

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

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In this Issue:

Introduction Overview	1
Apparel and Accessories Department Stores Specialty Apparel Stores Off-Price Stores Discount/Dollar Stores Jewelry Footwear	4
Entertainment/Outdoor Products Books Music and Video Consumer Electronics Sporting Goods Arts & Crafts	10
Food and Consumables Grocery Stores Pharmacy and Drug Stores Convenience Stores	16
Furniture/Home Furnishings Furniture Home Furnishings	19
Direct Marketing E-commerce	21

Introduction

Welcome to the third 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 2011 back-to-school season rounded out without too many surprises. Many retailers posted increases in sales compared to the prior year; however, the general consensus has been to avoid overtly celebrating these gains—not in the face of such a stagnant economic climate and future uncertainty.

Between July and August, little growth in retail sales was seen; however, both months exhibited modest increases over the prior year. Similarly, many retailers posted gains in September as well.

This illustrates that consumers are willing to spend when needed; however, spending remains calculated, with the majority of the population comparison shopping, waiting for sales, using coupons, and in many instances favoring private labels over branded counterparts. All of these habits are largely in response to the economic climate. The job market in particular remains a major cause of angst, with unemployment levels still extremely high, and new jobs failing to be added at a rate that would offset the losses already sustained. While government intervention seems inevitable, the President’s proposed jobs bill already failed to get enough votes to pass the Senate. Even if broken down into separate passable bills, many doubt if even the suggested measures can quell the level of underemployed or unemployed Americans.

Furthermore, consumer dollars continue to be stretched by high gas prices as well as increased commodity costs that continue to make their way down to the retail level. Given these factors, consumer spending is expected to remain constricted until more Americans are back to work, and some of the worry on making ends meet can be eased.

If the back-to-school season is any indication, frugality will likely be a continued trend in spending for the upcoming holiday season. Early forecasts indicate that retail sales will exhibit increases less than the 4.1% experienced last year, essentially remaining in line with inflation. Customers will be scaling back on spending, waiting for sales, and discounts will likely be needed to drive sales. This could prove to be a challenge for retailers, which have already faced gross margin pressure in the face of rising acquisition costs. Retailers will have to manage inventory levels to avoid having to discount excessively, and encourage as many full price purchases as possible. How consumers will respond remains to be seen.



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	Borders	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

The majority of department stores have posted positive comparable store sales throughout the summer and into the fall back-to-school season, despite a late August hurricane on the east coast. The following table illustrates comparable store sales trends for major department store retailers that report these results:

	Apr. '11	May '11	June '11	July '11	Aug. '11	Sept. '11
Neiman Marcus	8.3%	12.0%	11.1%	7.7%	N/A	N/A
Saks	5.8%	20.2%	11.9%	15.6%	6.1%	9.3%
Nordstrom	7.6%	7.4%	7.9%	6.6%	6.7%	10.7%
Macy's	10.8%	7.4%	6.7%	5.0%	5.0%	4.9%
Dillard's	11.0%	2.0%	6.0%	9.0%	4.0%	3.0%
J.C. Penney	6.4%	(1.0%)	2.0%	3.3%	(1.9%)	(0.6%)
Kohl's	10.2%	0.8%	7.5%	(4.6%)	(1.9%)	4.1%

Notes: Neiman Marcus stopped reporting monthly sales in August 2011.

In order to capture back-to-school sales, low and mid-tier department stores, such as Sears, Kohl's, J.C. Penney, and Macy's, began promotional campaigns mid-summer, advertising not only discounts for back-to-school apparel and accessories, but also new technologies to increase shopability, as well as new or expanded product lines.

Macy's emphasized its back-to-school merchandising mix by expanding its Material Girl and Jessica Simpson apparel lines, as well as showcasing its Tommy Girl line in a separate space in its juniors department. Additionally, the company is testing in-store kiosks, employee computer tablets and other hand-held devices, and integrated inventory search capabilities to boost in-store sales. It is also revamping its e-commerce site to include apparel tools such as a denim fit finder.

For the past six months, J.C. Penney's sales have struggled. Back-to-school sales faltered in August due to shopping disruptions caused by Hurricane Irene on the east coast. However, sales in September were relatively flat. The company prepped for the back-to-school shopping season by expanding its exclusive offerings, such as the MNG by Mango line, as well as the Company's Sephora store-within-a-store concept.

Similar to J.C. Penney, Kohl's also blamed inclement weather for lackluster back-to-school sales in August. However, the company's recent launch of its Marc Anthony and Jennifer Lopez lines of apparel and home accessories is expected to boost overall sales.

Higher-end department store retailers continued to post gains, which were driven by increased luxury spending. Luxury spending significantly deteriorated along with general consumer spending in the wake of the recession. More recently, however, while overall consumer spending remains tepid, luxury spending, especially at high-end department stores, such as Neiman Marcus, Saks, Bloomingdales, and Nordstrom, has considerably improved, indicating current economic factors, such as slow-wage growth, unemployment, and a down housing market, are affecting affluent shoppers much less than lower-income consumers. Luxury retailers have not only recovered from the recession, but have begun to grow their businesses. Lord & Taylor recently announced a new home store concept, while Nordstrom is testing shopper reactions to its presence in Manhattan by opening a treasure&bond concept store, with all profits donated to charities.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Mixed

Gross Margin:
Mixed

Discounting:
Decreasing

Recent Appraisal Trends

Overall, net recovery values for department store retailers ranged from relatively consistent to increasing by up to 3.0 percentage points. Mid-tier and luxury department stores' net recovery values are increasing, while many lower-tier department stores' net recovery values remained consistent.

Within the mid-tier and luxury department stores, the increasing net recovery values were driven by strong comparable store sales increases as well as increases in gross margin. Gross margin has benefited from decreases in discounting levels.

Low-to-mid-tier department store recovery values remained consistent as many experienced mixed sales results, as well as gross margin erosion. Gross margin has suffered as a result of increases in cotton prices. Many low-tier department stores have not passed these increases on to their customers. Additionally, in some cases, customers have simply been unwilling to accept any price increases, instead opting to wait until goods go on sale.

APPAREL AND ACCESSORIES

Specialty Apparel Stores



Industry Trends

Overall, the specialty retail segment faces competitive sales pressure, as consumers compare prices and have been cautious with spending. Furthermore, specialty retailers have found that they have had to discount to remain competitive. Those that have failed to offer the most attractive price points have experienced less robust sales results, whereas those that have maintained attractive price points have exhibited positive sales.

For specialty apparel retailers, the back-to-school season was highly competitive. Teen retailers in particular were concerned about back-to-school sales and promotions. As teen unemployment remained at record highs and families were preoccupied with financial austerity and an unpredictable economy, value pricing remained key for fickle teen consumers who wanted the latest trendy apparel items. While sales at some teen retailers soared as a result of on-trend merchandising and sensitive price points, others declined due to merchandising missteps and ineffective pricing strategies.

Furthermore, similar to other retailers, many specialty apparel retailers continue to face gross margin pressures due to high cotton acquisition costs. The following table illustrates monthly comparable store sales trends for major specialty apparel retailers that report these results:

	Apr. '11	May '11	June '11	July '11	Aug. '11	Sept. '11
Gap	2.0%	(4.0%)	(1.0%)	(3.0%)	(8.0%)	(4.0%)
Banana Republic	11.0%	(6.0%)	3.0%	(2.0%)	(4.0%)	(1.0%)
Old Navy	14.0%	(1.0%)	2.0%	0.0%	(4.0%)	(1.0%)
Zumiez	17.5%	7.8%	9.8%	4.9%	4.3%	10.1%
Wet Seal	10.2%	2.9%	7.3%	7.4%	5.5%	(0.3%)
The Buckle	14.5%	8.8%	10.8%	6.8%	8.3%	10.3%
Victoria's Secret	25.0%	8.0%	17.0%	9.0%	16.0%	13.0%

After erratic comparable store sales since the recession, the “Big Three” of teen retail, Aeropostale, American Eagle, and Abercrombie & Fitch, announced they would no longer report monthly sales results. The following table illustrates the most recent fiscal quarter sales reported by these companies:

	Most Recent Quarter	Prior Quarter	Two Quarters Ago
American Eagle	0.0%	(8.0%)	(7.0%)
Aeropostale	(14.0%)	(7.0%)	(3.0%)
Abercrombie & Fitch	9.0%	10.0%	13.0%

Note(s): The most recent quarter for all three companies ended July 30, 2011.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Mixed

Gross Margin:
Mixed

Discounting:
Mixed

With competitively priced, on-trend merchandise, teen retailers Wet Seal, Zumiez, The Buckle, and Abercrombie & Fitch continued to post positive sales throughout the summer and into the back-to-school season. After adjusting its pricing to be more in-line with customer price points, perennial teen favorite Abercrombie & Fitch boasted a 9.0% comparable store sales increase for the quarter ended July 2011, and noted that back-to-school sales continued this positive trend.

American Eagle and Aeropostale, as well as other specialty apparel retailers, such as Gap, Old Navy, and Banana Republic, experienced mostly negative sales during the summer and back-to-school seasons. Gap recently announced plans to close 189 stores by the end of 2013. Comparable store sales for Aeropostale, which surged in popularity during the recession due to its low-price points, have declined for the past several quarters as a result of poor merchandising and missed trend opportunities. Conversely, American Eagle is hoping to improve sales after returning to a more focused and lean merchandising selection of jeans and other basic items.

Recent Appraisal Trends

GA appraised several specialty apparel retailers during the second and third quarters of 2011, including those that cater to teens. Net recovery values for companies appraised were mainly increasing by up to 4.5 percentage points, with some companies remaining consistent.

Comparable store sales for the majority of specialty apparel retailers were mixed; while some retailers continue to experience improving sales trends due to successful promotional strategies and better inventory management, others continue to suffer due to a slow economic environment and highly competitive retail market.

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 that continues to experience low liquidation activity.

APPAREL AND ACCESSORIES

Off-Price Stores



Industry Trends

Overall, off-price retailers have performed moderately well throughout 2011, especially during the back-to-school season, as families tried to balance their children's desires for stylish apparel and accessories with restricted household shopping budgets. According to a survey conducted by the National Retail Federation, four out of five respondents noted the depressed economy had an impact on back-to-school shopping patterns. The survey found that over half of shoppers intended to hunt for sales and bargains before making a purchase.

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

	Apr. '11	May '11	June '11	July '11	Aug. '11	Sept. '11
TJX	5.0%	2.0%	5.0%	4.0%	1.0%	4.0%
Ross Stores	10.0%	4.0%	5.0%	7.0%	4.0%	5.0%
Stein Mart	3.3%	0.7%	(1.5%)	(2.8%)	(7.5%)	(1.7%)
Stage Stores	15.1%	0.0%	1.8%	0.8%	(1.7%)	(0.7%)

Third quarter sales at TJX, the parent company of off-price retailers T.J. Maxx, Marshall's, and Home Goods, were boosted by increased customer traffic. TJX, as well as rival Ross Stores, noted that they had utilized their substantial purchasing power and leverage to obtain desirable and inexpensive apparel and dorm room accessories for the back-to-school shopping season.

Although most off-price retailers posted gains, Stein Mart continued to experience declining comparable store sales during the third quarter. Specifically, the company posted a 7.5% drop in comparable store sales in the month of August, the height of back-to-school shopping. Stein Mart noted the negative August comparable store sales were magnified by damage and disruption caused by Hurricane Irene. Not only did the storm disrupt regular customer traffic, it also coincided with the company's largest promotional event of the month.

However, Stein Mart recently announced a new marketing initiative that integrates social media, television, radio, and print advertisements in order to foster a community of customers on its website, which the company hopes will boost sales.

Going forward, holiday 2011 retail sales predictions are cautiously optimistic. Although off-price retailers performed moderately well during the previous year's holiday season, sales were dampened as consumers snubbed off-price retailers in favor of department stores and specialty apparel retailers.

However, factors such as high unemployment, low consumer confidence, and a volatile stock market have increased consumer fears of a possible double-dip recession. Therefore, increased spending at off price retailers during the 2011 holiday season is likely.

Recent Appraisal Trends

Changes in net recovery values for off-price retailers appraised by GA during the past several months were mixed, primarily impacted by shifts in inventory mixes and changes in gross margin. Most off-price retailers' net recovery values remained relatively consistent. Overall, off-price retailers continued to manage inventory levels closely in order to keep inventory in line with demand, while taking advantage of opportunistic purchases as they arise.

Overall, comparable store sales for off-price retailers appraised by GA have been mixed. Several companies posted low single-digit sales increases while comparable store sales slightly declined for others.

Off-price retailers continued to face gross margin pressures, such as increased acquisition costs, going into the back-to-school season. Most retailers appraised by GA exhibited gross margin declines of 0.5 to 1.5 percentage points. Markup for appraised companies showed little change, and was generally flat to slightly declining. Discounting levels were flat to up by 1.5 percentage points.

Trend Tracker

NOLVs:
Consistent

Sales Trends:
Mixed

Gross Margin:
Decreasing

Discounting:
Mixed

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. This was evident in recent months, as families flocked to discount retailers for their back-to-school needs. According to a survey conducted by the National Retail Federation, discount retailers have become the primary destination for back-to-school shoppers.

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

	Apr. '11	May '11	Jun. '11	Jul. '11	Aug. '11	Sep. '11
Wal-Mart	(1.1%)	-	-	(0.9%)	-	-
Target	13.1%	2.8%	4.5%	4.1%	4.1%	5.3%

In order to capitalize on back-to-school spending, Wal-Mart announced it would reorganize both its retail stores and e-commerce website in order to maximize shopability. Back-to-school items were placed in one central location, and organized by grade.

In an effort to woo tech-savvy students, Target created interactive electronic tools for back-to-school shoppers, including customizable shopping lists, exclusive on-line coupons, and discounted package deals. Additionally, the company timed the much anticipated Missoni for Target launch for early September, during the height of back-to-school shopping.

Dollar stores continue to thrive in the down economy. The following table illustrates quarterly comparable store sales trends for major dollar stores that report these results. (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dollar General	5.9%	5.4%	3.8%	4.2%
Family Dollar	5.6%	4.7%	5.1%	6.9%
Dollar Tree	4.7%	7.1%	3.9%	8.7%

Note(s): The most recent quarter for Dollar General ended July 29, 2011; the most recent quarter for Family Dollar ended August 27, 2011; the most recent quarter for Dollar Tree ended July 30, 2011.

Historically, the average dollar-store customer was typically a low-wage earner. However, high unemployment rates, financial anxiety, and a return to more austere shopping habits have caused a palatable shift in customer demographics; a growing percentage of customers are from middle-class and affluent households. In order to retain these new customers, in the last several years dollar stores have overhauled merchandise offerings and store layouts to include consumables and household products, while reducing kitsch and décor items.

Although a boon for sales, the shift in merchandising, especially to consumables, has also put pressure on discount and dollar stores' gross margins. Dollar General continued to post record comparable store sales results during the first half of 2011. According to the company, continued strong sales were the result of increased customer traffic and transaction sizes, as well as positive customer reactions to its expanded selections of candy and snacks, packaged foods, and perishable offerings.

After successful expansion into several western states, the company plans to enter the Connecticut, Nevada, and New Hampshire markets by the end of 2011, and plans to open its first California store in 2012. Additionally, Dollar General recently announced it would open its 10th distribution center sometime next year. In addition to brick-and-mortar store expansion, the company recently launched an e-commerce website.

Similar to Dollar General, both Dollar Tree and Family Dollar noted positive sales were due to increased customer traffic and transaction size, as well as to increased sales of consumables. Dollar Tree noted it was able to sustain sales due to a seamless transition from summer merchandise to back-to-school items. In addition to positive sales, Family Dollar celebrated opening its 7,000th store opening in August.

Recent Appraisal Trends

Despite recent positive trends in the discount/dollar store segment, retailers appraised by GA have not been performing as well. GA has largely appraised regional-based discounters that have not performed as well as national competitors. Net recovery values for discount and dollar store retailers appraised by GA during the last several months have remained consistent, or have been down by as much as 2.0 percentage points, with most averaging a 0.5 percentage point decline. Changes in recovery values were primarily driven by gross margin pressures in the third quarter.

Retailers' gross margins during the back-to-school season were mixed as they struggled to pass along cost increases to customers. While sales had been relatively strong for the first half of the year, retailers resorted to increased promotional activity in the beginning of the second half as sales momentum declined. Back-to-school comparable store sales were strong for many discount retailers, but many customers waited until several weeks into the school year to complete their shopping. In order to offset the increase in acquisition costs and protect gross margin, most companies appraised showed slight increases in markup.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Increasing

APPAREL AND ACCESSORIES

Jewelry



Industry Trends

Jewelry retailers have performed quite well thus far in 2011, despite economic uncertainties and a continued rise in precious metal prices. From mid-to-high-end jewelry stores, including Sterling, Zale Corp and Tiffany's, to e-commerce jewelers such as Blue Nile, the jewelry industry's major players have experienced positive sales trends.

Increased sales for many jewelers were a result of timing, as the summer months typically yield greater sales due to the popular wedding season. In addition, recent positive sales are a reflection of comparisons to weak comparable store sales, which were experienced by many companies during the prior two years. The following table illustrates comparable store sales trends for major jewelry retailers that report these results (Represents the most recent fiscal quarter sales reported by these companies; Blue Nile represents changes in net sales):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Zale Corp	9.8%	15.2%	7.9%	(1.1%)
Sterling	12.2%	12.5%	11.4%	9.7%
Tiffany & Co.	19.0%	15.0%	9.0%	8.0%
Blue Nile	5.1%	8.3%	11.5%	0.9%

Note(s): The most recent quarter for Zale and Tiffany ended July 31, 2011; the most recent quarter for Sterling ended July 30, 2011; the most recent quarter for Blue Nile ended July 3, 2011.

In addition to elevated diamond costs, jewelers have continued to face increased costs for precious metals, particularly gold. Increased prices are primarily attributed to recent economic uncertainties, which have led investors to put stock into precious metals, thus pushing up prices. In September, the price of gold increased slightly by 1.5% to \$1,816 per ounce.

It is expected the price of precious metals and diamonds will continue to rise. However, after an increase of approximately 35% during the first half of 2011, diamonds are not expected to increase as much during the second half of 2011. Rising acquisition costs have put pressure on gross margins as jewelers must carefully manage price points in order to remain competitive and to maintain attractive price points that generate additional traffic.

Zale Corp recently announced the addition of exclusive jewelry lines by prominent public figures Vera Wang and Jessica Simpson. Similar to Zale Corp, other jewelers are expected

to introduce merchandise that will be exclusively sold through their own stores, with hopes of increasing profit margins and reducing some of the competitive pressure.

While indicators have been positive for jewelers recently, the upcoming holiday season will prove pivotal in illustrating whether or not the industry can continue these trends. Recently, there has been strength seen in the luxury segment, which bodes well for higher end retailers such as Tiffany and Co. In addition, IBM has recently reported that jewelry could be one of the best-performing categories this holiday season, with sales of jewelry anticipated to reach \$2.6 billion in November. This would represent an increase of 7.7% compared to the prior year. Similarly, IBM predicts that sales in December will be up 4%, reaching an estimated \$5.4 billion. However, as mid-tier customers have been more constricted with spending, how mid-priced jewelry performs remains to be seen.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Consistent

Recent Appraisal Trends

Overall, recovery values continued to increase up to 2.5 percentage points. Companies appraised continued to exhibit sales increases resulting from a rebound in consumer spending as well as comparisons to weaker sales results the prior year.

As mentioned, higher acquisition costs of precious metals and diamonds continued to be a challenge, requiring companies to actively manage pricing and inventory mixes. Companies have in some cases started to pass along price increases to customers at the benefit of gross margin. Others that have held prices consistent are experiencing declines in gross margin.

Although sales have improved, mall-based jewelry retailers are facing competition from warehouse stores and e-commerce retailers. To ensure that they do not lose market share from these non-traditional jewelry retailers, companies continue to provide a high level of customer service to improve customer satisfaction. In addition, companies will place additional focus on advertising and marketing in the upcoming holiday season. Companies continue to advertise through television and radio and have started to explore more modern yet less costly means of advertising, such as email marketing and social media sites.

APPAREL AND ACCESSORIES

Footwear



Industry Trends

Overall, the footwear industry has shown positive results recently. Improvements are attributed not just to consumer habits, but also to the adjustments made by major companies. Rising wholesale prices are forcing retailers to adjust buying practices. Some companies, like Famous Footwear, are purchasing less inventory and buying closer to season. Many major footwear companies are additionally testing shoes more than past years, before rolling out large quantities into stores.

E-commerce within the footwear industry has taken off, as a growing number of consumers shop online. Nike's online sales, for example, increased 31% for the quarter ended May 31, 2011, and other footwear retailers have also reported growth via online channels. With the Internet increasing competition in the marketplace, retailers are improving their own websites and implementing stronger online campaigns. Retailers have still been able to maintain comparable store sales with many companies posting gains. The following table illustrates quarterly comparable store sales trends for major footwear retailer that report these results. (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
DSW	12.3%	10.8%	14.9%	10.1%
Payless	(2.0%)	(8.3%)	(0.4%)	(4.6%)
Johnston & Murphy	17.0%	10.0%	12.0%	7.0%
Foot Locker	11.8%	12.8%	7.3%	8.1%
Nike Retail	N/A	18.0%	11.0%	9.0%
Famous Footwear	0.2%	(3.9%)	4.9%	10.6%

Note(s): The most recent quarter for all companies ended July 30, 2011; Nike Retail's most recent available was for the quarter ended May 31, 2011.

Consumer confidence declined throughout the summer months, and retail spending overall remains weak. Despite these trends, retailers in the footwear industry including Foot Locker, DSW, and Johnston & Murphy have reported double-digit comparable store sales growth in their most recent quarters reported. Even in an unstable economy, shoppers still needed the basics for the fall and back-to-school season. Consumers who were carefully pinching pennies at the start of the recession started to loosen the purse strings. Although more price conscience than pre-recession levels,

many have invested in affordable footwear. Teens are even defying price resistance, and have proven willing to pay high prices for particular brand names like Sperry, Steve Madden, and FitFlops. With the fall business underway, popular footwear includes boots, boat shoes, and lightweight running style shoes. With a desire to make fewer purchases, consumers are buying shoes with versatility. Nude colors that will frequently match are in demand, for example, alongside a demand for comfort. Comfort comes with wedges and flats for women.

Basic fitness footwear is also a popular segment for consumers heading into the fall season. Under Armour is introducing its biggest campaign for athletic shoes, boldly challenging the leaders of the athletic shoe industry. Adidas also revealed significant confidence in a recent *Wall Street Journal* article, commenting that despite financial hardship, people are still concerned for their health and will purchase appropriate athletic gear. The company is looking ahead to the 2012 Olympic Games where the brand will gain huge amounts of exposure.

Recent Appraisal Trends

Net recoveries have been flat or increased within a range of 1.0 to 3.0 percentage points due to continued improvements in sales. Sales improvements have been experienced by companies with a strong footwear assortment that outshines that of smaller competitors or companies who carry a broader assortment of products, including apparel lines and hard goods.

Margin improvements have been experienced in these companies as they aim to capitalize on strong demand and raised prices. In other cases, sales improvements are being partially or completely offset by declines in the toning segment that was growing rapidly last year and during the first half of 2011. As toning products typically carry a higher margin, as their mix of sales declines, company margins are also being impacted. Margins have also been impacted by higher production costs and sporadic upticks in discounting among certain segments.

Additionally, many footwear wholesalers and retailers continue to have a favorable outlook on the industry as they continue to increase inventory levels slightly by either carrying more units or the fact that the average cost per unit is up resulting from the increased costs of production.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Consistent

ENTERTAINMENT/ OUTDOOR PRODUCTS

Books



Industry Trends

After approximately 40 years in business, bookstore chain Borders shuttered its doors this summer. The bookstore giant had been ailing for some time, plagued by weak sales and saddled with debt. Borders was late to the e-book game and was then never able to make significant inroads, allowing competitors Barnes & Noble and Amazon.com to dominate the market. Borders closed all of its remaining 399 stores, representing approximately \$700 million in inventory, via a liquidation sale. Rival Books-A-Million submitted a proposal to acquire 30 of Borders' store locations, but ultimately was only able to make a deal for 14 locations in the eastern part of the country.

Some suggest that Border's demise could signal an end to the bookstore industry as we know it. Many are predicting an industry-wide downsizing as retailers adjust their business models to adapt to the increasing popularity of digital books.

Sales trends at the remaining brick-and-mortar book stores have been relatively weak thus far in 2011. Both Barnes & Noble and Books-A-Million reported declines in comparable store sales during the past two quarters. Sales of physical books have been on the decline as more and more consumers make the switch to e-books. In addition, the liquidation discounts offered at the Borders stores have temporarily taken sales away from other book retailers. The following table illustrates comparable store sales trends for major book retailers that report these results (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Barnes & Noble	(1.6%)	(2.9%)	7.3%	(3.3%)
Books-A-Million	(12.9%)	(13.2%)	(6.7%)	(5.8%)

Note(s): The most recent quarter for both companies ended July 30, 2011.

Although comparable store sales were down, Barnes & Noble reported that total sales increased 2% for its first quarter ended July 30, 2011. Sales through the Company's website increased 37%, with comparable web sales up 65%. Management attributed this increase to strong sales of the Company's NOOK product line and quadruple sales of digital content. The consolidated NOOK business across all of the company's segments, including sales of digital content, device hardware, and related accessories, increased 140% in the first quarter to \$277 million, on a comparable sales basis.

While analysts expected the Borders liquidation will have a negative effect on Barnes & Noble's comparable store sales in the short term, the demise of Borders has left Barnes & Noble as the only remaining national bookstore chain, which should benefit the company in the months to come. Some estimate that Barnes & Noble could pick up \$220 to \$330 million in

additional revenue. To aid in this, Barnes & Noble purchased Borders' customer list, and has already started marketing to this group.

Books-A-Million, which is more dependent on brick-and-mortar sales, experienced larger declines in comparable store sales. To beef up its online presence, the company recently began selling Barnes & Noble's NOOK device.

Book retailers also continue to lose market share to online giant Amazon.com. Current estimates show Amazon controlling 19% of the total book market, which includes new and used print books and e-books. Unlike Barnes & Noble and Books-A-Million, Amazon.com reported record sales for its quarter ended June 30, 2011. The company's sales increased 51%, including a 27% increase in its media category.

With Borders now out of the picture, many fear that traditional book stores will ultimately have the same fate as music stores and that the loss of the 399 Borders stores will serve to accelerate the transition to e-books. Forrester predicts that e-book sales will triple by 2015 to reach \$2.18 billion, with the number of e-readers increasing from 10.3 million in 2010 to 29.4 million by 2015. Barnes & Noble alone is projecting it will do \$1.8 billion in digital sales during its fiscal 2012.

Although e-books are taking sales away from physical books, book sales as a whole are on the rise, as customers with e-readers tend to purchase more books. Harris Interactive reports that while 32% of Americans stated that they have not purchased a book in the past year, only 6% of e-reader users said the same. Approximately 17% of e-reader users purchased between 11 and 20 books in the past year.

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 books, CDs, and DVDs to departments such as Children's, Toys & Games, Travel, and Health & Wellness.

Despite declining sales, net recoveries for appraisals have increased between 2.0 and 3.0 percentage points to reflect recent liquidation bids and results, assuming that no inventory would be sold through bulk channels. Based on GA's involvement in several store closings and liquidation bids for Borders, gross recoveries have been relatively consistent with appraised values.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Decreasing

Gross Margin:
Increasing

Discounting:
Consistent

Music and Video



Music

Industry Trends

So far in 2011, music sales have improved compared to the precipitous declines experienced over the last several years, fueled by strong digital and catalog sales. According to Nielsen SoundScan, through August 21, 2011, physical album unit sales were down only 4%, compared to being down 19% during this timeframe last year. Digital albums were up 19.1%, outpacing the 13.5% growth last year. Track equivalent albums (TEA), in which 10-tracks equals one album, were up 4.8%. This compares to a decline of 0.7% during the same timeframe last year.

Physical album sales continue to suffer as consumers direct more of their dollars to digital. However, although down on a total basis through August 21, sales were actually positive in four out of the past five months. Analysts point to two main factors that are contributing to this trend: declining prices and strong sales of catalog titles. According to Nielsen, the average price paid by consumers for a CD has fallen from \$11.07 in 2008 to \$9.82 in 2010. In addition, the industry group reported that catalog sales are up 3.5% year-to-date due to an increased focus on this category by mass merchant retailers. Conversely, sales of new releases are down 9.5%, due primarily to a soft release schedule. Through July 2011, only two albums sold more than a million units: Adele's *21* and Lady Gaga's *Born this Way*. This compares to five albums selling more than one million units by mid year 2010.

While prices for physical albums have declined, prices for digital music have increased. Many digital tracks are now priced at \$1.29, with many full albums priced over \$9.99. However, price hikes have not stopped growth in this category. Growth was further influenced by the demise of music sharing service LimeWire in October 2010, which caused



sales to spike during the following months. Prior to October, monthly sales trends for digital tracks ranged anywhere from down 3.7% in April 2010 to up 3.6% in May 2010. Sales rose 17.2% in November and have ranged from up 11.2% to up 13.9% since February 2011.

Currently, the non-traditional sector represents the largest channel through which consumers purchase music, accounting for 42.3% of album sales.

In the first six months of 2011, this sector saw sales growth of 18.6%. Conversely, chain stores exhibited a decline of 11.3%, mass merchants demonstrated a 7.9% decline, and independent stores reported a 6.7% decline, which is reflected in the sales trends of major music retailers. The following table illustrates comparable store sales trends for major companies in the music and video industry that report these results (Represents the most recent fiscal quarter sales reported by these companies):

Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Mixed

Gross Margin:
Increasing

Discounting:
Consistent

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Trans World	(6.0%)	(2.0%)	(6.0%)	(5.0%)
Hastings	(8.1%)	(3.4%)	(3.2%)	1.3%

Note(s): The most recent quarter for Trans World and Hastings ended July 30 and 31, 2011, respectively.

Video

Industry Trends

Sales of traditional DVDs continue to plummet. While Blu-ray sales have been strong, their increase cannot mask the fact that DVDs as a whole continue to decline. During the first half of 2011, overall DVD purchases were down 18.3%, with Blu-ray purchases up just over 10%, according to Digital Entertainment Group. Much of the decline in DVD sales was attributed to the fact that *Avatar*, which was released in April 2010 and sold more than 12 million discs in the second quarter, has skewed comparisons. However, even with *Avatar's* success in 2010, DVD sales still declined that year.

Blu-ray continues to be the one bright spot in the industry. During the second quarter of 2011, the number of homes with a Blu-ray player increased 16% to 31.6 million homes. Player sales increased 13.1% between the first half of 2010 and the first half of 2011.

The DVD format as a whole continues to compete with Internet streaming and video on demand companies such as Netflix and cable providers as well as rental companies. According to Digital Entertainment Group, spending on subscription services was up 45.7% in the first half of 2011, with kiosk rental sales up 39.8%.

Music and Video



Video continued

It appears that while cash-strapped consumers may be spending more time at home in order to save money, they are opting to rent or stream movies rather than shell out money on DVD purchases. The industry is hopeful that the DVD release schedule for the third and fourth quarters will help to boost sales. Several blockbuster films are due out, including *Harry Potter and the Deathly Hallows: Part 2*, *The Hangover Part II*, and *Pirates of the Caribbean: On Stranger Tides*.

Competition within the rental arena has been heating up recently. In September, Netflix eliminated its popular \$9.99 DVD-plus-streaming service. This service was replaced with two separate plans, each priced at \$7.99, effectively raising the price by 60%. The customer backlash was more significant than the company anticipated. In a recent letter to the company's shareholders, Netflix indicated that it expects to lose one million more subscribers than it originally projected due to the price change. On top of this, Netflix is also struggling to negotiate with Starz, which provides Netflix with a significant amount of content. Starz recently announced that it would not renew its contract with Netflix when it expires in February 2012.

Other companies have been quick to capitalize on Netflix's recent difficulties and bad press. Shortly after the announcement of the price hikes, Blockbuster began offering special prices and 30-day trials of its Total Access service in an attempt to lure unhappy Netflix customers. Dish Network, which purchased Blockbuster earlier this year, also unveiled its own streaming service in September and is also rumored to be negotiating a content deal with Starz.



Redbox is also well positioned to benefit from the pricing change, as analysts expect that many Netflix customers will keep their streaming account, but seek out less expensive ways to rent physical DVDs. According to recent data, two-thirds of the U.S. population lives within a five-minute drive of one of the company's vending machines.

There has also been buzz that Amazon.com may enter into the game. The company purchased Lovefilm, a European rental service akin to Netflix, in early 2011. In addition, Wal-Mart recently announced plans to launch digital online movie rental and video streaming through its Vudu service.

Recent Appraisal Trends

Net recoveries for CDs and DVDs have continued to decline approximately 1.0 to 2.0 percentage points. While physical album sales trends have experienced modest increases in the last few months, overall demand remains challenged. Acknowledging the margin pressure, the majors have made an effort to reduce the cost of CDs, and this has provided some relief for distributors and retailers. Operators continue to manage inventory tightly with retailers evaluating the amount of square footage dedicated to the format and distributors reacting to the reality of having fewer outlets through which to move product.

Declines in values for DVDs have been driven by declines in sales. As mentioned, DVD sales have been experiencing declines, despite decent performance by Blu-ray product. Sales of physical DVDs have been adversely impacted as consumers have more options than ever to access video content. Furthermore, the lack of blockbuster films released to DVD in 2011 compared to 2010 has resulted in sales declines.

ENTERTAINMENT/ OUTDOOR PRODUCTS

Consumer Electronics



Industry Trends

The consumer electronics industry, while experiencing growth in certain categories, has also 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 public consumer electronics retailers (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Best Buy	(2.7%)	(2.4%)	(5.5%)	(5.0%)
hhgregg	(13.2%)	(10.8%)	(6.2%)	(1.5%)
Conn's	(12.8%)	(3.9%)	5.2%	(16.3%)
Radio Shack	(7.8%)	(0.6%)	1.3%	6.2%

Note(s): Best Buy represents domestic only. The most recent quarter for Best Buy ended August 27, 2011; the most recent quarter for hhgregg and Radio Shack ended June 30, 2011; the most recent quarter for Conn's ended July 31, 2011.

While several public consumer electronics retailers have noted recent comparable store sales declines, some key categories continue to experience growth, including mobile computing and e-Readers. Within the mobile computing segment, tablet devices continue to gain in popularity. Infonetics research (as reported by *BusinessWire*) revealed that worldwide unit purchases of mobile broadband-enabled tablets increased 80% in the second quarter of 2011 versus the prior quarter to 14 million units. These tablets included the Apple iPad, Motorola Xoom, BlackBerry PlayBook, and HP TouchPad (which has since been discontinued by HP). Despite a myriad of tablet options, Apple's iPad remains the clear market leader. Amazon.com also recently announced its Kindle Fire, which is being introduced at less than half the price of Apple's iPad.

One segment that continues to struggle is television/video. Demand for emerging technologies continues to be low, and average selling prices are continually trending downward.

A growing trend in the consumer electronics market is increased competition from online retailers such as Amazon.com. Overall, *TWICE* reports that comScore data shows online sales of consumer electronics and PC products, excluding peripherals, up 15% during the second quarter of 2011 versus the same quarter the prior year. Shoppers are increasingly opting to shop on Amazon due to low prices, wide selection, and a good shopping experience. Additionally, some of the increased traffic on Amazon is attributed to greater price transparency due to comparison-shopping sites and smartphone apps, which have enabled customers to achieve a certain amount of consumer empowerment.

According to *TWICE*, Amazon has become the fourth-largest consumer electronics merchant behind Best Buy, Wal-Mart, and Apple.

Best Buy reported that online sales increased 13% (domestic segment only) during the fiscal second quarter ended August 27, 2011, while the retailer experienced a comparable store sales decline of 2.7% for the same period. In response to weak sales, changing consumer spending habits, and increased competition from online retailers, the *Los Angeles Times* reported earlier this summer that Best Buy plans to reduce the size of its brick-and-mortar stores and sublease the additional space to smaller retailers.

Looking forward, Apple's release of the iPhone 4S may be a sales driver in the consumer electronics market in the coming months. In addition, there is uncertainty regarding the impact that the new management of Apple will have on the company and the market in years to come.

In the upcoming holiday season, a recent study released by ShopperTrak predicts that consumer electronics and appliance sales will increase slightly during the 2011 holiday season; however, traffic at the stores is actually expected to decline. The reason for the decline in traffic levels is a low level of new, blockbuster electronics being released to the market this year, as well as continued caution and value-seeking strategies practiced among consumers, such as purchasing products at online outlets or researching large purchases prior to walking into the store, resulting in less browsing. Best Buy recently announced its holiday hiring plans, which include adding only 15,000 associates, compared to the 29,000 added during the prior year, as consumers remain cautious regarding spending.

Recent Appraisal Trends

GA performed a number of collateral appraisals over the quarter, including a regional electronics retailer, electronics distributor, and DVD, CD, and video game wholesalers and distributors. Recovery values are declining due to the sales and margin trends experienced as television sales have slowed, computer sales are shifting toward lower-priced tablets, and sales of smartphones at reduced margins have increased as a result of the obsolescence of older technology as newer versions are released with much better features. Content for 3D televisions has not evolved as quickly as anticipated, and consumers are not upgrading their televisions with the same demand as during the shift from picture tube televisions to flat panel models.

Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Decreasing

Gross Margin:
Decreasing

Discounting:
Increasing

ENTERTAINMENT/ OUTDOOR PRODUCTS

Sporting Goods



Industry Trends

In recent months, several leading sporting good retailers benefited from the public's demand for summer-themed goods including active wear, footwear, and water sport equipment. Correspondingly, sporting goods stores were eagerly willing to stock their shelves with this type of merchandise, while also positioning stores for the back-to-school season.

The following table illustrates comparable store sales trends for major sporting goods retailers that report these results (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Dick's	2.5%	2.1%	9.4%	5.1%
Cabela's	4.4%	8.9%	7.3%	2.4%
Hibbett	5.9%	6.8%	1.2%	12.5%
Big 5	(1.7%)	(0.9%)	(0.7%)	2.0%
Sport Chalet	2.3%	1.3%	(0.4%)	(1.9%)

Note(s): Results for Dick's include Dick's Sporting Goods stores and Golf Galaxy. The most recent quarter for Dick's and Hibbett ended July 30, 2011; the most recent quarter for Cabela's ended July 2, 2011; the most recent quarter for Big 5 and Sport Chalet ended July 3, 2011.

Sales for much of the industry have increased as there has been some rebound in the economy as well as some inflationary sales increases. As much of the country experienced staycations over the summer, the outdoor and camping segments experienced increases in sales as families chose to camp as a more economical alternative to vacations.

In late August 2011, Hurricane Irene hit the east coast of the US, impacting sales at major retailers along the seaboard. However, it did not significantly impact sporting goods retailers. Despite a considerable number of temporary store closures on the weekend before Labor Day, during the peak of the back-to-school shopping season, the industry was able to maintain its momentum.

Consumers' demand for summer sporting goods translated to an increase in overall outdoor sales for retailers, with outdoor retail sales increasing 8% during the summer. Bolstered by greater acceptance of higher price point products, U.S. bicycle sales rose 8% through July. Approximately 55% of U.S. mountain bikes sold through the month maintained

a retail price of \$1,000 to \$2,000.

Paddle sports such as kayaking, canoeing, and stand-up paddling showed resiliency during the summer, despite extreme weather conditions and economic uncertainty. Popularity in the sport was attributed primarily to an increased level of purchases from outdoor enthusiasts who decided to stay closer to home for summer vacations to spend time with the family.

While sporting goods stores are not traditionally thought of as back-to-school shopping destinations, students and parents sought stores out in search of sports medicine goods to prepare for the fall's upcoming high school and collegiate athletic season. Awareness of concussions and the importance of prevention have created an increased demand for mouth guards, helmets, and pads.

As of October, the National Basketball Association's 2011-2012 season continued to remain in limbo. Going forward, sales of licensed apparel and related merchandise will likely suffer if the NBA lockout continues into 2012.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Decreasing

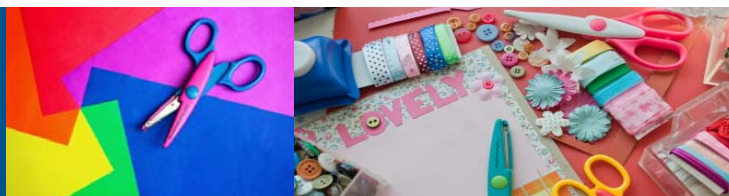
Recent Appraisal Trends

Recovery values for sporting goods and outdoor retailers continue to increase. Average values increased 1.0 percentage point with some seeing greater increases due to positive sales trends. GA completed appraisals for numerous national, regional, specialty and Internet retailers in the team sports, action sports, and hunting and outdoor products, and manufacturers and distributors of sporting arms and cycling goods.

Gross margins have increased for most retailers as less discounting was required to move goods. Inventory controls in place over the last year continue to benefit the quality of the inventory, reducing the amount of aged and clearance inventory retailers have had to move through. There have also been some retail price increases in goods that the customers have been willing to pay for. Going forward, a number of retailers are expecting additional cost increases from vendors stemming from increases in cotton prices and Chinese labor rates that have put pressure on the manufacturers. Most anticipate increasing retail prices accordingly, to offset the higher acquisition costs.

ENTERTAINMENT/ OUTDOOR PRODUCTS

Arts and Crafts



Industry Trends

In light of the continued uncertainty of the economy, many consumers have been cutting back on spending. The craft retail industry has not been immune to these trends, with some major craft retailers experiencing lackluster sales results during the summer months. The following table illustrates quarterly comparable store sales trends for major craft retailers that report these results. (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Michaels	1.8%	4.3%	0.7%	2.9%
AC Moore	(0.7%)	(2.6%)	(4.3%)	(7.0%)
Hancock	(4.1%)	(1.3%)	0.7%	0.3%

Note(s): The most recent quarter for Michaels and Hancock ended July 30, 2011; the most recent quarter for AC Moore ended July 2, 2011.

Hancock and AC Moore have most recently reported comparable store sales declines, and in October 2011, following many consecutive quarters of comparable store sales declines, AC Moore announced it had entered an agreement to be acquired by Sbars, Inc., a distributor of related products. Even Michaels, which has been a powerhouse in the industry, has started to show less substantial comparable store sales gains. Michaels does have reason to be pleased with its results, and has reported that its sales have benefited from increases in the average ticket price of purchases. However, sales transactions have declined slightly. This indicates a general trend in the industry, in that customers are willing to spend on items that they want or need, but are overall continuing to be conservative with spending, and keep shopping trips to a minimum.

However, the fall selling season can be a key time for craft retailers, as consumers purchase goods in relation to holidays and the season in general. For example, Halloween can spur spending at craft retail stores, as many offer seasonal decorations, as well as fabric, which can be used for home-made costumes. Aiming to keep its comparable store sales trends in the positive territory, Michaels has offered in-store activities aimed to increase customer traffic in its stores. For example, throughout the month of October, Michaels stores offer events such as pumpkin decorating, costume making, and crafts related to making Halloween-themed décor. These events are relatively low-cost for customers, and are offered on weekends, giving parents and children alike a reason to visit the stores.

For the fall season in general, many craft retailers work to capitalize on customers looking to decorate their homes with appropriate fall accents. As such, seasonal goods are typically highlighted in craft retailers' printed circulars, as well as on their websites.

This year, craft retailers have worked to find a balance with respect to merchandising and pricing for seasonal goods. Specifically, new seasonal products can increase customer traffic, as customers know when they get to the stores they will find products that haven't been available all summer, and that will only be available for a limited time on the sales floor. As such, many craft retailers worked to keep the prices attractive on these seasonal goods, offering strategic promotions as well, such as a percentage off a certain seasonal item. The idea that the products are available at a bargain helps to encourage customers to make the purchase. This has a positive impact on sales.

Additionally, the use of strategic promotions throughout the season on these seasonal items encourages sell through, helping retailers to avoid having to discount much more significantly at the end of the season, to make room for the upcoming holiday goods. Finally, a continued trend from the recession has been seen, whereby craft retailers have paid the utmost attention to keeping inventory in line with demand, particularly for seasonal goods, to avoid having excess goods that failed to sell through at the end of a season.

Recent Appraisal Trends

GA's recent appraisal experience has shown recovery values have been mixed, with most companies remaining consistent or increasing, but others experiencing slight declines.

Those companies that have been experiencing increases in recovery values have benefited from categories that have improved gross margins and weeks of supply. Conversely, other companies have experienced declines in values resulting from continued declining sales and gross margin.

Overall, craft retailers continue to focus on inventory and SKU rationalization, as well as a general reduction in clearance levels. In order to improve gross margin, many have focused on expansion of private label or exclusive offerings, which carry higher initial markup and require less discounting.

Trend Tracker

NOLVs:
Mixed

Sales Trends:
Mixed

Gross Margin:
Mixed

Discounting:
Mixed

FOOD AND CONSUMABLES

Grocery Stores



Industry Trends

During the early months of 2011, grocery stores began to see improvements in sales, a trend that has continued throughout the year. Most grocery store retailers are reporting comparable store sales increases in the low-to-mid single digits. Growth has been spurred by rising prices, which has resulted in higher sales on a dollar basis, as grocery stores have been passing more of these higher costs onto consumers to protect their profitability. The industry has also been less promotional compared to this timeframe in 2010. However, retailers have not been able to pass on all cost increases due to intense price competition. The following table illustrates comparable store sales trends for major public grocery retailers (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
A&P	N/A	N/A	(4.9%)	(6.6%)
Kroger	5.3%	4.6%	3.8%	2.4%
Safeway	0.5%	0.4%	(0.8%)	(2.0%)
Publix	4.2%	2.8%	3.2%	2.7%
Winn Dixie	3.2%	(0.5%)	(0.3%)	(2.8%)
Whole Foods	8.4%	7.8%	9.1%	8.7%

Note(s): The most recent quarter reported for A&P ended December 2010; the most recent quarter for Kroger ended August 2011; the most recent quarter for Safeway, Publix, and Winn Dixie ended June 2011; the most recent quarter for Whole Foods ended July 2011.

While many chains are showing improved results, A&P continues to struggle. A&P, which filed for bankruptcy in December 2010, has closed/sold 59 of its stores. Whether additional store closures are on the horizon remains unclear.

Although the industry has pulled back on aggressive discounting, price and value still remain important factors. With high levels of unemployment, a stagnant economy, and increasing costs for everyday items, consumers continue to seek out low prices. As a result, more and more consumers are gravitating toward private label brands, which have grown in quality, selection, and popularity over the last several years. Experts believe private label products could grow to a 50% market share by 2025.

Other ways the industry has become creative with pricing is by reducing product size to disguise price hikes.

Manufacturers have reduced the size of many boxed and canned goods by several ounces while keeping prices the same, as consumers are typically more sensitive to price changes than quantity changes. Other manufacturers are less subtle, promoting smaller packages as more portable or containing fewer calories.

Not only are grocery stores competing against each other for consumer dollars, but they are also competing against discount and drugstore retailers that continue to expand their grocery departments. This summer, Walgreens unveiled its Nice! private label grocery brand, which will be priced 30% lower than national brands. The line should be completely rolled out by early 2012 and the company will launch a corresponding marketing campaign next year. Similarly, Wal-Mart and Target continue to expand their grocery departments, open small-concept stores, and even build grocery-only stores. Wal-Mart is also currently testing a grocery delivery service in California that could be rolled out to other markets if successful.

Trend Tracker

NOLVs:
Decreasing

Sales Trends:
Mixed

Gross Margin:
Decreasing

Discounting:
Consistent



Recent Appraisal Trends

GA participated in a third wave of A&P store closings in the summer of 2011. The liquidation results were consistent with those achieved during the first quarter.

Net recovery values for companies appraised by GA continue to trend down approximately 0.5 percentage points due to gross margin declines stemming from increasing costs and a highly competitive landscape. Gross margin declines were driven by shortages of key commodities in 2001, such as wheat and corn, drove food prices in most categories up between 3% and 4%. In addition, inventory levels are up slightly as companies align inventory with modestly improving comparable store sales trends. There continues to be a shift toward private label brands in order to appeal to the price-conscious consumer, while stemming gross margin declines.

Pharmacy and Drug Stores



Industry Trends

Overall, recent notable trends for front-end product include the continued expansion of offerings, particularly private label. With respect to pharmacy, there has been continued increased prevalence of generics as patents on several blockbuster drugs face imminent expiration in the coming months. The following table illustrates comparable store sales trends for major public pharmacies (CVS reports quarterly):

	Feb. '11	Mar. '11	Apr. '11	May '11	Jun. '11	Jul. '11	Aug. '11
Walgreens							
Front End	3.8%	1.6%	6.5%	3.6%	4.7%	4.8%	4.8%
Pharmacy	2.7%	3.7%	1.8%	6.7%	4.9%	1.5%	6.1%
Rite Aid							
Front End	1.1%	(1.8%)	(0.4%)	1.8%	1.5%	3.1%	2.9%
Pharmacy	0.9%	0.8%	1.0%	1.0%	1.9%	1.4%	2.3%
CVS							
Front End	-	0.4%	-	-	0.8%	-	-
Pharmacy	-	3.7%	-	-	2.6%	-	-

Drug stores continue to expand their front-end offerings to include fresh food offerings, including meat, produce, and dairy. In addition, as consumers continue to opt for private label brands due to their lower price point, private label products continue to develop and expand. For example, in summer 2011, Walgreens announced the launch of a line of private label grocery and household items under its Nice! brand. Walgreens plans to have the majority of its Nice! products on the shelves by early 2012. The products offered will include a wide range of items, such as macaroni and cheese, tea, and oatmeal, as well as soups, sauces, and bakery items. With the introduction of its Nice! brand, the company plans to consolidate many of its existing store brands in order to build its private label business.

While drug stores have focused on expanding their front end offerings, prescriptions still remain their bread and butter. Consistent with trends throughout 2011, generic drug introductions have been negatively offsetting drug chains' sales dollar growth. In addition, several blockbuster drugs also face patent expiration in the coming months. These drugs include Zyprexa and Lipitor, among others.

An emerging issue facing the pharmacy industry is the potential merger of Express Scripts and Medco Health Solutions ("Medco"), both pharmacy benefit managers. In July 2011, Express Scripts signed a deal to purchase Medco for \$29 billion; however, the deal is still subject to approval.

Those for the merger argue that it would result in cost savings for consumers, in that the larger entity would be able to vie for better rebates from drug-makers, as well as lower reimbursement rates on claims from pharmacy chains. However, the National Community of Pharmacists Association and the National Association of Chain Drug Stores are opposed to the merger, arguing that it would decrease competition and subsequently raise the cost of health care, and would result in somewhat of a monopoly over the supply chain for both branded and generic prescription drugs.

Recent Appraisal Trends

Front End

Of the appraisals completed recently, recovery values for front-end inventory have remained relatively consistent.

Pharmacy

Although there is a continued decline in pharmacy sales and gross margin, 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.

Declines in margins resulted from 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. Partially offsetting this factor is the increase in generic utilization, as generic drugs, while earning a lower sale price, contribute a higher margin percent.

Scripts

Script values have increased over the last several quarters and are now beginning to level off. Competition remains an important factor in determining the value of pharmacy scripts, as competing bids during a script auction will drive up prices. In addition, the large chains such as CVS and Walgreens are actively in the market looking to increase their market share through script file acquisitions, as they believe it will aid in driving additional foot traffic to their front end. 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:
Increasing

Gross Margin:
Mixed

Discounting:
Consistent

FOOD AND CONSUMABLES

Convenience Stores



Industry Trends

Convenience stores experienced customer traffic declines during the summer months as a result of continued elevations in gasoline prices, according to a recent report issued by the NPD Group (“NPD”). NPD has most recently released data from the second quarter of the year, which revealed that traffic at convenience stores decreased by 4% versus the second quarter of the prior year. Declines were particularly steep for major oil and small independent chains, while more moderate for traditional convenience stores. Despite the decline in traffic, customers spent more during their visits, as sales increased 2% as a result of a higher average purchase and increased purchasing in several key categories. As economic conditions remain uncertain and increased prices for necessities such as food and gas continue to put pressure on consumers, value has come to be an extremely important factor in consumer purchasing decisions.

Consumers have responded to the sustained elevations in gas prices by developing certain practices in an attempt to save money, such as consolidating trips and driving less. According to recent data released by the Energy Information Administration (“EIA”), as reported by *Reuters*, US consumers on average pumped 9.17 million barrels per day during the time frame extending from the first week of June to the first week of September. Based on *Reuters* calculations, this translates to a 1.8 percentage point decline in demand compared to the prior summer. As fuel costs rose substantially from February to May, consumers responded by reigning in their fuel spending. As fuel prices began to ease, consumers returned to the road in June; however, prices went back up in July and August. Consumers responded by canceling vacations and traveling less. Despite relative easing since the highs reached in May, gasoline prices still averaged \$3.62 per gallon this summer, which represents an increase of \$1 over the prior year, according to EIA data.



Convenience stores continue to increase their foodservice offerings in an attempt to gain market share from quick-service restaurants, and are continually striving to challenge the perception that convenience stores offer fewer healthy choices and lower-quality food products than traditional restaurants.

Convenience Store News recently reported that, according to publisher of Packaged Facts David Sprinkle, through improving the variety and quality of their foodservice offerings, convenience stores are well-positioned to benefit from consumers consolidating their purchases. As such, Packaged Facts predicts that foodservice sales growth at convenience stores will exceed the average for the retail and restaurant industry through 2013.

Recent Appraisal Trends

Overall, net recovery values have remained relatively consistent. Sustained elevated gas prices have impacted consumer behavior and they have reduced miles driven and the frequency with which consumers are stopping at the pump. The impact of that trend has been offset by increased spending per trip as consumers consolidate their purchases. Foodservice offerings continue to be a focal point for both the operator and the consumer.

Promotional activity, while helping drive sales, means the slightly depressed gross margin levels of the first quarter of 2011 continue to prevail.

Trend Tracker

NOLVs:
Consistent

Sales Trends:
Increasing

Gross Margin:
Consistent

Discounting:
Consistent

Furniture



Industry Trends

Thus far in 2011, overall trends in the furniture sector have remained relatively positive. Given that the recession was largely driven by the downturn in the housing market, the furniture industry was one of the hardest hit, and negative results lasted for quite some time. As a result, the industry as a whole has continued to change. Many companies in the industry have faced bankruptcy filings, downsizing, and total liquidations over the past few years. This includes smaller, regional players such as Florida-based Robb & Stucky, as well as major names in the marketplace, including Berkline, both of which have liquidated their assets and gone out of business.

While the housing market is by no means out of the doldrums, furniture retailers that have managed to weather the storm and avoid having to significantly downsize and/or go out of business have recently been reaping the rewards. Despite increases in sales, the general outlook remains cautious, as often sales are compared to depressed levels the prior year, and spending on furniture has by no means returned to levels during the peak of the housing boom.

Foreclosures have undoubtedly plagued any sort of major rebound in the housing sector. However, foreclosed homes, once they have reentered the market and been made available for sale, have recently been scooped up by buyers at bargain prices. While this can have a negative impact on the housing sector overall, particularly by further driving down home values and average prices, sales of foreclosed homes can have a somewhat positive impact on the furniture industry. For example, buyers purchasing these properties at lower than standard prices may be more apt to spend money on furniture and furnishings for their newly purchased property. Foreclosures are by no means a positive factor in any hopes for a long term recovery of the housing market; however, they can result in an increase in sales of existing homes. Any increase in activity in the home buying sector can spur furniture sales.

Conversely, foreclosures have driven home prices down in many markets, leaving would-be home sellers to opt to hold onto their existing homes longer. Again, while this negatively impacts the housing market, it can positively impact the furniture industry. Homeowners that decide to keep their homes longer can decide to improve their existing homes by remodeling, upgrading, or purchasing new furniture.

Most furniture retailers have focused on improving the mix of inventory to spark sales. Some retailers have found that customers seem to be more willing to purchase more expensive pieces, particularly if they are viewing it as an investment in a high-quality item that will last for many years. However, when consumers are paying these higher price points, they do not want to have to replace the furniture any time soon.

As such, retailers have also been making sure to offer a good mix of accent pieces, and less expensive home furnishings to drive continual customer traffic and keep customers purchasing.

Overall, given the sales growth and the general tendency toward caution, expansion for many furniture retailers remains calculated in key markets. Retailers generally open only a handful of new stores at a time.

Recent Appraisal Trends

Overall, recovery values have been increasing for furniture retailers appraised by GA in recent months. Increases in values have ranged between 1.0 and 5.0 percentage points. These increases have been driven by improved sales and improved weeks of supply.

Retailers with higher price points have noticed less resistance from their customers than they saw the prior year. As a result, these retailers have been able to raise retail price points strategically without increasing discounting.

Gross margins in most companies remained flat or improved partially due to the aforementioned price increases, as well as continued reductions in slow moving or clearance inventory. The general decline in lower performing categories such as these have contributed to the increases in recovery values. In any instances where gross margins have exhibited slight declines, GA has found that increases in sales levels overall have offset the drop in margin.

Inventory levels continue to be closely managed by furniture retailers in the marketplace and many have been working to refine their merchandise mix.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Consistent

FURNITURE AND HOME FURNISHINGS

Home Furnishings



Industry Trends

Combined, new and existing home sales during the second quarter of 2011 were the weakest on record since 1963, and have remained weak in recent months. This fact, coupled with Americans' continued struggle with the threat of job loss and home foreclosure, led many consumers to shy away from over spending on home furnishings. Despite these negative trends, several of the nation's leading retailers posted positive gains in their most recently reported quarters.

The following table illustrates comparable store sales trends for major home furnishing retailers that report these results (Represents the most recent fiscal quarter sales reported by these companies):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Bed, Bath & Beyond	5.6%	7.0%	8.5%	7.0%
Pier 1 Imports	10.8%	10.2%	8.9%	10.2%
Williams Sonoma	6.5%	9.0%	5.2%	8.1%
Kirkland's	(8.0%)	(8.4%)	(7.9%)	(2.4%)

Note(s): Trends for Williams Sonoma include the Williams Sonoma stores, as well as Pottery Barn, Pottery Barn Kids, West Elm, PBteen, as well as e-commerce revenue. The most recent quarter for Bed, Bath & Beyond and Pier 1 ended August 27, 2011; the most recent quarter for Williams Sonoma ended July 31, 2011; the most recent quarter for Kirkland's ended July 30, 2011.

Traditionally, notebooks and backpacks are thought of as the standard back-to-school expense, however, home furnishings and housewares are now also involved with that time of year. As dorm-dwellers looked to decorate their spaces to reflect their own personal style, home furnishing retailers focused a large portion of their promotional activity toward offering items within students' budgets. In some cases, retailers utilized enticing discounts to bring consumers into stores while helping out parents and their college-bound children get ready for the big move away from home.

Back-to-school purchases typically include home decor, housewares, kitchen and appliances, bedding, and rugs. For this segment of consumers, home furnishing retailers tried to meet shoppers' budgets by offering products that ranged between \$39.99 and \$59.99.

While it is hard to predict how the economy will fare for the remainder of the year, many home furnishing retailers fully expect their business to be successful through the fall and holiday season based on early consumer response to seasonal merchandise assortments.

However, as the value of homes and home sales continue to edge downward, retailers will undoubtedly be impacted by future economic uncertainties, which may prevent consumers from spending.

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, with increases ranging from 2.0 to 4.0 percentage points. Sales continued to increase due to customers' positive response to new and exclusive products offerings, expanded and refined merchandise assortments, increased investment in advertising and marketing, and higher level of customer service.

Gross margin results have been mixed. All companies appraised were impacted by price increases from vendors, but all have also passed along these increases to their customers by raising prices. Companies indicated that these price increases did not deter customers from making purchases due to the exclusivity of their merchandise. Companies also put additional focus on products that generate higher margin as well as negotiated with vendors for price breaks. Companies that exhibited decline in gross margin attributed the decline to increased promotional activities to clear through inventory to avoid any build-up.

As demand for products continued to increase, companies responded accordingly by increasing inventory levels to meet customers' demand. Companies continued to focus on managing inventory as exhibited by declines in the level of aged and distressed inventory. In addition, companies put additional emphasis in advertising and marketing to continue to support sales growth. Companies redesigned their websites, launched online catalogs, as well as advertised in shelter publications and popular social media sites.

DIRECT MARKETING

Direct/E-commerce



Industry Trends

The direct marketing industry has been facing pressure from several avenues, and during the back-to-school season, price remained on the minds of many consumers.

Catalogs

Overall, companies aim to find a balance in the face of the growing market share of Internet ordering. Direct marketers continue to face rising costs. As paper and shipping costs increase, companies have been working to fine tune circulation, maximize the layouts of the products on pages to drive sales, and cut back lists to eliminate customers that are not typically placing orders. In some cases, companies have increased circulation in an effort to drive sales; however, prospecting continues to be targeted and used sparingly.

E-commerce

E-commerce sales have continually exhibited growth. The US Commerce Department most recently reported results for the second quarter of 2011, in which e-commerce sales were up 17.6% compared to the same quarter the prior year, and accounted for 4.6% of total sales during that timeframe. Results for the third quarter, during the height of the back-to-school season, will likely illustrate similar trends. Parents have been spending cautiously during the back-to-school season, and many elected to utilize the Internet to comparison shop for the best deals.

Going forward into the holiday season, e-commerce sales will likely continue to perform well. Deloitte predicts that non store sales, the majority of which are made online, will be up 14% between November and January. Companies have been ramping up mobile efforts to capture customers on the go. Retailers will, however, have to be mindful of shipping, as consumers will aim to save where possible, and avoid excessive shipping costs. This will be further impacted by moves made by major players in the industry. Following L.L. Bean's announcement of offering free standard shipping, many were curious to see if there would be a rush to follow suit in the industry. While so far it seems that many e-tailers have been working to offer free shipping as more of a promotion, as opposed to the norm, changes have nonetheless been seen. For example, flash sale website RueLaLa announced "The Rue 30." Historically, RueLaLa and other similar websites offered a shipping rate, which customers could pay once, and would not have to pay shipping on any other purchases made that day. With The Rue 30, customers pay the website's standard \$9.95 shipping fee, and all other purchases made within the next 30 days are eligible for free shipping.

Recent Appraisal Trends

Overall, Net Orderly Liquidation Values have increased for appraisals that GA has updated on a collateral basis. GA has found that in the direct marketing sector, hard goods, such as sporting goods and home furnishings, have seen increases in recovery values ranging between two and four percentage points. Apparel has seen slightly lower increases, ranging between one and two percentage points. In addition, there are some apparel companies in the direct marketing sector that have bucked the trend, and experienced declines in values. However, these businesses were in distress.

Companies experiencing increases in recovery values have been due to improved sales performance. For companies offering apparel and home furnishings, the increases in sales were largely driven by promotions. Examples of promotions include both percentage discounts off of certain products categories, as well as free shipping offers driven by trigger points. In these same companies, gross margin results have been mixed. Some have experienced increases due to increased price points, and some have exhibited slight declines.

For direct marketers offering sporting goods, values have also increased as a result of improved sales performance. However, the sales increases have mainly been driven by improved merchandise mixes. Overall, gross margin for these types of companies have been strong due to the improved mix, and subsequent need for fewer promotions to drive business. In general, many companies have indicated that free shipping offers continue to be important to consumers; however, these promotions have been utilized based on the overall promotional offer to the customer, and have remained competitive.

For multi-channel businesses that operate stores, and a direct portion that represents at least 25% of net sales, GA has seen significant increases in sales for the direct channel. These businesses are able to leverage stores and direct channels together to make the shopping experience easy for their customers. In the majority of appraisals performed by GA for such businesses, the e-commerce channel is not utilized in a liquidation strategy. If it is, typically only for the first four weeks.

Trend Tracker

NOLVs:
Increasing

Sales Trends:
Increasing

Gross Margin:
Mixed

Discounting:
Mixed