

December 31, 2009

Dear Valued Client:

Happy New Year from Tiburon Research Group!

We have a passion for providing appropriately contrarian analytical insight into the retail/consumer sector via an effective combination of quantitative and qualitative skill sets. We look forward to again working together in the coming year and appreciate your support.

In 2010, we're going to mix it up! Here's the game plan for the coming year:

2010 Research Initiatives

- **Monthly Shopping Cart "Spotlight"** – In addition to our weekly *Shopping Cart* report, each month, we'll take an in-depth look at one particular retailer. This focus will entail an increased number of store visits each week of the month to provide a more comprehensive overview of sales trends and an assessment of the company's merchandising strategies. In addition, we plan to begin shopping **COST, LTD, and PETM** this year.

This year's monthly "**Spotlight**" schedule:

CHS (Jan), **JCG** (Feb), **COH** (Mar), **URBN** (Apr), **BBBY** (May), **GPS** (Jun), **AEO** (Jul),
JWN (Aug), **M** (Sep), **JCP** (Oct), **KSS** (Nov), and **WSM** (Dec)

- **Initiating Coverage on 6 Companies** – Each 2 months, we will unveil a new *Data Packet* (i.e. EPS model and supporting schedules that track all top-line and bottom-line data points provided by the company). The *Data Packet* will formally begin the process of initiating coverage on these particular retailers. The following coverage will be initiated in 2010:

FDO (Feb), **DLTR** (Apr), **COST** (Jun), **MCD** (Aug), **SWY** (Oct), and **SPLS** (Dec)

- **Adding 12 'Historical' EPS Models** – Each month, we'll unveil a new 'historical' EPS model (i.e. 'scrubbed' historical data with no forward forecast). Clients have found these 'historical' models useful and cements TRG's positioning as a trusted primary resource for EPS model intensive clients.

The following 'historical' EPS models will be added in 2010:

AZO, CHRS, ETH, FL, JACK, JOSB, KR, LTD, MW, NILE, SHLD, WFMI

- **Monthly Micro-Cap Focus** – We're going to continue to limit our coverage on micro-caps. That said, each month, we'll take a closer look at one of the micro-caps we've historically analyzed and spend time updating the *Data Packet* and shopping its stores. This particular report will be published separately from our other research. The following **Micro-Cap Focus** reports will be published in 2010:

BBW, CACH, CMRG, CPWM, CTRN, CWTR, HOTT, KIRK, NWFY, PSUN, TUES, WTSLA

Other Notes for 2010

- Today, we have 60 EPS models in which we forecast forward earnings. With an additional 6 planned for the coming year, we plan to be forecasting forward earnings for 66 companies by the end of the year. It should be noted that we spend less time forecasting earnings for many of the micro-caps.

Today, we also have 19 EPS models that include “fully scrubbed” historical quarterly earnings data. With an additional 12 planned for the coming year, we plan to have 31 ‘historical’ models by year-end.

Therefore, with 79 EPS models today and 97 by the end of 2010, we plan to continue being a primary resource for EPS model intensive clients.

- To successfully unveil the incremental coverage on 6 companies this year, we plan to no longer publish *EPS Preview* notes when we do not have materially divergent EPS expectations versus the consensus view. Instead, we’ll simply send an updated *Data Packet* a few days prior to the quarterly earnings release.
- We’re going to think more creatively this year how to provide unique perspectives of our shopping visits. We plan to test the loading of video clips to **YouTube** (limited access to clients only).
- We plan to focus our management visits this year on west coast retailers. We’ll target the following retailers during the year and keep you posted in case you have an opportunity to attend:

San Francisco: GPS, GYMB, ROST, SWY, WSM

Seattle: AMZN, COST, JWN, SBUX

- We’re currently planning to launch a blog. We want to use this new venue as a way to opine on bigger picture industry topics and allow a broader audience to understand the type of work that we do. We are currently testing the waters and will send you a link soon with the URL if we decide to move forward.

Conclusion

Again, we would like to reiterate that we appreciate having the opportunity to add value to your trading and research efforts. It’s difficult to run a boutique research shop with limited distribution given the variety of trading strategies employed by our clients. But, we endeavor to always do our best to ensure that we provide value to each and every client.

After 8 years of providing our research to the best and brightest minds in the retail space, it’s still clear to us today that there will always be opportunities to profit from our bottoms-up and comprehensive EPS forecasting methodology (combination of earnings analytics and store-level primary research). We still come across too many buy-side analysts that take short-cuts in their idea generation process and sell-side analysts will always be counted on to ignore fundamental due diligence in favor of managerial spin.

Please never hesitate to contact us and let us know how we can best serve you.

--Rob Wilson & Leah Vermulen