



For: Retail Clients – U.S. Markets  
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<b>Mall Specialty Stores</b>
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**American Eagle** is the busiest stores of the back-to-school chains. Above all other retailers, they understand that “back-to-school” now means a slight dressed up extension of summer wear. Customers are buying the AE look and carrying out large bags full of jeans, shirts, and distressed cargo pants. Stores are busy and well stocked, in many cases better stocked than other stores because of their ability to ship each metropolitan area according to its own seasonality rather than nationwide. Based on what we see now, we expect American Eagle to continue to deliver one of the top two or three financial performances the last half of this year.

**J Crew** still leads the other stores with eye-candy merchandise. Fall chinos in beige, khaki, dark tan, olive and lots of denim, jackets and vests make up, along with cashmere sweaters the primary fall assortment. Chino and denim jackets seem to be the popular items for fall. Stores are not overstocked and efficiently merchandised for the clean look. Again, we anticipate J Crew having a rock-solid back-to-school.

**Eddie Bauer**, a chain that two weeks ago we reported had not yet started to seriously address clearing past-season leftovers, has now been forced to reduce inventory by as much as 60% off original prices to clean out old merchandise. Taking initial markdowns at 50% and 60%, instead of the usual 25%-30% means significant margin erosion. The old retail adage, “the first markdown is the cheapest” that refers to the typical third-off initial markdown that will clear most past season good clearly didn’t happen. Store associates are telling us that the markdowns are driving sales but the financial results are in question. Eddie Bauer is one of the few mall clothing stores with any semblance of clearance product on promotion.

**Abercrombie & Fitch** is overstocked and under shopped. The look has not changed since summer transition to summer with stripped long sleeved shirts, jeans, logo tees, cargo pants, wide stripped polo shirts and mini skirts for the teens. Their **Hollister** chain is also overstocked with the same styled merchandise but with more logo shirts and distressed jeans. We think the continuance of June’s poor results is almost assured.

**Sharper Image** is still trying to transition to something customers will get excited about. They now predominantly feature a section in the store for “As Seen On TV”. Clearance items are abundant and the dregs of non-selling inventory. Newly received “Sharper Image” watches are already marked down to 50% off original retail signally another missed category. The newly released September catalogue is disappointing and these guys aren’t showing us anything that signals they have a solid turnaround strategy.

**Coldwater Creek** is on a major merchandising change to look like **Chico’s**. Outgoing merchandise still fills the back quarter of the store and has been reduced as much as 70%. They’ve enlarged their “Traveler Section” to mimic Chico’s but have added more brightly colored long sleeved cotton tops, more accessories, denim, and more selections than shoppers find at Chico’s. Clearance notwithstanding, this chain continues to perform well and expect the merchandise change to more clearly define their customer segment.

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**Banana Republic** is frantically looking for something to differentiate its store and merchandise and build customer loyalty. The latest promotion is “Luxe Card” which allows the customer free alterations and free shipping from the internet if the customer spends \$800 in the calendar year. We think the program is misguided and sales associates confirm a lack of customer interest. Bottom line we think this Gap division is over-priced, has no clear direction and lacks the once popular personality. We don’t expect strong performance and, in fact, think they will continue to drag Gap numbers down.

**GAP** is getting back to basics. The signage on the window and in store is “Keep it Simple”, which is the throwback to the original GAP experience. This translates to lots of jeans and khakis, jackets, low cut v-neck sweaters, cardigans and others, subtle stripped shirts, hoodies and sweats are now back in full swing. More GAP bags were seen than any bag at the mall. Stores are loaded with Mom’s and school age kids, including high school kids. No price increases – just a good, clean look. However, the GAP has a long trek back to being a fashion setter in the malls and we continue to see a lot of store presentation and operational inconsistencies in the chain. We think that sales in the short term are not going to be appreciably better until they have more than one improved season.

**Express** is a cleanly merchandised store with great signing and a new hip look for young adults. They are taking a stand with bottoms for BTS. Stores feature their “Three New Fits” our “Sexiest Jeans” called X2. The solid comp store sales of the past months will continue here.

**bebe's** merchandise looks great and is in all the right colors. But - teenage girls 16 and 17 are walking by the stores and talking that “they have nice stuff but are too expensive”. We think they will keep turning in mediocre results but need to address this issue or things could get worse.

What's the best retail location in the mall? These days it's being next door to the **Apple Store** where traffic is always at a high, customer demographics are exactly who you would want shopping your store (regardless of age or sex) and fashion is always in-style.

#### Non Mall Specialty

**Linens & Things** introduced a line of iPod accessories and speakers two weeks ago as part of its annual Back-to-school (college) promotion. Within hours of last Sunday’s circular, stores were out of stock of the clock radio model, along with broken assortments on the balance of the line. We’ve confirmed that the initial order, now almost depleted from stores and warehouses, was planned to last until mid-October when new holiday shipments start arriving from the manufacturer. Needless to say, sales are booming in the chain with estimates from 4-7% comparable stores.

**Dick’s Sporting Goods** is well merchandised with clear lines of sight for customers to easily find what they are shopping for. Store management has expressed a concern about slowing sales but saying the reason is “everyone concentrating on back to school”. We’re surprised since **Sports Authority** is looking sharp and we’ve heard is having a great month.

Next week were taking a closer look at Forever 21, MAC Cosmetics and Buckle where we understand sales of \$78 tattoo designed t-shirts are the rage.

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