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BDO Seidman, LLP
Accountants and Consultants

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Executive Summary

BDO Seidman Retail Compass Survey of CFOs

The BDO Seidman Retail Compass Survey is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly with chief financial officers. The survey was conducted within a scientifically developed, pure random sample of the nation's leading retailers (with revenues ranging from more than $100 million to billions of dollars).

BDO Seidman Retail & Consumer Product Practice
BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

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Last year, the credit crisis and financial market meltdown caused a significant and immediate decrease in consumer spending. Retailers were caught off guard with too much inventory and panicked, which led to unprecedented discounts throughout the 2008 holiday season and into 2009. Despite their efforts, 2008 was the worst holiday season in 40 years and retailers have since spent the majority of 2009 cutting costs wherever possible to stay afloat. Now, consumers and retailers alike are still conservative, with an eye towards a turnaround in 2010. A recent study, by the Retail and Consumer Product Practice at BDO Seidman, LLP, of chief financial officers (CFOs) at leading U.S. retailers captured their opinions on the economy, inventory balance and the upcoming holiday season.

Inventory Balance Top of Mind for Retailers

According to the ***BDO Seidman Retail Compass Survey of CFOs***, success this holiday season will depend on the right inventory balance. Sixty-percent of chief financial officers (CFOs) at leading U.S. retailers say that too much inventory will pose a greater risk to holiday sales results than insufficient inventory levels. Still, a large minority (40%) cite insufficient inventory as the bigger concern.

Retailers are caught between a rock and a hard place. Reducing inventory is necessary, but retailers run the risk of hindering selection, which can lead to disappointed customers and fewer sales. On the other hand, merchandise overflow can lead to a frenzy of deep discounts, which can cheapen the brand and slash profits.

When it comes to increasing inventory levels, 62 percent of the CFOs say that they will ramp up buying by the first half of 2010. Specifically, 21 percent will increase purchases in the fourth quarter of 2009, 19 percent will do so in the first quarter of 2010 and 22 percent will wait until the second quarter of 2010. Seventeen percent will increase inventory in the third quarter of 2010, seven percent cite the fourth quarter and 14 percent will not increase inventory purchases until 2011 or later.

Retailers have their work cut out for them for the remainder of 2009 and through the beginning of next year, but they do expect to see a turnaround in the second half of 2010.

Retailers Say Layoffs Most Successful Cost-Cutting Strategy in 2009

In addition to inventory management, retailers have implemented several cost-cutting strategies throughout 2009. When asked which cost-cutting strategy has been the most effective so far, CFOs cite layoffs the most (38%), followed by inventory reduction (30%), delayed expansion (23%), lease re-negotiation (7%) and store closings (2%).

Fortunately, for the remainder of 2009, CFOs say that they will focus most heavily on inventory reductions (36%) and delaying expansion plans (30%) to cut costs, rather than layoffs (19%). Further, 11% will focus on lease renegotiations and four percent will close stores.

Ultimately, retailers will continue to cut costs wherever possible until consumer spending and confidence picks up. On a positive note, many of them have an eye towards increasing inventory for the Spring and Summer seasons.

Retailers See Turnaround in Second Half of 2010.

Retailers have their work cut out for them for the remainder of 2009 and through the beginning of next year, but they do expect a turnaround in the second half of 2010. A large majority (83%) of retail CFOs predict that we will see a meaningful turnaround in the economy in the second quarter of 2010 or later. Forty-one percent expect to see a turnaround in the second quarter of 2010, while 15 percent cite the third quarter of 2010, 10 percent cite the fourth quarter of 2010 and 17 percent don't expect to see a turnaround until 2011 or later. Last year, the highest concentration (28%) of CFOs predicted a meaningful turnaround in the second quarter of 2009.

These findings are from the most recent edition of the ***BDO Seidman Retail Compass Survey of CFOs***, which examines the opinions of 100 chief financial officers at leading retailers located throughout the country. The retailers in the study were among the largest in the country, with revenues of more than $100 million, including 10 percent in the top 100 based on annual sales revenue.

Some of the major findings of the *BDO Seidman Retail Compass Survey of CFOs*:

Battle of the Stimulus Packages. Retailers have had to mitigate the recession with little help from the government. In fact, 69 percent of CFOs say that the American Recovery and Reinvestment Act has been unsuccessful in stemming the recession. When comparing the 2008 and 2009 stimulus acts, retailers are torn about which package provided the most relief. While the 2009 stimulus package is credited for helping to avoid a depression, it came with a $787 billion price tag and little direct consumer stimulus. Although short-lived, the Stimulus Act of 2008 included a series of rebate checks to qualified taxpayers and helped boost comparable store sales in May, June and July of 2008 (positive 3.0 percent, 4.3 percent and 2.6 percent, respectively). Still, when asked which one had a more positive impact on consumer confidence, 41 percent of retailers chose the 2008 package while 41 percent chose the 2009 package, 17 percent said that neither package had much of an impact and one percent said they had equal impact.

Retailers React to Healthcare Reform. Managing healthcare costs is a significant challenge for any business and the retail industry, which is the second largest employer in the US, bears a large brunt of the burden. How retailers react to healthcare reform will be critical to its success but at the end of the day retailers need employees to run operations and healthcare will be considered just another cost of doing business. In fact, 71 percent of chief financial officers (CFOs) at leading U.S. retailers do not think they will reduce headcount as a reaction to healthcare reform. While it is encouraging that most retailers will avoid layoffs as a result of reform, a large majority (80%) of those who do not eliminate positions will pass increased healthcare costs onto employees. The remaining retailers (20%) do not anticipate that employees will incur increased healthcare costs.

Comparable Store Sales Dismal. A strong majority (72%) of retailers cite decreased sales when comparing comparable store sales in the first half of 2009 to the first half of 2008, up from 44 percent of CFOs that cited a decrease in sales in 2008 when looking back on the first half of 2007 and 22 percent of CFOs in 2007 who reported a decrease when looking back on the first half of 2006. Sixteen percent say that comparable store sales were flat in the first half of 2009.

No Optimism for Comparable Store Sales for the Rest of the Year. Looking forward, half (50%) of the CFOs anticipate that comparable store sales revenue will decrease in the second half of 2009 when compared to the second half of 2008, while 26 percent say sales will be flat and 24 percent cite sales will be higher. Overall, CFO's predict that comparable store sales for the second half of 2009 will be down four percent from the second half of 2008.

Comparable Store Sales Expected to Tumble in 2009. Overall, the CFOs estimate that the average comparable store sales growth for all of 2009 will tumble by seven percent. This

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is the first year that the ***BDO Seidman Retail Compass Survey of CFOs*** has predicted a decrease in both comparable store sales and overall sales for the year. Last year, CFOs predicted a 0.7 increase in comparable store sales for 2008.

Overall Sales Plummet in First Half of 2009. When comparing sales revenue in the first half of 2009 to the first half of 2008, the majority (86%) of retail CFOs report flat (20%) or decreased (66%) sales, up from 64 percent last year and 44 percent in 2007. Only 14 percent of retail CFOs say sales increased when comparing the first halves of 2009 and 2008, which is down from 36 percent who cited an increase last year when comparing sales revenue to the first half of 2007. In 2007, 56 CFOs cited an increase when comparing sales revenue to the first half of 2006.

Bleak Overall Sales Outlook. Looking forward, half (49%) of the CFOs anticipate that overall store sales revenue will decrease in the second half of 2009 when compared to the second half of 2008, while 23 percent say sales will be flat and 28 percent cite sales will be higher. Overall, CFO's predicted that overall store sales for 2009 will be down 5.6 percent from 2008.

Consumer Confidence Linchpin of Recovery. More than half (51%) of CFOs say that a rebound in the economy will depend on an uptick in consumer confidence. Other responses include lower unemployment levels (29%), a rebound in the housing market (13%), a rebound in the financial markets (6%) and lower fuel costs (1%). When asked what will have the greatest impact on consumer confidence for the rest of 2009, most of the CFOs cite unemployment (64%), followed by the weak housing market (20%), personal credit availability (11%), the 2009 Stimulus Act (4%) and high fuel costs (1%).

Unemployment Delivers Blow to Consumer Confidence. Unfortunately, unemployment is top of mind this year, with 62 percent of CFOs citing it as the issue having the greatest impact on consumers so far in 2009. Last year, fuel costs (57%) were cited as the primary issue impacting consumers in the first half of 2008, while this year only two percent of CFOs cite fuel costs. Looking forward to the balance of 2009, more CFOs (64%) cite unemployment as having the greatest impact on consumer confidence, followed by the housing market (20%), personal credit availability (11%) the 2009 Stimulus Act (4%) and high fuel costs (1%).

In regards to the recession, 41 percent of CFOs are predicting that the economy will experience a meaningful economic turnaround in the second quarter of 2010. The second highest concentration of CFOs (17%) cites that the economy will not turnaround until 2011 or later.

Consumers Keen on Green. Only half (50%) of the retailers surveyed sell green products. However, of those who do sell sustainable products, 63 percent are noticing an increase in consumer demand for them.

No Comeback for Layaway. Retailers, most notably Kmart and Sears, reinstituted layaway programs last November largely in response to the economic downturn. However, while the option to pay in installments does appeal to budget-conscious consumers, its comeback will likely be short-lived. Despite a flurry of high profile layaway programs, a large majority (86%) of retailers do not plan to offer layaway programs for the 2009 holiday season - only 14 percent of retailers say they have layaway programs in place.