremely well during the first quarter of 2011, driven by inclement weather experienced throughout many areas of the country. These were selling through lower priced retailers all the way up through higher end counterparts. *Women's Wear Daily* reported that Bloomingdale's has been stocking rain boots in brands such as Chanel, Burberry, and Fendi, which have been selling well.

While some retailers did experience somewhat weaker footwear sales during the end of the first quarter, this is partially attributable to the calendar shift of Easter into later in the season. New Easter shoes and spring outfits are often purchased closer to the holiday, and some of the sales could potentially have shifted into April.

Recent Appraisal Trends

Net recoveries during the quarter have been predominantly increasing, by 1.0 to 2.0 percentage points. These increases have been driven by improving sales and gross margin results. Margins have improved for a variety of reasons. In general, companies have been carrying product that generate higher margins as they are better quality, and in a better mix, which have subsequently sold with minimal to no discounts. Overall, many companies have experienced declines in discounting levels, which, in addition to the aforementioned better inventory mix, is also attributable to the fact that many companies successfully cleared through aged and slow-moving inventory throughout 2010, resulting in higher than historical margins during the first quarter of 2011.

While the majority of companies have been experiencing increases, there have been some outliers experiencing declines in net recovery values. These companies have not yet recovered from the recession, and subsequently have experienced declining sales trends. Additionally, the increase in inventory levels for some companies has outpaced increases in sales levels. As a result, increases in gross recoveries resulting from improved sales and inventory mix may be offset by an increase in expenses resulting from a longer liquidation sales term.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Increasing

Discounting:
Decreasing

ENTERTAINMENT/ OUTDOOR PRODUCTS

Books



Industry Trends

Book retailers continue to face challenges related to retail pricing pressure, declining sales of physical books, and the overall economy. In addition, these retailers have continued to lose market share to online giant Amazon.com and mass merchant retailers like Wal-Mart and Target. Current estimates show Amazon controlling 19% of the total book market, which includes new and used print books and e-books. The following table illustrates comparable store sales trends for major book retailers that report these results (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
Barnes & Noble	(3.1%)	(0.9%)	(3.3%)	7.3%
Borders	(11.4%)	(6.8%)	(12.6%)	N/A
Books-A-Million	(3.6%)	(3.2%)	(5.8%)	(6.7%)

After posting several consecutive quarters of comparable store sales declines, Barnes & Noble had one of its best holiday seasons in recent memory, with comparable store sales up 7.3% for the quarter ended January 2011. However, sales of physical books have been on the decline. The retailer now sells more e-books than physical books via its website.

Meanwhile, Barnes & Noble's chief rival, Borders, continues its struggle to stay afloat. After delaying vendor payments, eliminating positions, and divesting its calendar kiosk business, Borders filed for bankruptcy on February 16, 2011. As part of the restructuring, Borders announced it would close 227 underperforming stores, of which approximately 200 have already been liquidated, with the remaining stores to be shuttered by the end of May. In April 2011, Borders presented its new restructuring plan, which includes revamping its stores, increasing online sales, more efficient distribution processes, better tailored product offerings, and a larger selection of tablet computers and e-readers. The retailer projected that it could turn a profit by the end of this year. However, Borders' claims and its plan were met with skepticism from creditors, who believe it to be unrealistic. Only a few weeks after presenting this plan, the company announced it was seeking an additional \$50 million in financing, on top of the \$505 million debtor-in-possession loan it has already received. Many believe Borders will have no choice but to sell itself or undergo a total liquidation.

According to the Association of American Publishers, which tracks sales of 20 publishers, print sales decreased 25% in the first two months of 2011, to \$441.7 million, while e-book sales from 16 publishers tracked increased 169.4%, to \$164.1 million. Similarly, Nielsen BookScan, which captures approximately 75% of unit sales through both retail and online channels, reported that print units in the first quarter fell 9.0%, to just over 162

million. Adult fiction experienced the largest dip in print sales, while also experiencing the largest increase in e-books sales.

So far, Barnes & Noble has benefited from the e-book trend due to strong sales of its NOOK e-reader and e-books. Barnes & Noble estimates that it maintains a 20% share of the e-book market. However, some wonder if this is just a short-term benefit and whether the retailer will be able to compete with

Amazon.com over the long term or eventually be forced to downsize as well. According to Amazon.com, its Kindle 3 e-reader remains its best-selling product in history. Some estimate that Amazon.com maintains a 70% share of the e-book market, although it is difficult to substantiate that claim.

In December 2010, Google launched its own e-book store, which could give Amazon.com a run for its money. Google's store currently features approximately three million titles. Google's books can be read on any device with a web browser. The company has also released reading apps for the Android operating system, the iPad, and iPhone, but not the Kindle.

Borders' financial difficulties and wave of store closures could signal an end to the bookstore industry as we know it. With more and more consumers downloading books from the Internet, customer traffic at brick-and-mortar stores could slow considerably. As a result, many are predicting an industry-wide downsizing as retailers adjust their business models to adapt to the increasing popularity of digital books.

Recent Appraisal Trends

GA has observed that many retailers continue to expand non-book categories to draw customers into the stores. Book stores are also reducing their weeks of supply and are shrinking the selling space allocated to CDs and DVDs. Many are reallocating the space once devoted to CDs and DVDs to departments such as Children's, Travel, and Health & Wellness.

Despite declining sales, net recoveries for appraisals have increased between 4.5 and 7.5 percentage points to reflect recent liquidation bids and results. Based on GA's involvement in several store closings and liquidation bids for a major book retailer, gross recoveries have been relatively consistent with appraised values. Multipliers have been higher than those used in appraisals. However, these partial liquidations are not necessarily reflective of a full-scale liquidation in which a portion of inventory would likely be sold through bulk channels, due to the breadth of product held by most book retailers. Moreover, in recent liquidations, a portion of inventory was returned to vendors, which would not occur in a full-scale liquidation.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Mixed

Gross Margin:
Consistent

Discounting:
Consistent

ENTERTAINMENT/ OUTDOOR PRODUCTS

Music and Video



Music

Industry Trends

During the first three months of 2011, album unit sales decreased 1.3% compared to 2010, according to Nielsen SoundScan. Although down, the decline was less severe than this same timeframe last year, when sales were down 6.1%. The improvement was due to a recent increase in digital sales. Unit sales of digital singles increased by 8.6% during the first quarter. This category experienced only a 1% increase for all of 2010 and was down 0.9% for this timeframe in 2010. Even more impressive, digital albums were up 14.9% for the first quarter of 2011; however, this increase is slightly below the 16% increase experienced during the first quarter of 2010. Due to the popularity of digital downloads, physical album sales were down 12.3% for the first quarter of 2011.

The following table illustrates comparable store sales trends for major companies in the music and video industry that report these results (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
Trans World	(2.7%)	(2.0%)	(5.0%)	(6.0%)
Hastings	4.9%	4.5%	1.3%	(3.2%)

Although Apple continues to dominate the digital music marketplace, Amazon.com recently unveiled a new service that could eat away at Apple's market share. In late March, Amazon.com launched Amazon Cloud Drive, Amazon Cloud Player for Web, and Amazon Cloud Player for Android. These services allow users to store their digital music in a "cloud" and play it on any Android phone or tablet, PC, or Mac. Users will also be able to upload their existing digital music library as well as store any music purchased through Amazon.com.



Rumors regarding a similar service from Google continue to circulate. There was speculation that Google would announce a new cloud-based service at the South by Southwest festival in March; however, the festival came and went with no such announcement.

Sources say that Google is currently testing a music service internally through which users can stream, buy, and store music online and access it through their Android phones and tablets, as well as from their computers.

Other providers also continue to gain traction. Internet radio service Pandora filed for an estimated \$100 million initial public offering in February and European music service Spotify is reported to be raising \$100 million from private equity firms to finance a move to the U.S. Digital music startups such as Rdio, SoundCloud, and RootMusic have raised a further \$57 million in venture capital since the beginning of 2011.

Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Decreasing

Gross Margin:
Consistent

Discounting:
Consistent

Video

Industry Trends

Sales of traditional DVDs continue their downward spiral, as consumers who still purchase physical copies of movies are increasingly switching to Blu-ray discs. Unfortunately, the increase in Blu-ray sales has not put a dent in the sales lost by traditional DVDs, resulting in an overall decline in the total category.

During the first quarter of 2011, the Digital Entertainment Group reported that there was an approximate 10% decline in consumer spending on entertainment products, including DVDs. Much of this decline was attributed to the fact that there were fewer blockbuster movies that were released in DVD format during the quarter compared to same timeframe in the prior year, as box office earnings of films released this quarter were approximately 25% below those released in the first quarter of 2010. Driving sales last year was the release of *The Twilight Saga: New Moon*, among others.

Even so, movie executives remain optimistic about the DVD format, as watching movies at home using a DVD or Blu-ray player continues to be the dominant method of viewing films. The NPD Group reported that during the first quarter of 2011, 77% of consumers reported watching a movie on a DVD or Blu-ray, which is consistent with the prior year.

Music and Video



Video continued

Although the DVD market has faced challenges in recent years, new changes to the distribution model could help stem the tide of sales declines. As reported in GA's last monitor, in 2010, many studios negotiated a 28-day window between when a DVD is released and when it can be offered via Netflix and Redbox. Executives from Best Buy and Hastings noted that this change has caused DVD sales for the affected titles to increase nearly 30% at their stores in subsequent months. Just how long this momentum can be sustained is the question.

Similar to DVD retailers, traditional brick-and-mortar rental stores are also struggling to keep pace with online and mail-order services, as evidenced by the demise of Movie Gallery in mid 2010 and Blockbuster's bankruptcy filing in late 2010. In early April, Dish Network won the bankruptcy court auction for Blockbuster's assets with a bid of \$320 million. Blockbuster, which at its peak operated more than 4,000 stores, currently operates 1,751 stores. Based on documents filed with the bankruptcy court, Dish Network plans to keep approximately 500 stores open.



The DVD format as a whole is still facing extinction at the hands of Internet streaming and video on demand companies such as Netflix, as well as cable providers. In January, Sears/Kmart entered the arena by launching a new online movie download service called AlphaLine Entertainment. This service will allow customers to download new movies the same day they are released on DVD and Blu-ray.

In a bold move, four major Hollywood studios announced plans to launch a new video on demand service that will allow viewers to watch films that have just left the theater, but have not yet made it to DVD. There is one catch though - these movies come with a steep price tag of \$30. Studios plan to offer this service through DirectTV and certain Comcast markets in the coming months.

Recent Appraisal Trends

Net recoveries of CDs and DVDs have been mixed, but predominantly declining by approximately 1.0 percentage point. Values have been hindered by slow sales, but aided by a reduction in the amount of return inventory, causing lower weeks of supply and positively impacting recoveries. Retailers have received some assistance from major labels, as many have made an effort to reduce the cost of CDs, acknowledging the margin pressure and consolidation at the retail level.

Like book retailers, music and video retailers typically enjoy return privileges with their vendors. In light of recent trends, however, most retailers are buying less product up front in order to gauge sales before replenishing. This helps the retailer as well as supplier on a cost basis, as product is physically touched fewer times.

ENTERTAINMENT/ OUTDOOR PRODUCTS

Consumer Electronics



Industry Trends

The consumer electronics industry continues to face similar trends seen in the fourth quarter of 2010. While certain categories have experienced growth, others have faced challenges. Specifically, there have been noticeable downward trends in retail prices for key categories, particularly televisions. The following table illustrates comparable store sales trends for major consumer electronics retailers that report these results (Represents fiscal quarters that most directly correlate with the calendar year; Best Buy represents domestic only):

	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	1st Quarter 2011
Best Buy	(1.4%)	(5.0%)	(5.5%)	N/A
hhgregg	6.3%	(1.5%)	(6.2%)	N/A
Conn's	(6.4%)	(16.3%)	5.2%	(3.9%)
Radio Shack	6.7%	6.2%	1.3%	(0.6%)

The television market, one of the primary industry drivers over the past decade for consumer electronic retailers, has seen sales begin to slow. Many consumers opted to switch to high-definition flat-panel sets in light of new broadcast restrictions; however the transition has been completed for many consumers, and retailers report that average selling prices continue to be on the decline. Additionally, although new technologies continue to emerge in the TV market, such as 3D and Internet-capability, some retailers, including Best Buy, have experienced low levels of consumer interest in them thus far.

Evidence to the trend in declining television sales can be seen in Best Buy, which saw its comparable store sales for U.S. locations drop 5.5% in the fiscal fourth quarter ended February 26, 2011, as sales declined in TVs and entertainment hardware/software. As the challenging economic environment has prompted consumers to seek value at every turn, consumer electronics retailers continue to face competition from big-box retailers and discounters such as Amazon.com, Wal-Mart, and Costco. Despite offering this increased competition, Wal-Mart has witnessed decreased sales of electronics, and recently announced that it plans to reduce the amount of floor space dedicated to electronics in its US stores.

The most prevalent sales drivers reported among consumer electronics retailers were typically mobile phones and mobile computing. Mobile phones, particularly smartphones, continue to gain in popularity. International Data Corporation ("IDC") purports that smartphone companies could ship over 450 million units in 2011, which would signify a 49.2% increase from the previous year. Additionally, the introduction of a myriad of tablet options in the market has increased sales in the mobile computing category.

As gas prices rise due to conflict in oil-exporting countries and consumers adjust to the increased pressure on their wallets, spending in many discretionary categories, including technology, may be impacted.

Additionally, as Japan is a manufacturing hub for consumer electronics and supplies a significant piece of the global semiconductor market, analysts continue to monitor if and how consumer electronics retailers' ability to stock their shelves will be affected by the recent earthquake and tsunami. Increased costs may put additional pressure on some retailers, as selling prices in the industry have largely been on the decline. IDC reports that global shipments of computers fell 3.2% in the first quarter.

One way in which some retailers are combating constantly changing technologies and tightened consumer wallets is by offering buy-back programs, which involve the retailer buying back an old or outdated product with the hope that the consumer will turn around and purchase the newer model. In turn, the retailer will typically sell the old model at a reduced price through online outlet sales. Best Buy began its own buy-back program early in 2011.

Recent Appraisal Trends

GA performed a number of collateral appraisals over the course of the first quarter, including large and small format electronics retailers, and also performed some initial appraisals. Of the companies appraised in the first quarter, changes in recovery values were predominantly decreasing by up to 3.5 percentage points; however, some companies did remain relatively consistent. The results are based on mixed sales and margin trends during the holiday period. Values were adversely impacted by declining sales trends; however, some of the companies appraised saw slight gains in recovery values from sales and gross margin increases in new technologies, an increase in popularity of Blu-Ray discs, and wider-scale introduction of 3D and Internet-capable televisions.

Sales at consumer electronics retailers were buoyed by tablet sales, smartphones, most Apple-based products, and e-readers. GA has witnessed that the shift in sales mix away from computers has helped to boost margin for some retailers, as phones typically carry higher margins when tied to service contracts. Additionally, manufacturers and distributors that produce non-mobile products are experiencing tougher sales, as consumers choose to spend additional disposable income in areas other than televisions, appliances, and gaming systems.

Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Decreasing

Gross Margin:
Mixed

Discounting:
Mixed

ENTERTAINMENT/ OUTDOOR PRODUCTS

Sporting Goods



Industry Trends

Leading sporting goods retailers were able to build upon prior successes, with many posting positive results recently. Government reports for sporting goods sales as a whole, increased 5% year-over-year during the first quarter of 2011. The following table illustrates comparable store sales trends for major sporting goods retailers that report these results (Represents fiscal quarters that most directly correlate with the calendar year):

	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	1st Quarter 2011
Dick's	5.7%	5.1%	9.4%	N/A
Cabela's	(4.6%)	2.4%	7.3%	8.9%
Hibbett	11.9%	12.5%	1.2%	N/A
Big 5	0.3%	2.0%	(0.7%)	(0.9%)
Sport Chalet	(0.2%)	(1.9%)	(0.4%)	N/A

During the quarter, consumers purchased a good amount of snow sports merchandise, as sales year-over-year for the seven months ended of February increased roughly 13%. These gains were attributed to a prolonged winter season that caused outdoor enthusiasts to continue to hit the slopes. Categories including snow equipment, apparel, and accessories experienced a good portion of overall gains.

While not skiing, consumers took to other outdoor activities, as preliminary reports show overall sales for outdoor goods increased roughly 10% in February, according to the most recent available data. These gains may only be temporary, however, as several major brands have announced pricing increases for the remainder of 2011. Although overall participation in outdoor activities appears to be on the rise, there have been significant shifts in the popularity of certain activities including fishing and hunting. These particular activities have been on the decline, due to inability to attract young participants. Regardless, retailers also saw a noticeable jump in purchases for firearms during the first quarter, as overall gun sales increased 12.7%.

Ongoing labor talks for both the National Football League and National Basketball Association will undoubtedly play an important role in future sales for sporting goods retailers, as negotiations for those respective sports have yet to be completed. Any prolonged lockout for a professional sport, which results in loss of games or a shortened season,

could have an impact on the sales for licensed products, as consumers may be deterred from purchasing merchandise in support of their favorite teams.

Going forward, as more consumers look to plan for their family vacations, retailers will look to maximize sales in camping and outdoor merchandise. Additionally, cycling equipment is expected to remain a relatively strong outdoor seller, as a number of leading brands have showed strong growth in recent months.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Mixed

Gross Margin:
Increasing

Discounting:
Decreasing

Recent Appraisal Trends

Recovery values predominantly increased during the quarter. GA completed collateral appraisals in the action sports, team sports, sporting arms and water leisure areas over the quarter with a initial appraisal for a national mall based sports footwear and apparel retailer. Recovery values generally increased by up to 3.5 points depending on the focus and performance factors.

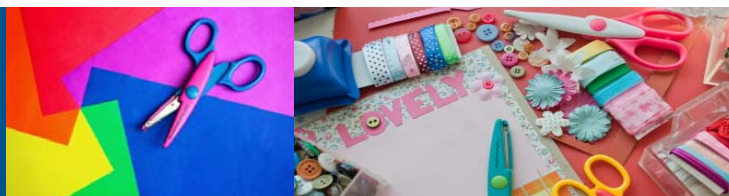
Sales have seen mixed results, with a few companies announcing favorable sales results; however, others do not seem to be benefiting from comparisons made to soft comparable store sales from one year ago. Overall, discounting has declined as post holiday inventory was in-line with expectations allowing a number of retailers to reduce the after Christmas clearance activity that was needed in the past to make room for new arrivals.

The low inventory levels and better sales were mainly a result of favorable weather conditions in the fourth quarter. This has also allowed many retailers to move up their spring deliveries and have new product on the floor earlier than in prior years. The reduction in clearance sales and newer product on the floors has led to an increase in gross margins.

Import costs are also increasing as fuel surcharges are increasing with the cost of oil and a shortage of shipping containers is placing space on vessels at a premium. Most companies are looking a strategic price increases to be in place in the second quarter.

ENTERTAINMENT/ OUTDOOR PRODUCTS

Arts and Crafts



Industry Trends

Following somewhat soft sales during the fourth quarter, craft retailers aimed to increase sales levels during the first quarter of 2011. However, gross margin remains a major focus, and many craft retailers have been creative with discounting strategies, in an effort to drive sales without sacrificing too much margin.

The following table illustrates quarterly comparable store sales trends for major craft retailers that report these results. (Represents fiscal quarters that most directly correlate with the calendar year):

	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	1st Quarter 2011
Michaels	2.3%	2.9%	0.7%	N/A
Jo-Ann	4.4%	4.1%	2.0%	N/A
AC Moore	(5.9%)	(7.0%)	(4.3%)	(2.6%)
Hancock	0.7%	0.3%	0.7%	N/A

Michaels' has consistently been reporting gains, most recently attributing its slight comparable store sales increase in the fourth quarter ended January 29, 2011 to both an increase in the average ticket cost of customers' purchases, as well as the number of transactions.

Jo-Ann has also consistently achieved comparable store sales gains. It finished up the first quarter of 2011 by celebrating the grand opening of five new stores, located in Indiana, Kansas, Oklahoma, South Carolina, and Texas. It also announced the recent remodel of six existing locations, as it continues to adhere to its plan to open and remodel a number of locations in 2011.

A.C. Moore continues to lag behind other industry leaders, and experience comparable store sales declines. During the first quarter of 2011, it announced that it could potentially explore strategic alternatives, which could include the sale of the company.

Seasonal products have historically represented a significant portion of craft retailers' inventory, particularly related to major holidays and seasons. However, a glut of inventory left over at the end of a season can necessitate excess discounts to promote sell through. As such, some craft retailers have opted to reduce the amount of seasonal goods they offer in the sales floor, relying more heavily on other categories, such as framing, everyday crafts, and fabric.

Others have continued to offer the seasonal product; however, have promoted the merchandise on more of an ongoing basis during the season, to promote sell through with more nominal discounting levels, reducing the need for heavy end-of-season discounting.

Coupons have been a common method for craft retailers to entice customers into the stores. Recently, craft retailers have offered discounts related to certain product categories, such as the aforementioned seasonal product, or related to a certain service, such as framing. The use of coupons has been common both online and in print advertisements for major craft retailers during the first quarter.

Craft retailers aim to set themselves apart from the competition by coming up with new and creative in-store classes and offerings to capitalize on the increased foot traffic. For example, during the first quarter, Michaels offered a wide array of new classes, targeting children and adults, including a *Dr. Seuss*-themed bookmark making class, as well as a "Do-It-Yourself" wedding invitation demonstration.

Recent Appraisal Trends

GA's recent appraisal experience has shown recovery values have been mixed, with some companies remaining flat to slightly up by 0.5 percentage points, and others experiencing slight declines compared to levels achieved in the prior quarter. Overall, however, recovery values remain above levels achieved this time last year.

Those companies that have been experiencing increases in recovery values have benefited from categories that have performed better in GA's recent liquidation experience. Conversely, other companies have experienced declines in values resulting from continued declining sales.

Overall, craft retailers continue to focus on inventory and SKU rationalization, as well as a general reduction in clearance levels.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Mixed

Gross Margin:
Mixed

Discounting:
Mixed

FOOD AND CONSUMABLES

Grocery Stores



Industry Trends

Grocery retailers were faced with a fiercely competitive environment throughout most of 2010, as retailers vied for their piece of the consumer's ever-shrinking wallet. This led to aggressive promotions and price wars, which actually resulted in lower sales on a dollar basis. Rising commodity prices further exacerbated the situation, as retailers were hesitant to raise prices and their profitability took a hit.

The challenging economic environment has resulted in some store consolidation. A&P filed for bankruptcy in December 2010. During the third and fourth quarter of 2010 it closed 25 stores and sold seven Connecticut stores to Big Y Foods, Inc. It closed an additional 32 stores during the first quarter, and has announced plans to sell 25 Superfresh stores.

In recent months, sales have started to improve, albeit slowly, with results varying by chain. The following table illustrates comparable store sales trends for major public grocery retailers (Represents fiscal quarters that most directly correlate with the calendar year):

	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	1st Quarter 2011
A&P	(7.2%)	(6.6%)	(4.9%)	N/A
Kroger	2.7%	2.4%	3.8%	N/A
Safeway	(2.5%)	(2.0%)	(0.8%)	0.4%
Publix	2.4%	2.7%	3.2%	2.8%
Winn Dixie	(5.2%)	(2.8%)	(0.3%)	N/A
Whole Foods	8.8%	8.7%	9.1%	7.8%

Given that the aggressive promotions of last year did not translate into sales gains, promotional activity has since started to stabilize. In addition, recent improvements in the economy and consumer spending overall prompted many grocery retailers to begin passing price increases onto customers, which has helped sales on a dollar basis. Rising prices should continue to benefit sales in the coming months.

While consumers may be a bit more receptive to higher prices now compared to a year ago, the situation remains fragile. Many food companies, including Kraft, General Mills, and Kellogg's, announced price increases in late 2010/early 2011, and it is expected that more price increases will be announced during the second half of the year.

Additionally, a recent study performed by Customer Growth Partners ("CGP") showed that grocery prices as of late March were up 6.5% since early January. As March year-to-date gasoline prices increased nearly 30%, compounding the pressures of elevated grocery store prices, CGP estimates that the combined impact of the elevated costs of the two necessities is equal to 10% of monthly retail discretionary spending.

With both gas and food prices on the rise, consumers will continue to seek out low prices and forego non-essentials. This means continued competition from supercenters, warehouse clubs, and drug stores. Experts believe private label products will remain a key method for retailers to compete, with some research firms reporting that private label offerings could grow to a 50% market share by 2025.



Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Mixed

Gross Margin:
Decreasing

Discounting:
Consistent

Recent Appraisal Trends

During the first quarter, GA was involved in the liquidation of the most recently closed 32 A&P stores. Gross recovery results have been slightly lower than appraised values. Multipliers have declined from 1.0 to 0.9, resulting in a longer liquidation term.

Net recovery values for companies appraised by GA have declined 2.0 to 3.0 percentage points compared to the prior year, as the industry continues to grapple with margin pressure. However, recovery values have remained relatively consistent with the prior quarter. Inventory levels have remained relatively consistent; however, operators have increased their private label offerings in order to appeal to the ever frugal consumer.

Pharmacy and Drug Stores



Industry Trends

In the first quarter of 2011, notable trends in the pharmacy sector included the continued expansion of front-end and private label offerings, as well as increased prevalence of generics on the pharmaceutical market as patents on several blockbuster drugs face imminent expiration in the coming months. The following table illustrates comparable store sales trends for major pharmacies that report these results (CVS reports quarterly):

	Sept. '10	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11
Walgreens							
Front End	0.7%	(0.8%)	1.5%	3.6%	4.5%	3.8%	1.6%
Pharmacy	0.3%	(1.6%)	4.2%	2.2%	6.9%	2.7%	3.7%
Rite Aid							
Front End	(0.3%)	(1.3%)	1.3%	0.1%	2.2%	1.1%	(1.8%)
Pharmacy	(1.2%)	(1.8%)	(2.5%)	1.0%	0.6%	0.9%	0.8%
CVS							
Front End	1.4%	-	-	1.0%	-	-	0.4%
Pharmacy	3.0%	-	-	2.0%	-	-	3.7%

Drug stores have continued to expand front-end offerings in an attempt to gain market share from grocery stores and supercenters. These offerings include fresh food and produce, prepared meals, and dry grocery items. Additionally, private label brands and products are continuing to develop and expand. Researchers believe that private label brands will result in increased price competition, as they have grown in prevalence and appeal to the value-conscious consumer.

Although expansion of front-end offerings has remained a focus for many drug stores, prescriptions still remain their bread and butter. While many prescriptions are necessities, the pharmacy industry felt the impact of the recession as affordability became a major concern for consumers and the prices for brand name prescriptions increased as drug companies sought to maximize profits before patents expire. Generic medications continue to be prolific, and many popular drugs are facing upcoming patent expiration, including the cholesterol drug Lipitor and blood-thinner Plavix, which the *Wall Street Journal* reports experienced price increases of 12.4% and 13.2%, respectively, in 2010. As a result of generic drug introductions and increased generic utilization, comparable store pharmacy sales growth for the major public pharmacies has been limited to the low- to mid-single digit range in recent months.

The market continues to see consolidation. For example, Walgreens, which last acquired Duane Reade Holdings Inc. in April 2010, acquired Drugstore.com in March 2011.

As a result of the acquisition of Drugstore.com, Walgreens increased its retail prescription market share to upwards of 20%. In addition, Walgreens and CVS continue to be active in script purchases, thereby increasing market share.

Recent Appraisal Trends

Front End

Of the appraisals completed in the first quarter, recovery values for front-end inventory remained relatively consistent, or increased slightly, due to improvements in gross margin.

Pharmacy

The pharmacy segment, which drives overall sales, has experienced declines in both sales and gross margin. Despite these negative pharmacy trends, gross recovery values for pharmacy inventory have remained consistent. Due to regulations surrounding the sale of pharmacy inventory, as these goods are typically sold to a competitor in conjunction with the retailer's prescription list ("script") files in the event of a liquidation, there is typically little to no discounting when sold in this manner. In some cases, net recovery values for pharmacy inventory are down compared to the prior quarter due to changes in expenses, or shifts in the allocation of expenses resulting from changes in the inventory mix.

All of the companies appraised have experienced declines in pharmacy margins due to several key factors. Sales of 90-day prescriptions are increasing, as they are less expensive than 30 day refills. As a result, the fill fee that retailers charge per prescription is reduced, causing margin to decline. In addition, as several branded drugs approach patent expirations, drug makers are hiking prices in order to protect their profits before the steep decline due to price competition from generic introductions. This causes a pinch on the retailers profits, generally in the year before the drug's patent is set to expire.

Scripts

Script values have increased over the last quarter. Companies are fighting for the additional foot traffic that purchasing a script will bring, as retention rates typically range between 60%-80%, or higher. Competition remains an important factor in determining the value of pharmacy scripts, as competing bids during a script auction will drive up prices. Based on results of 25-30 recent script sales, values are increasing, but should remain steady once adjusted for these market factors.

Trend Tracker

Pharmacy

NOLVs:
Consistent

Sales Trends:
Mixed

Gross Margin:
Decreasing

Discounting:
Consistent

Front End

NOLVs:
Consistent

Sales Trends:
Mixed

Gross Margin:
Increasing

Discounting:
Consistent

FOOD AND CONSUMABLES

Convenience Stores



Industry Trends

Service station sales rose 1.4% in February and 2.6% in March, as unrest in oil-exporting countries functioned to decrease exports and send gas prices on the rise, according to Bloomberg. The elevated gas prices continue to force consumers to trim down their spending habits. Certain consumer practices, including less eating out and more value-conscious shopping alternatives, have provided convenience stores with an opportunity to increase sales.

The ongoing political unrest in Libya has cut the country's exports of about 1.3 million barrels per day by more than half. As of April, AAA data indicated that gas prices were up approximately 20% year-to-date since January. This does not bode well for the summer driving season, when gas prices typically reach their yearly peak. As the crises continue in the Middle East and interfere with oil exports, the threat of reaching or surpassing the all-time high of \$4.114 per gallon (July 2008) looms.

Continually elevated gas prices have also encouraged many consumers to consider hybrid cars, as evidenced by a nearly 50% increase in the hybrid market in March 2011 compared to the prior year, HybridCars.com reports. The growth in the hybrid market outpaces the 16.8% year-over-year growth in the overall car market, suggesting that more consumers are opting for fuel-efficient vehicles. An increase in the prevalence of the hybrid car translates to fewer visits to the pump. Additionally, as gas prices remain high and consumers practice trip consolidation, this results in a decline in miles driven, requiring fewer fill-ups. These trends have the potential to impact in-store convenience store sales, as consumers making less frequent trips to gas stations may translate to less frequent purchases of in-store merchandise.

The volatility of gas prices and the recession have many operators diversifying their product offerings, particularly with regard to food and food service. According to the National Association of Convenience Stores ("NACS"), the majority of in-store sales are attributed to five main categories: cigarettes, packaged beverages, food service, beer, and other tobacco products. To increase in-store sales, many convenience stores have been beefing up their assortments and adding new products. As healthy eating and local foods are becoming a priority to more and more consumers, many chains are looking to provide more healthy options, such as organic and gluten-free food, fresh produce, and frozen items. In response to trip compression, many convenience stores have worked to position themselves as alternatives to quick service restaurants by focusing on food options that are quick, inexpensive, and healthy.

According to NACS, in-store convenience store sales increased 4.4% in 2010, which outpaced growth in competing industries, including restaurants, drug stores, and grocery stores, according to US Commerce Department data.

Despite the positive indicators, one of the industry's ongoing concerns is debit and credit card fees, which skyrocketed by 21.6% in 2010, according to NACS.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Increasing

Gross Margin:
Decreasing

Discounting:
Increasing

Recent Appraisal Trends

Overall, net recovery values during the first quarter have been mixed. Values were relatively consistent with values during the fourth quarter. However, values are up approximately 2.0 percentage points compared to the same time last year, driven by improving sales trends. Sales of in-store merchandise have improved as convenience stores have been offering a better product assortment.

However, GA has noted that rising gas prices have begun to alter consumer behavior in the first quarter, resulting in a reduction in miles driven and decreased frequency with which consumers are stopping at the pump. These trends, coupled with the fact that in-store sales for 2010 were up more than 4%, is putting pressure on sales trends. Continued promotional activity, while propping up sales, means that margin levels, while relatively consistent with the fourth quarter, remain slightly depressed compared to the same timeframe last year. Inventory levels remained relatively consistent, with items such as beer/wine, soda, and tobacco continuing to perform well.



Furniture



Industry Trends

During the first quarter of 2011, overall trends in the furniture sector were relatively positive, largely due to the fact that sales continue to be compared to weaker levels experienced in past years. Given that furniture sales are tied to the housing market, which remains in a fragile state, significant gains will not likely be seen anytime soon.

Housing starts remain sluggish, and sales of new and existing homes have been mainly below levels seen last year. Data from the National Associate of Realtors indicates that in February 2011, sales of existing homes fell by 9.6%; however, it was followed by a 3.7% increase in March. While some of February's decline was attributed to adverse weather conditions, one thing remains certain, consumers have become more determined to purchase only those homes that they can afford, rather than relying on large loans. This was further evidenced by the fact that approximately one third of all home sales in February were made as all-cash sales. Foreclosures have been heavily prevalent in the housing market, and have resulted in a decrease in the average prices of homes. While March's increase in existing home sales does bode well, depressed prices are attributable to a portion of the gain.

Going forward into the spring season, housing market data will be compared to last year, when federal tax credits were available for homebuyers, and which subsequently inflated sales. Analysts predict that the increase in foreclosures, coupled with sluggish sales, will result in decreased prices for homes. Some are hopeful that if prices continue to decline, buyers will emerge and cause the market to improve.

Mirroring the somewhat uncertain state of the housing market, any growth in store base seen for furniture retailers has been gradual and calculated. Some regional chains, particularly those that offer discounted furniture, have started to grow their footprint, albeit at a monitored pace. For example, Bob's Discount Furniture recently announced plans to open two stores in the Washington D.C. area in the summer of 2011, and Jordan's Furniture is expanding into Rhode Island for the first time in the fall of 2011, with the opening of one store.

In other areas of the country, the news is more mixed. Some smaller, regional players have not been able to bounce back after the recession, and have gone out of business. Others have been left with holes to fill on their sales floor, as manufacturers have also succumbed to the weak environment. For example, Berkline has gone out of business and will be liquidating its assets. Jennifer Convertibles exited Chapter 11 in February 2011, and is controlled by its largest supplier.

Lack's stores closed for good during the first quarter, culminating the liquidation proceedings that started during the end of 2010. Florida-based Robb & Stucky announced during the first quarter that its 20 retail stores would be liquidated, following its bankruptcy filing in February. Other retailers in the Florida market have been consolidating operations, such as Carl's, which has closed a few store locations recently. Activity such as this has, however, given better-performing retailers the chance to grow. Baer's Furniture will be opening a new store in one of the former Carl's locations.

On a categorical level, bedding and mattresses remain standouts. *Furniture Today* reported that mattresses and box springs were the most purchased furniture product of 2010, and similar trends have been seen in the first quarter of 2011. Queen sized beds have been the most commonly purchased size, followed by full-sized beds.

Recent Appraisal Trends

Overall, recovery values have been increasing for furniture retailers appraised by GA in the first quarter. Increase in values have ranged between 2.0 and 3.0 percentage points. These increases have been driven by the fact that certain markets were hit harder by the recession and downturn in the housing market. More recently, these markets in particular have seen increases in sales and gross margin as consumers have started to purchase more.

GA has observed that consumers tend to be purchasing mindfully. Responses to this mindset have been mixed. Some companies have responded by offering better price points for their product, and trying to discount less overall. However, some companies have found that to increase their sales, they have had to offer more door-busters and promotions to entice customers to make purchases. These companies have been sacrificing some gross margin in order to drive sales.

Inventory levels continue to be closely managed by furniture retailers in the marketplace. Furniture retailers continue to closely monitor and reduce slow-moving and clearance inventory levels. As companies appraised have illustrated declines in these categories as a percentage of total inventory, gross margins in total have improved.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Mixed

Home Furnishings



Industry Trends

Home furnishings sales are typically linked with the strength of the housing market. Although the housing market is slumping, several leading retailers have posted positive sales, as it is believed by many analyst that homeowners are looking to transform existing homes with home décor that embodies their own personality.

According to government reports, home furnishings and furniture purchases increased 3.6% in March 2011, equaling the sectors' largest increase in more than six years. Correspondingly, quarterly sales reports for several of the nation's leading home furnishing retailers, including Pier 1, Bed Bath & Beyond, and Williams-Sonoma (parent company of Pottery Barn and West Elm) were positive, also indicating homeowners are choosing to invest in beautifying their current homes, while being "forced" to stay put. The following table illustrates quarterly comparable store sales trends for major home furnishings retailers that report these results. (Represents fiscal quarters that most directly correlate with the calendar year):

	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010
Bed, Bath & Beyond	8.4%	7.4%	7.0%	8.5%
Pier 1 Imports	14.3%	11.2%	10.2%	8.9%
Williams Sonoma	17.0%	13.6%	8.1%	5.2%
Kirkland's	12.6%	1.0%	(2.4%)	(7.9%)

As homeowners continue to focus on improving the inside and outside of their living spaces, home furnishing stores are expected to be a prime destination for those looking to complete projects spanning from redecorating the living room to the kitchen, and everywhere in between. In addition, with the spring season upon us (and the summer season not too far behind), consumers will look to purchase leisure home furnishing and décor for outdoor spaces.

With a still uncertain economy and ever rising gas prices to deal with, consumers have leaned toward consolidating their shopping trips, or have chosen to shop closer to home. This trend has also led to a noticeable increase in online purchases, as overall e-commerce sales increased 13% to 16% during the most recent quarter.

In response to the popularity of online shopping, retailers are utilizing online discount and close-out pricing to further entice consumers to purchase their goods. As such, several home furnishing retailers that did not previously offer e-commerce recently unveiled new e-commerce websites during the quarter to boost sales.

Going forward, the industry is expected to experience positive gains as home furnishings stores will benefit from consumer demand for outdoor furnishings, textiles, wall art, and other related home décor accessories.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Mixed

Recent Appraisal Trends

Net recovery values for home furnishing retailers continued to increase during the first quarter of 2011, with increases ranging from 3.0 to 6.0 percentage points. Increases have been driven by strong sales trend, which the companies attributed to positive customers' response to fresh and refined product assortments, as well as increased customer foot traffic in stores.

While some companies experienced increased gross margin, other exhibited declines. Increase in gross margin is attributed to successful inventory management, a decline in promotional activities, and successful negotiations with vendors to lower costs. Conversely, gross margin declined for others due to increased promotional activities to clear through inventory to avoid any build-up.

In the first quarter, companies have also experienced price increases from their vendors. They are reacting by raising some retail prices in an effort to preserve gross margin. Companies are prepared to offset any future price increases from vendors by making additional retail price adjustments.

Inventory levels remained relatively consistent and in-line with sales levels, with room to increase as sales continue to improve. Companies have placed a lot of focus on managing inventory and reducing clearance inventory, and they will continue to refine and strengthen merchandise assortments to build upon positive sales trend.

Direct/E-commerce



Industry Trends

Similar trends to the fourth quarter of 2010 have carried over into the first quarter of 2011. E-commerce continues to be a powerhouse for multi-channel retailers, whereas companies with business models more heavily reliant on catalogs have been experiencing less positive results.

Catalogs

Direct marketers continue to face rising paper and postage costs. The U.S. Postal Service has been facing dire straits lately, with losses in the billions. It has been forecasted that the cost of Standard Mail Flats could increase in 2011 or 2012.

In an effort to reduce expenses, many companies have reduced circulation. Overall, reductions have been seen in prospecting, as the cost of sending catalogs can outweigh the benefits if new customers do not make purchases. In addition, many companies have been working to eliminate less-productive names in their lists, such as customers that have not made purchases in over a year. Conversely, efforts have been focused on the best customers, in an attempt to get them to increase purchasing activity.

E-commerce

E-commerce sales continued to grow substantially during the first quarter of 2011. Data released by MasterCard Advisors SpendingPulse showed e-commerce sales up 16.1% in March 2011, following double-digit growth in February as well. Growth was driven by inclement weather in many parts of the country, particularly during January and February. Many consumers that could not drive to a store instead shopped online. In addition, recent rising fuel costs have resulted in consumers turning to online shopping, in an attempt to consolidate purchases to a few sites, as opposed to wasting gas driving around to various stores.

One multi-channel retailer made a bold statement during the first quarter. L.L. Bean announced that it would offer free standard shipping starting in March 2011. So far, there has not been an influx of direct retailers following suit; however, as gas prices continue to increase, companies that are able to leverage the costs associated with offering free shipping may have to think about offering free shipping as well, to avoid losing business.

Going forward, online sales are estimated to continue to experience growth in the double-digits through 2015, particularly if gas prices continue to increase. Another trend driving e-commerce sales is the increasing amount of consumers shopping via mobile devices. Consumers have already been using phones and tablet computers to compare prices, and many are becoming more comfortable using these same tools to make purchases on the go.

Recent Appraisal Trends

GA appraises a number of direct marketers, including multi-channel merchants with a retail presence, as well as those that operate via catalogs, call centers, and e-commerce only. Recovery values overall are mixed compared to both the prior year and the prior quarter. Multi-channel retailers with a strong direct division have either maintained flat recovery values, or experienced increases of up to 2.0 percentage points. The increases have been attributable to increase in direct business, which may have been under-penetrated. In addition, online retailers that leverage a retail store base by allowing customers to return orders purchased online at a store location have added to increasing sales. Promotional activity during the first quarter of 2011 remained relatively high as companies aimed to drive sales. As such, gross margin results were either flat or down in most cases. However, top line sales have benefited from the promotional activity.

Conversely, companies that are primarily catalog and direct driven continue to see the negative trends that were also observed in the fourth quarter of 2010. Recovery values for these types of companies have been either flat, or down 2.0 percentage points. These declines in values have been driven by declines in demand, which mirror reduced circulation. In addition, gross margins have failed to rebound. Companies have been working to discount less than the fourth quarter of 2010, which was highly promotional; however, they still need to use discounts to drive top line sales. Overall, companies have been working to keep inventory in line with sales projections, and working to reduce expenses, such as by consolidating fulfillment centers if possible.

Trend Tracker

E-commerce

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Mixed

Catalog

NOLVs:
Decreasing

Sales Trends:
Decreasing

Gross Margin:
Mixed

Discounting:
Mixed