

Account Review & Analysis

Golfsmith®
GOLF & TENNIS

EVERY SEASON STARTS AT
DICK'S
SPORTING GOODS.

GOLF
GALAXY

SPORT CHALET

Dillard's

Golf & Tennis Manufacturers Credit Exchange
NACM Credit Services
Orlando, FL
January 28, 2009

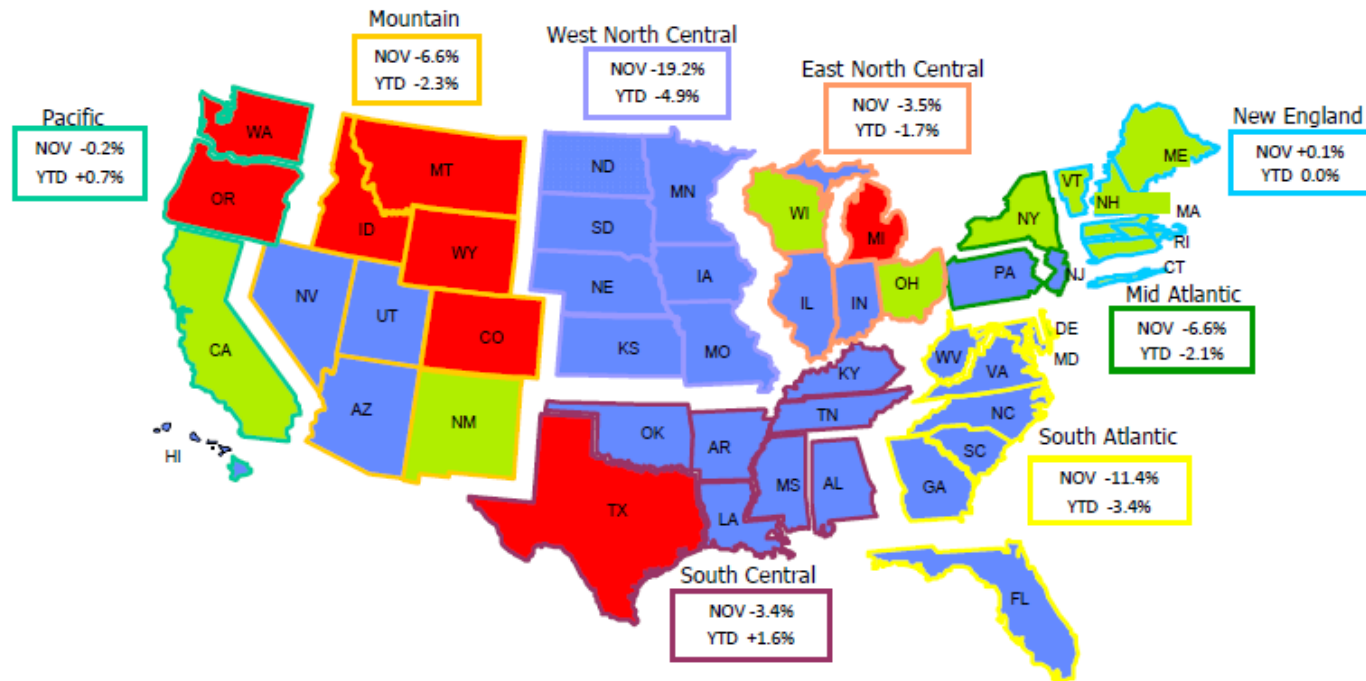
U.S. Economic & Retail Outlook

- ◆ Rollback in consumer spending power
 - ◆ Depreciation of assets
 - ◆ Homes
 - ◆ Stocks
 - ◆ Absence of savings
 - ◆ Rollback in consumer credit
 - ◆ Rise in consumer debt meant that consumption was based on borrowed consumer capital
 - ◆ Jobs and Wages
 - ◆ Rise in unemployment (low of 4.5% in middle of 2007)
 - ◆ Rises to 7.2% in January and anticipated to rise as high as 9.5% to 10.0% later this year
 - ◆ Stagnation of hourly wages
 - ◆ Above concerns have sent Consumers to put cash away rather than spend.
- ◆ Liquidity Crisis
 - ◆ Absence of balance sheet trust has resulted in a credit crunch at the corporate level
 - ◆ At the consumer level, banks and financial institutions have reacted to a rise in defaults by pulling back on credit levels offered.
- ◆ Receivable financing becoming difficult to obtain, placing additional risk on manufacturers.
- ◆ Managing cash is critical for retailers operating in this environment

Decline in Golf Rounds Played:

Big box represents 18.3% of all doors, up from 15% in 2005.

NOVEMBER 2008 NATIONAL GOLF ROUNDS PLAYED



Red	+2.0% and higher
Green	between -1.9% and +1.9%
Blue	-2% and lower

Please refer to the legend on the left for the color description. The state outline color represents the region. The percentages represent the differences in number of rounds played comparing November 2008 to November 2007. The findings represent 4415 reporting courses.

UNITED STATES	
NOVEMBER	YTD
-6.7%	-1.6%



PGA



NGF

Golfsmith®

GOLF & TENNIS



Creditntell.com
Where Wall Street Meets Main Street

Date Issued – January 14, 2009

Downgraded to **E2** on 1/20/09

...Special Update...

GOLFSMITH INTERNATIONAL HOLDSINGS, INC.

Austin, TX

Credit Rating: E1 (on review for downgrade)

Golfsmith International Holdings, Inc. announced sales results for the fourth quarter fiscal 2008 ended January 3, 2009.

For the 14 weeks ended January 3, 2009 net revenues declined 13.7% as compared net revenues of \$79.0 million for the 13 weeks ended December 29, 2007. Net revenues reflect a 17.3% decrease in comparable store sales, and a 23.0% decrease in net revenues from its direct channel compared to fourth quarter of fiscal 2007. Comparable store sales are calculated on a 13 week basis for both quarters presented.

Net revenues decreased 2.3% to \$379.1 million for fiscal year 2008 compared with net revenues of \$388.2 million for fiscal year 2007. Net revenues reflect a 6.3% decrease in comparable store sales, and a 13.1% decrease in net revenues from the company's direct channel. Total net revenues represent 53 weeks for 2008 compared to 52 weeks in 2007. Comparable store sales are calculated on a 52 week basis in both fiscal years.

Total inventory declined approximately 5.0% to 7.0%, and declined approximately 8.0% on a per store basis.

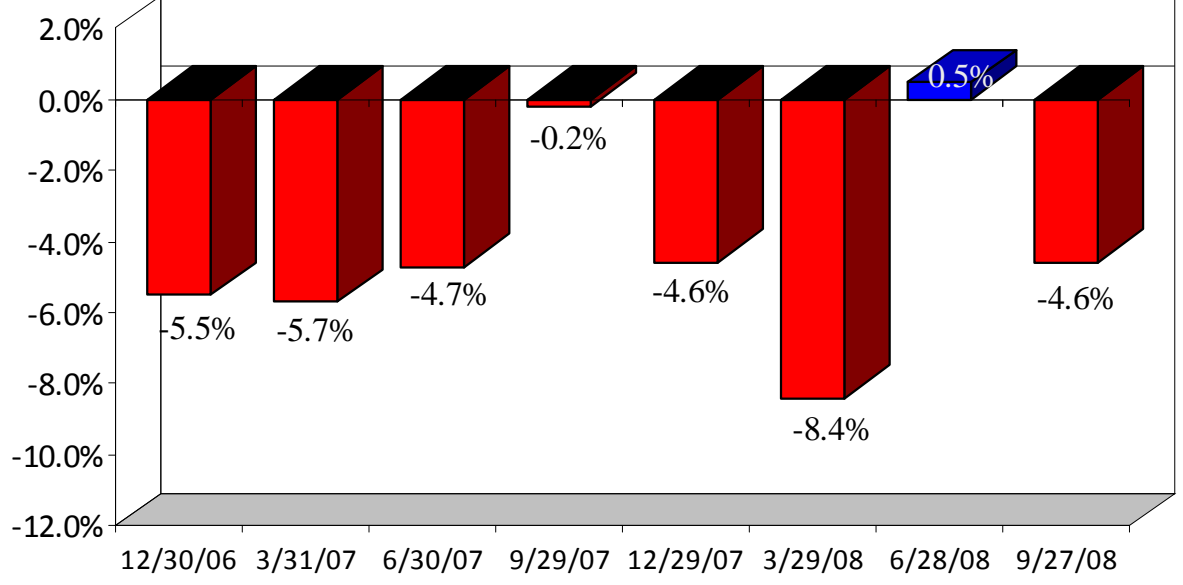
Martin Hanaka, chairman and chief executive officer of Golfsmith stated, "Sales and traffic were negatively impacted as consumer spending declined during the holiday season. We continue to work diligently to manage expenses and inventory levels during these difficult times. In addition, we will continue to approach our store opening plans and capital spending in a prudent manner as we focus on cash preservation."

3rd Quarter & YTD Results:

	3 Months Ended		% Change/ Difference	9 Months Ended		% Change/ Difference	Trailing 12 Months
	9/27/2008	9/29/2007		9/27/2008	9/29/2007		
	(Dollars in Millions)			(Dollars in Millions)			
Operating Performance:							
Sales	\$ 101.7	\$ 106.5	-4.5%	\$ 310.9	\$ 309.2	0.6%	\$ 389.9
Store Count	72	73	-1.4%	72	73	-1.4%	
Comp Store Sales (% Change)	-4.6%	-0.2%		-3.5%	-3.5%		N.A.
Gross Margins	34.3%	35.5%	-1.2%	34.3%	35.0%	-0.7%	34.5%
SG&A Margin	30.7%	28.7%	2.0%	31.5%	30.1%	1.4%	32.2%
EBITDA	\$ 3.7	\$ 7.2	-49.1%	\$ 8.9	\$ 15.5	-42.5%	\$ 9.1
EBITDA Margin	3.6%	6.8%	-3.2%	2.9%	5.0%	-2.1%	2.3%
Op. Income (Loss)	\$ 3.7	\$ 4.9	-25.4%	\$ 8.9	\$ 8.7	2.2%	\$ 6.3
Int. Exp. (Income)	\$ 0.5	\$ 0.8	-34.6%	\$ 2.2	\$ 2.6	-16.8%	\$ 3.2
Net Income (Loss)	\$ 2.8	\$ 4.0	-28.4%	\$ 6.0	\$ 5.9	1.6%	\$ (40.7)
Interest Coverage	7.27	9.34	-22.1%	4.05	5.86	-30.9%	2.82
Capital Expenditures	\$ 1.8	\$ 1.3	33.8%	\$ 3.7	\$ 12.4	-70.6%	\$ 6.9
Capex Margin	1.7%	1.2%	0.5%	1.2%	4.0%	-2.8%	1.8%
Return on equity for period	4.0%	3.6%	0.4%	8.5%	5.3%	3.2%	
Working Capital & Liquidity Indicators:							
Cash and Equivalents	\$ 2.8	\$ 3.2	-13.5%	\$ 2.8	\$ 3.2	-13.5%	
Accounts Receivable	\$ 1.5	\$ 1.8	-19.7%	\$ 1.5	\$ 1.8	-19.7%	
Inventory	\$ 86.6	\$ 91.7	-5.5%	\$ 86.6	\$ 91.7	-5.5%	
% Inventory financed by vendors	65.2%	54.8%	10.4%	65.2%	54.8%	10.4%	
Inventory turnover (annualized)	2.64	2.61	1.2%	2.64	2.61	1.2%	
Accounts Payable	\$ 56.5	\$ 50.2	12.5%	\$ 56.5	\$ 50.2	12.5%	
Days Payable Outstanding	76.12	65.77	15.7%				
Working capital	\$ 4.5	\$ (4.5)	201.2%	\$ 4.5	\$ (4.5)	201.2%	
Current ratio	1.05	0.96	9.2%	1.05	0.96	9.2%	
Debt & Leverage Ratios:							
Total Debt	\$ 39.5	\$ 42.5	-7.1%	\$ 39.5	\$ 42.5	-7.1%	
Stockholders' Equity	\$ 76.9	\$ 116.9	-34.2%	\$ 76.9	\$ 116.9	-34.2%	
Tangible Net Worth	\$ 50.7	\$ 47.6	6.5%	\$ 50.7	\$ 47.6	6.5%	
Total debt to equity ratio	0.51	0.36	41.1%	0.51	0.36	41.1%	
Total liabilities to equity ratio	1.41	1.02	37.4%	1.41	1.02	37.4%	
Total debt to TTM EBITDA	4.33	2.51	72.5%	4.33	2.51	72.5%	

Concerning Trends:

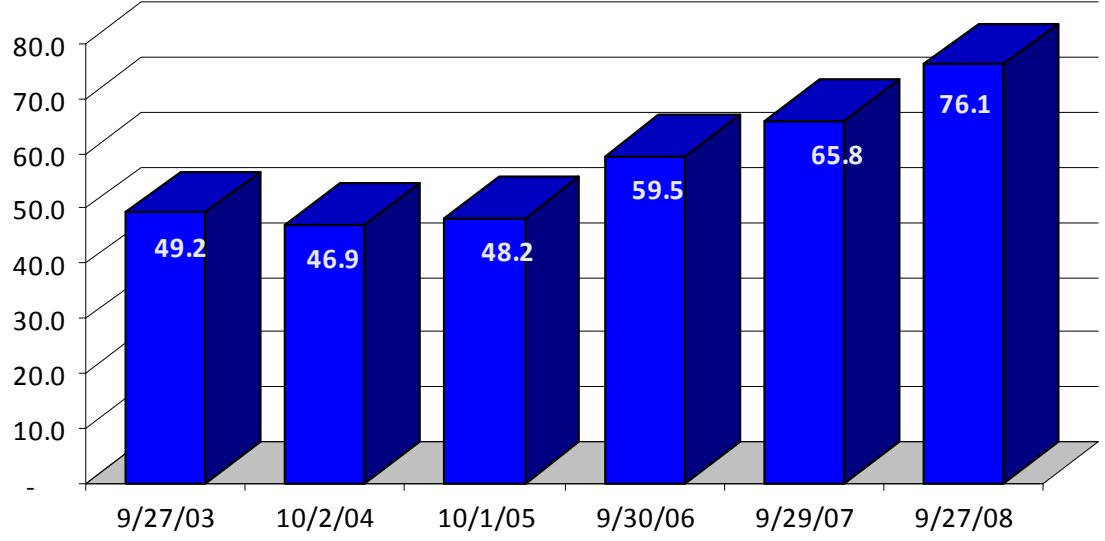
Quarterly Comparable Store Sales



4q Comps down 17.3%

Looks like leaning heavier on trade

Days Payable Outstanding

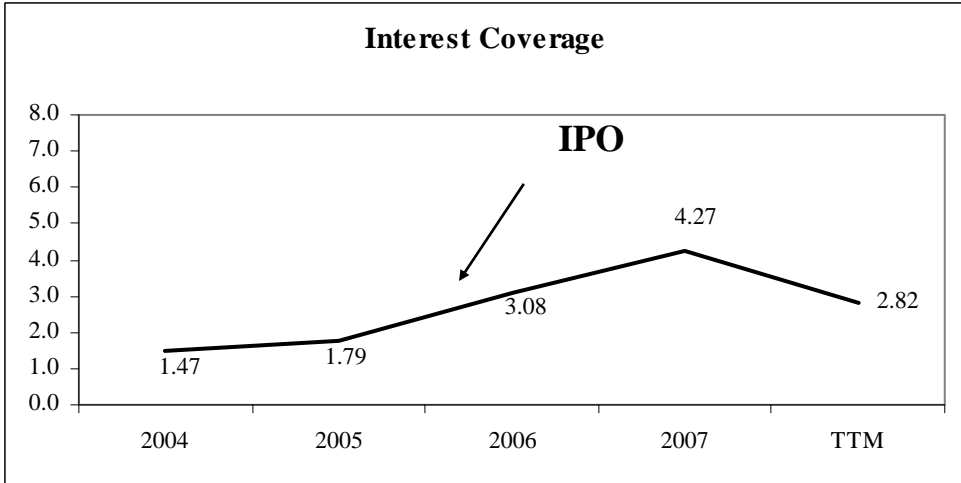


Credit Facility & Free Cash Flow:

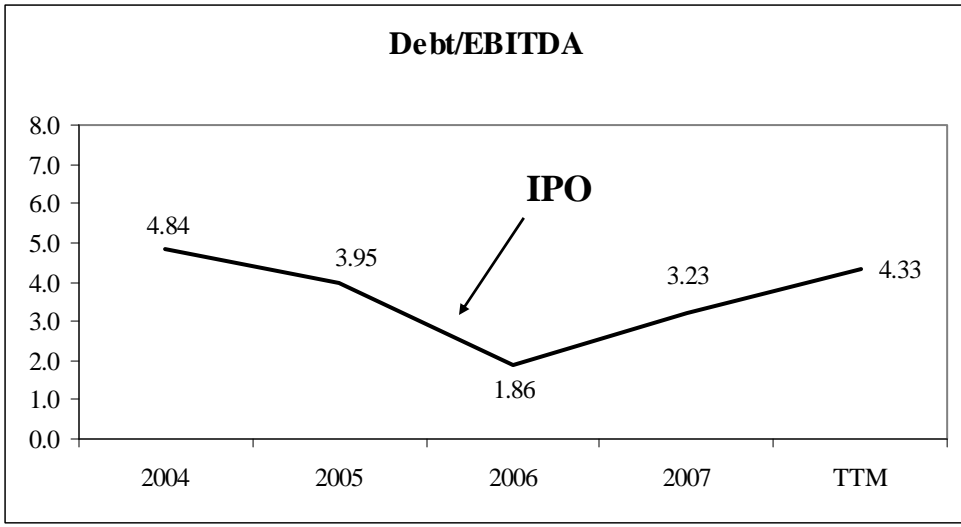
Start Date	June 20, 2006
Amendment Date	September 2007
Maturity Date	June 20, 2011
Agent Bank	General Electric Capital Corporation
Maximum Borrowings	\$90.0 million
Letter of Credit Sublimit	\$5.0 million
Borrowing Base	85% of the net amount of eligible receivables, plus the lesser of (i) 70% of the value of eligible inventory or (ii) up to 90% of the net orderly liquidation value of eligible inventory, plus the lesser of (i) \$17.5 million or (ii) 70% of the fair market value of eligible real estate, and minus \$3.5 million, which is an availability block used to calculate the borrowing base.
Availability (9/27/08)	\$21.8 million
Security	Secured by a first priority perfected security interest in substantially all of the Company's assets, the assets of the parent (including common stock) and the assets of all subsidiaries.
Covenants	Limitations on additional indebtedness, liens, dividends, stock repurchases, mergers and acquisitions, asset sales, investments, loans and guarantees.

(dollars in millions)

	3Q 9/27/08	2Q 6/28/08	1Q 3/29/08	FYE 12/29/07	3Q 9/29/07	2Q 6/30/07	1Q 3/31/07	FYE 12/30/06
Cash From Operations	\$ 13.7	\$ 19.6	\$ (15.9)	\$ 7.7	\$ 12.4	\$ 12.6	\$ (2.9)	\$ 4.9
Cash From Investing	(3.7)	(1.9)	0.7	(14.8)	(12.2)	(11.1)	(4.3)	(15.4)
Cash From Financing	(11.3)	(16.1)	14.7	9.3	1.1	2.9	7.5	7.9
Net Change in Cash *	(46.3)	1.6	(0.5)	2.2	72.2	4.4	0.3	(2.4)
<i>* Includes effect of exchange rate changes</i>								
Cash From Operations	13.7	19.6	(15.9)	7.7	12.4	12.6	(2.9)	4.9
+ Interest Expense (Income)	2.2	1.7	1.0	3.7	2.6	1.9	1.0	7.2
Capital Expenditures	(3.7)	(1.9)	(0.7)	(15.6)	(12.4)	(11.1)	(4.3)	(15.8)
Free Cash Flow Before Interest Expense	12.3	19.5	(15.5)	(4.3)	2.7	3.4	(6.3)	(3.6)
Free Cash Flow / Interest Expense	5.57	11.49	(15.74)	(1.16)	1.00	1.80	(6.33)	(0.50)
Free Cash Flow After Interest Expense	10.1	17.8	(16.5)	(7.9)	0.0	1.5	(7.3)	(10.9)
Debt Service								
Total Debt	\$ 39.5	\$ 34.6	\$ 65.4	\$ 50.7	\$ 42.5	\$ 44.1	\$ 48.7	\$ 41.5
Revolver Available	21.8	33.0	2.2	12.7	44.0	18.4	13.8	21.0



Below 3x is a warning sign



Above 3.5x is is a warning sign

Future Cash Flows Model:

- Revaluating every budget \$
- Eliminated 20 positions
- Re-examining freight
- Renegotiating leases

Sales	
EBITDA Margin	
EBITDA	
Int. Exp	
Capex	
Inventory	
Borrowing Base	
Outstanding Borrowings	
Available Credit Before Change in DPO	
Accounts Payable	

Assumes 13.7% drop in sales and 100 bps EBITDA Margin erosion.

	4Q 08	1Q 08	4Q 09	1Q 09
Sales	\$ 79.0	\$ 79.2	68.18	68.35
EBITDA Margin	0.30%	-3.6%	-0.70%	-4.60%
EBITDA	\$ 0.24	\$ (2.85)	\$ (0.48)	\$ (3.14)
Int. Exp	\$ (1.03)	\$ (1.00)	\$ (0.75)	\$ (0.75)
Capex	\$ (3.20)	\$ (0.70)	\$ (0.05)	\$ (0.05)
Inventory	\$ 98.5	\$ 100.5	92.59	94.47
Borrowing Base	\$ 63.4	\$ 67.6	59.63	63.29
Outstanding Borrowings	\$ 50.7	\$ 65.4	\$ 44.07	\$ 50.93
Available Credit Before Change in DPO	\$ 12.7	\$ 10.3	12.06	8.86
Accounts Payable	\$ 49.0	\$ 40.9		



Assumes 13.7% drop in sales and 350 bps EBITDA Margin erosion.

Sales	
EBITDA Margin	
EBITDA	
Int. Exp	
Capex	
Inventory	
Borrowing Base	
Outstanding Borrowings	
Available Credit	
Accounts Payable	

	4Q 08	1Q 08	4Q 09	1Q 09
Sales	\$ 79.0	\$ 79.2	68.18	68.35
EBITDA Margin	0.30%	-3.6%	-3.20%	-7.10%
EBITDA	\$ 0.24	\$ (2.85)	\$ (2.18)	\$ (4.85)
Int. Exp	\$ (1.03)	\$ (1.00)	\$ (0.75)	\$ (0.75)
Capex	\$ (3.20)	\$ (0.70)	\$ (0.05)	\$ (0.05)
Inventory	\$ 98.5	\$ 100.5	92.59	94.47
Borrowing Base	\$ 63.4	\$ 67.6	59.63	63.29
Outstanding Borrowings	\$ 50.7	\$ 65.4	\$ 45.77	\$ 52.52
Available Credit	\$ 12.7	\$ 2.2	10.36	7.27
Accounts Payable	\$ 49.0	\$ 40.9		



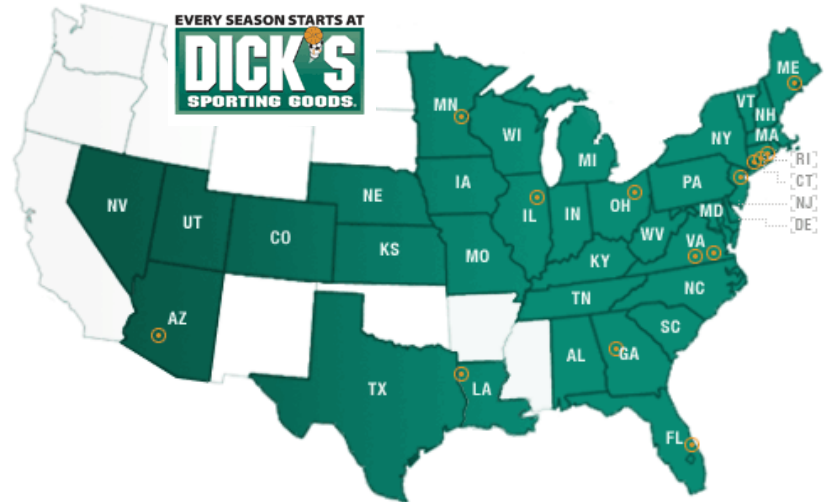
- ◆ **Consumers continue to cut discretionary spending**
- ◆ **Must navigate tight liquidity during first quarter**
- ◆ **Stock trading at just \$0.90**
- ◆ **Credit Score = E2 (Poor)**



- 25% CAGR in sales vs 19% in stores
- Entered California with 15 store Chick's acquisition. Only converted one thus far.
- Plan is to have 90 stores in CA
- Currently has 10 stores in TX, plan is to eventually have 60
- Currently has 8 stores in FL, plan is to have 40
- Opened 1 store in OR, plan is for 10
- Currently zero stores in WA, plan is for 17



- 6 stores opened in 2008
- Currently operates 85 stores
- Focus on CA, Southwest and South



■ States with Dick's Sporting Goods
○ New Store

• Golf represents 15% of sales

Recent Results:

Golf Galaxy comps were down 7.4% in 3q
Plan is to open just one GG store in 2009
Adding just 18 DKS stores in 2009

Operating Performance:

	13 Weeks Ended		% Change/ Difference	39 Weeks Ended		% Change/ Difference	Trailing 12 Months
	11/1/2008	11/3/2007		11/1/2008	11/3/2007		
	(Dollars in Millions)			(Dollars in Millions)			
Sales	\$ 924.2	\$ 838.8	10.2%	\$ 2,922.6	\$ 2,675.8	9.2%	\$ 4,135.2
Store Count	→ 469	417	12.5%	469	417	12.5%	N.A.
Comp Store Sales (% Change)	-2.8%	-2.5%		-3.7%	2.3%		N.A.
Gross Margins	27.4%	28.5%	-1.1%	28.5%	29.2%	-0.7%	29.2%
SG&A Margin	23.0%	23.8%	-0.8%	21.8%	21.8%	0.0%	21.0%
EBITDA ⁽¹⁾	\$ 40.3	\$ 39.2	2.8%	\$ 195.1	\$ 199.7	-2.3%	\$ 339.2
EBITDA Margin	4.4%	4.7%	-0.3%	6.7%	7.5%	-0.8%	8.2%
Op. Income (Loss) ⁽¹⁾	\$ 16.7	\$ 21.7	-23.0%	\$ 129.2	\$ 144.2	-10.4%	\$ 253.9
Int. Exp. (Income)	\$ 2.9	\$ 1.7	68.2%	\$ 7.0	\$ 8.6	-18.4%	\$ 9.7
Net Income (Loss)	\$ 7.4	\$ 12.2	-39.6%	\$ 69.3	\$ 81.9	-15.4%	\$ 142.5
Interest Coverage	13.89	22.73	-38.9%	27.91	23.33	19.6%	34.90
Capital Expenditures	\$ 51.1	\$ 43.1	18.7%	\$ 159.9	\$ 120.0	33.3%	\$ 212.3
Capex Margin	5.5%	5.1%	0.4%	5.5%	4.5%	1.0%	5.1%
Return on equity for period	0.8%	2.0%	-1.2%	7.8%	13.2%	-5.4%	

Working Capital & Liquidity Indicators:

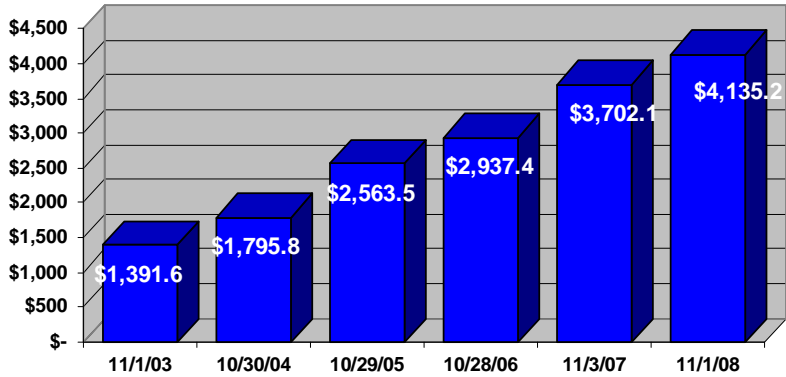
Cash and Equivalents	\$ 41.6	\$ 39.7	5.0%	\$ 41.6	\$ 39.7	5.0%
Accounts Receivable	\$ 117.4	\$ 69.1	69.8%	\$ 117.4	\$ 69.1	69.8%
Inventory	\$ 1,142.2	\$ 1,024.8	11.5%	\$ 1,142.2	\$ 1,024.8	11.5%
% Inventory financed by vendors	44.6%	45.5%	-0.9%	44.6%	45.5%	-0.9%
Inventory turnover (annualized)	2.99	3.17	-5.7%	2.99	3.17	-5.7%
Accounts Payable	\$ 509.2	\$ 466.7	9.1%	\$ 509.2	\$ 466.7	9.1%
Days Payable Outstanding	68.29	69.98	-2.4%			
Working capital	\$ 567.3	\$ 425.5	33.3%	\$ 567.3	\$ 425.5	33.3%
Current ratio	1.71	1.56	9.4%	1.71	1.56	9.4%

Debt & Leverage Ratios:

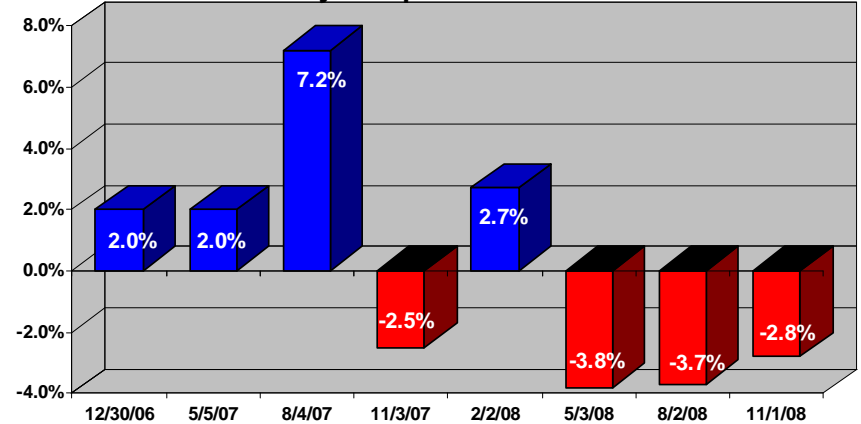
Total Debt	→ \$ 367.6	\$ 321.2	14.4%	\$ 367.6	\$ 321.2	14.4%
Stockholders' Equity	\$ 990.9	\$ 806.0	22.9%	\$ 990.9	\$ 806.0	22.9%
Tangible Net Worth	\$ 284.4	\$ 463.5	-38.6%	\$ 284.4	\$ 463.5	-38.6%
Total debt to equity ratio	0.37	0.40	-6.9%	0.37	0.40	-6.9%
Total liabilities to equity ratio	1.39	1.57	-11.3%	1.39	1.57	-11.3%
Total debt to TTM EBITDA	1.08	0.97	11.5%	1.08	0.97	11.5%

Sales Growth:

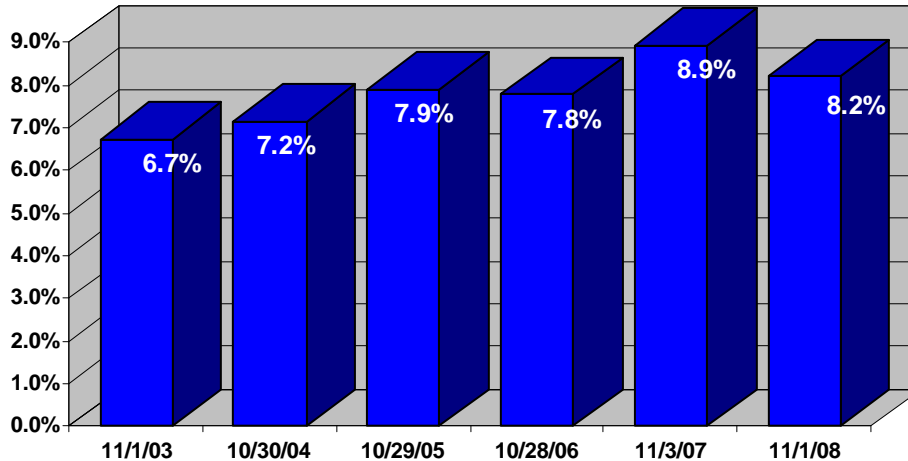
TTM Sales (in millions)



Quarterly Comparable Store Sales



TTM EBITDA Margin



- Expecting 4q comps to fall between 6-10%
- New stores are not in comp base...35% of stores opened in 2008 were in new markets.

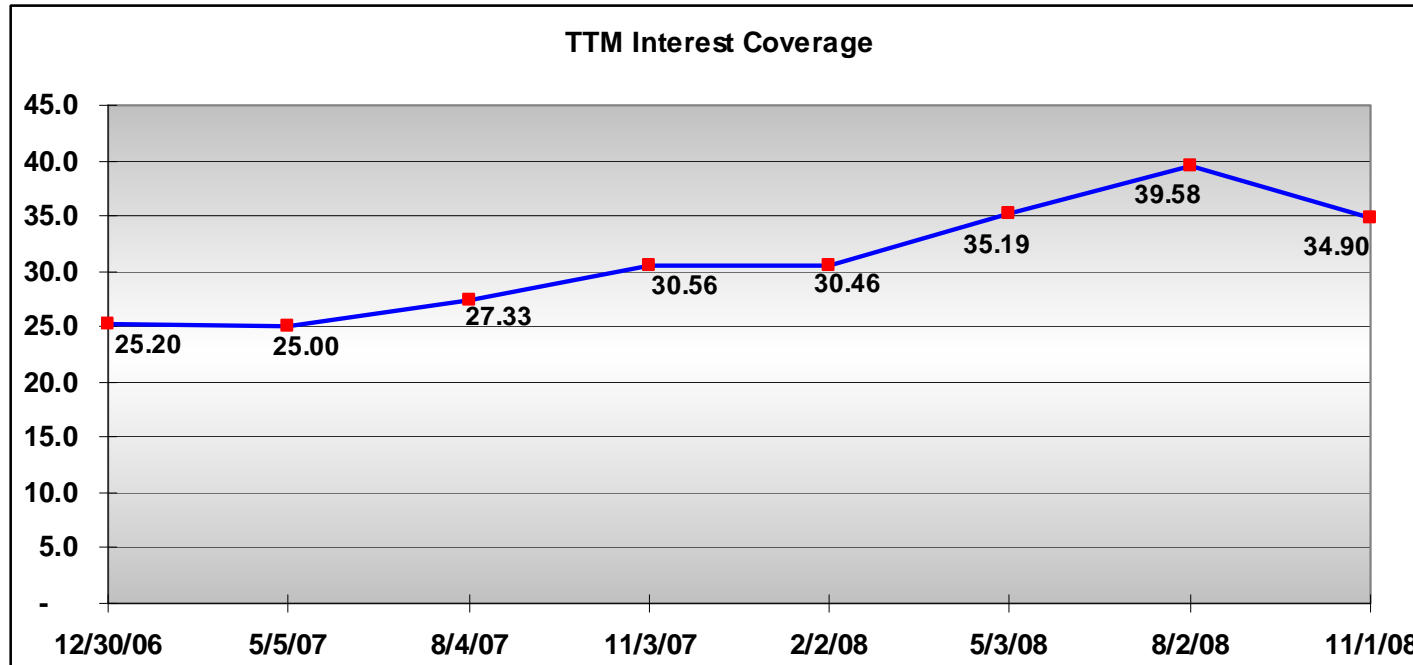
Free Cash Flow:

	3Q 11/1/08	2Q 8/2/08	1Q 5/3/08	FYE 2/2/08	3Q 11/3/07	2Q 8/4/07	1Q 5/5/07	FYE 12/30/06
Cash From Operations	\$ (87.8)	\$ 74.0	\$ (86.1)	\$ 262.8	\$ 17.6	\$ 112.9	\$ (7.0)	\$ 142.6
Cash From Investing	(133.3)	(90.1)	(47.0)	(435.3)	(324.5)	(289.1)	(266.7)	(115.5)
Cash From Financing	212.6	17.3	129.9	86.7	210.4	90.7	179.2	72.4
Net Change in Cash *	(8.7)	1.2	(3.3)	(85.8)	(96.3)	(85.5)	(94.5)	99.4
* Includes effect of exchange rate changes								
Cash From Operations	(87.8)	74.0	(86.1)	262.8	17.6	112.9	(7.0)	142.6
+ Interest Expense (Income)	7.0	4.1	1.7	11.3	8.6	6.8	3.2	10.0
Capital Expenditures	(159.9)	(108.8)	(49.4)	(172.4)	(120.0)	(76.9)	(45.4)	(163.0)
Free Cash Flow Before Interest Expense	(240.8)	(30.7)	(133.9)	101.8	(93.8)	42.9	(49.2)	(10.4)
Free Cash Flow / Interest Expense	(34.45)	(7.52)	(80.73)	9.01	(10.95)	6.27	(15.35)	(1.04)
Free Cash Flow After Interest Expense	(247.8)	(34.8)	(135.5)	90.5	(102.3)	36.1	(52.4)	(20.4)
Debt Service								
Total Debt	\$ 367.6	\$ 191.4	\$ 302.9	\$ 181.4	\$ 321.2	\$ 233.3	\$ 339.6	\$ 181.0
Revolver Available	148.3	320.3	207.9	333.2	192.7	280.7	174.9	333.5

- Ended the 3q with \$45 million in additional debt vs last year
- Recently increased the size of the facility by \$90 million.

Liquidity:

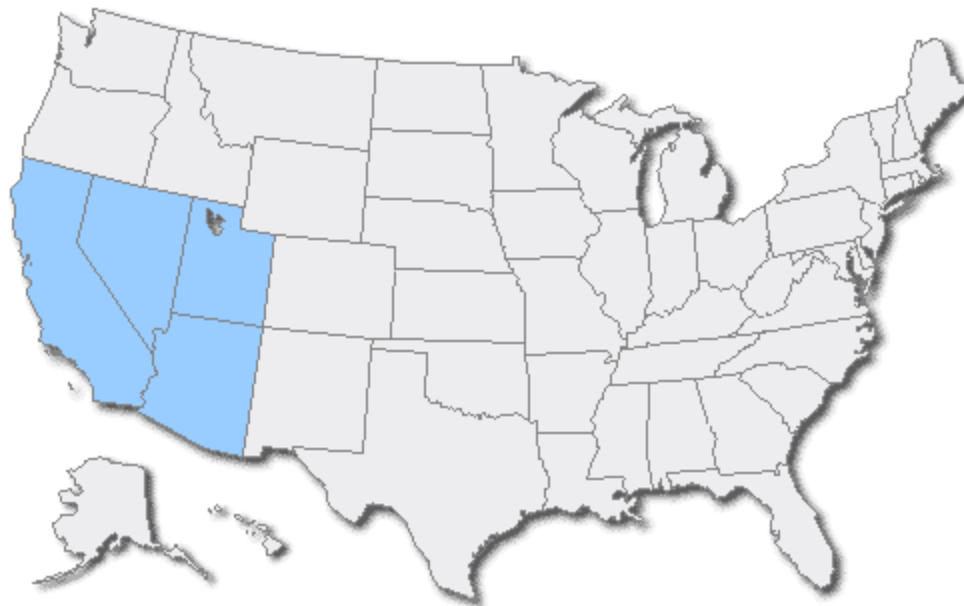
Original Facility Date	July 26, 2000
Amendment Date	July 27, 2007
Maturity Date	July 27, 2012
Agent Bank	GE Capital Corp.
Maximum Borrowings	\$350.0 million Recently increased to \$440 million
Letter of Credit Sublimit	\$75.0 million
Borrowing Base	The lesser of 70.0% of eligible inventory or 85.0% of liquidation value of inventory.
Availability (11/01/08)	\$148.3 million
Interest Rate	Prime or LIBOR plus 0.75% - 1.50%
Security	Secured by substantially all of the Company's assets, excluding store and distribution center equipment and fixtures.
Financial Covenant Categories	Minimum fixed charge coverage ratio of 1.0 to 1.0; Restrictions on indebtedness, liens, dividends, investments and distributions



Summary

- ◆ **Golf Galaxy and Chick's Sporting goods are operating as a stand alone for the time being.**
- ◆ **Curtailing 2009 expansion**
- ◆ **Healthy Balance Sheet**
- ◆ **Strong liquidity**
- ◆ **Creditntell Credit Rating = B1 (Good)**


SPORT CHALET



Date Issued – January 16, 2009

Creditntell.com
Where Wall Street Meets Main Street

...Special Update...

Sport Chalet, Inc.,

La Canada, CA

Credit Rating: F1 (downgraded from E2)

On December 28, 2008, the availability on Sport Chalet's revolver dipped below \$10.5 million. This level required that its lender, Banc of America, test the minimum fixed charge coverage ratio of 1:1. As of December 31, 2008, Sport Chalet was in violation of the covenant.

On January 9, 2009, the Company entered into a First Amendment to Amended and Restated Loan and Security Agreement and Limited Forbearance Agreement dated as of December 28, 2008, with the Bank.

Under the Amendment, the Bank has agreed to forbear from exercising its rights in respect of the event of default. The bank has also agreed to permit an overadvance in the amount of \$1.5 million until January 13, 2009 (we have a call into the Company to verify whether it has been able to repay this amount). The overadvance was necessary because outstanding borrowings exceeded the borrowing base as a result of the retraction of the line to \$45 million as of December 31, 2008 following the end of the seasonal accordion feature, which temporarily increased the line to \$70 million.

The forbearance period will end on the earlier to occur of any further default under the Loan Agreement or **January 31, 2009**. The Company acknowledged, among other things, that it had no defenses, claims or set-offs to the obligations under the Loan Agreement and provided the Bank a general release of claims.

Concurrently with entering into the Amendment, the Company entered into a letter agreement with the Bank under which the Company has agreed to engage, for a minimum of 90 days, a consultant acceptable to the Bank to prepare cash flow and operating budgets to be presented periodically to the Board of Directors of the Company and to the Bank. On January 9, 2009, the Company retained FTI Consulting.

Credit Facility:



Original Facility Date	August 31, 2007
Amended	June 20, 2008
Maturity Date	September 12, 2012
Agent Bank	Bank of America, N.A..
Maximum Borrowings	\$45.0 million (increases to \$70.0 million during the periods of September 1 through December 31)
Letter of Credit Sublimit	\$10.0 million
Borrowing Base	Based on eligible inventory, minus certain reserves
Availability (12/31/08)	Negative \$1.5 million
Interest Rate	Prime plus an applicable margin up to 0.50%
Security	Secured by a first priority lien on substantially all of the Company's non-real estate assets
Financial Covenant Categories	Minimum Fixed Charge Coverage Ratio of 1.00:1.00 if availability falls below \$10.5 million

2Q & YTD Results:

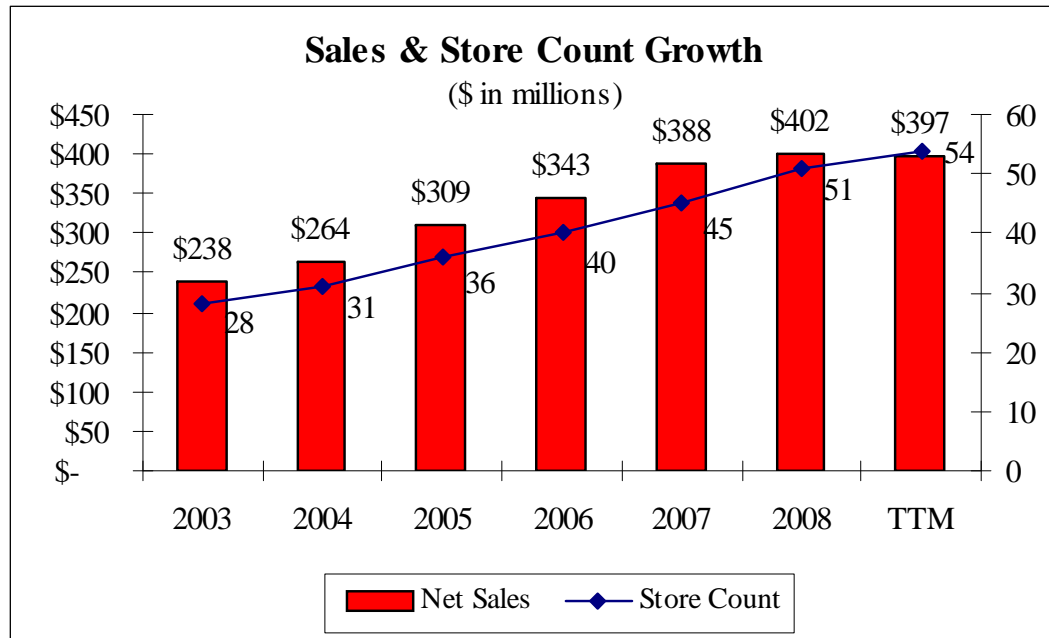


	13 Weeks Ended		% Change/ Difference	26 Weeks Ended		% Change/ Difference	Trailing 12 Months
	9/28/2008	9/30/2007		9/28/2008	9/30/2007		
(Dollars in Millions)							
Operating Performance:							
Sales	\$ 96.5	\$ 97.7	-1.2%	\$ 183.6	\$ 189.2	-3.0%	\$ 396.9
Comp Store Sales (% Change)	→ -6.7%	-2.2%		-8.9%	-0.5%		N.A.
Gross Margins	26.5%	30.4%	-3.9%	26.3%	29.5%	-3.2%	27.5%
SG&A Margin	29.6%	25.4%	4.2%	29.7%	25.6%	4.1%	28.1%
EBITDA	\$ → (2.9)	\$ 4.9	N.M.	\$ (6.2)	\$ 7.3	N.M.	\$ (2.7)
EBITDA Margin	-3.0%	5.0%	-8.0%	-3.4%	3.9%	-7.3%	-0.7%
Op. Income (Loss)	\$ (6.6)	\$ 1.6	N.M.	\$ (13.4)	\$ 0.9	N.M.	\$ (16.3)
Int. Exp. (Income)	\$ 0.4	\$ 0.4	18.2%	\$ 1.1	\$ 0.7	50.7%	\$ 1.8
Net Income (Loss)	\$ (4.2)	\$ 0.7	N.M.	\$ (8.7)	\$ 0.1	N.M.	\$ (12.2)
Interest Coverage	(6.90)	13.82	-149.9%	(5.72)	10.25	-155.8%	(1.45)
Capital Expenditures	\$ 5.8	\$ 5.6	3.9%	\$ 11.5	\$ 17.8	-35.3%	\$ 21.7
Capex Margin	6.0%	5.7%	0.3%	6.3%	9.4%	-3.1%	5.5%
Return on equity for period	Neg.	0.9%	N.M.	Neg.	0.1%	N.M.	
Working Capital & Liquidity Indicators:							
Cash and Equivalents	\$ 4.6	\$ 0.8	502.4%	\$ 4.6	\$ 0.8	502.4%	
Accounts Receivable	\$ 4.8	\$ 3.5	39.2%	\$ 4.8	\$ 3.5	39.2%	
Inventory	\$ 101.7	\$ 103.7	-1.9%	\$ 101.7	\$ 103.7	-1.9%	
% Inventory financed by vendors	45.4%	39.3%	6.1%	45.4%	39.3%	6.1%	
Inventory turnover (annualized)	2.97	2.92	1.7%	2.97	2.92	1.7%	
Accounts Payable	\$ 46.2	\$ 40.7	13.4%	\$ 46.2	\$ 40.7	13.4%	
Days Payable Outstanding	58.64	53.92	8.8%				
Working capital	\$ 22.6	\$ 39.9	-43.5%	\$ 22.6	\$ 39.9	-43.5%	
Current ratio	1.23	1.52	-19.0%	1.23	1.52	-19.0%	
Debt & Leverage Ratios:							
Total Debt	\$ → 29.2	\$ 18.6	56.8%	\$ 29.2	\$ 18.6	56.8%	
Stockholders' Equity	\$ 75.4	\$ 87.1	-13.4%	\$ 75.4	\$ 87.1	-13.4%	
Tangible Net Worth	\$ 75.4	\$ 87.1	-13.4%	\$ 75.4	\$ 87.1	-13.4%	
Total debt to equity ratio	0.39	0.21	81.2%	0.39	0.21	81.2%	
Total liabilities to equity ratio	1.65	1.15	43.5%	1.65	1.15	43.5%	
Total debt to TTM EBITDA	-11.01	0.85	N.M.	-11.01	0.85	N.M.	

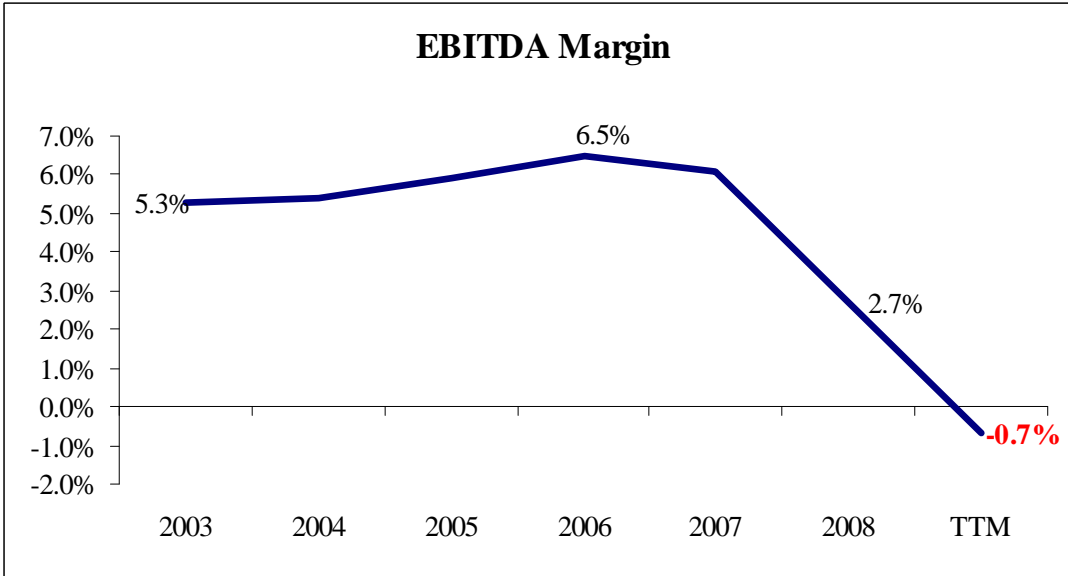
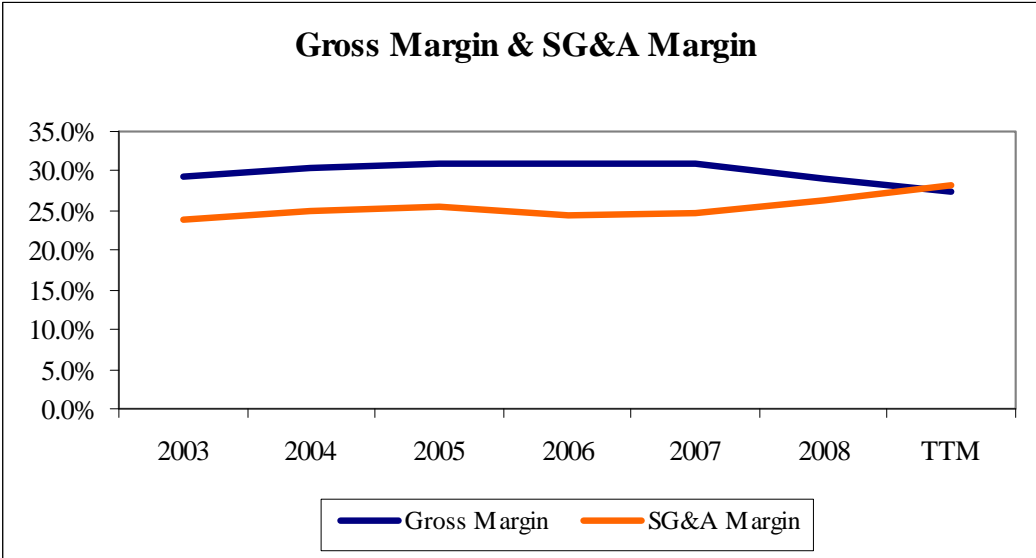
Recent Store Growth:

It took the Company 40+ years to grow to 28 stores, however, has doubled that size in the last 5 years.

Since 2003.....
93% store growth
69% sales growth



Margin Analysis:



Historical Free Cash Flow Analysis:

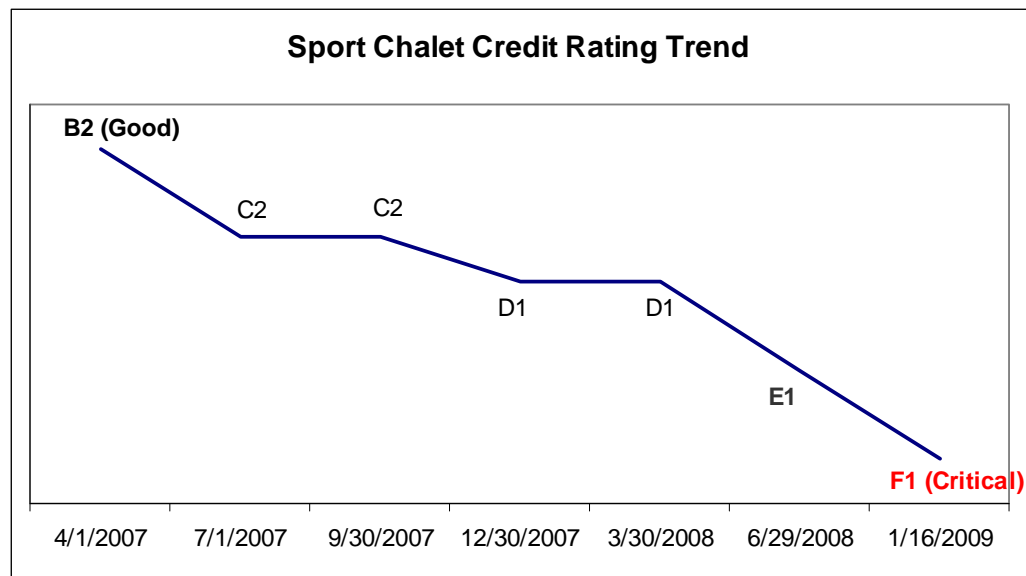


Inventory still approx \$100 million and outstanding borrowings were \$47 million at 12/31.....very low advance rate. In a different credit environment they would have little difficult getting additional financing, however, this environment is not as friendly.

	(dollars in millions)							
	2Q	1Q	FYE	3Q	2Q	1Q	FYE	3Q
	9/28/08	6/29/08	3/30/08	12/30/07	9/30/07	7/1/07	4/1/07	12/31/06
Cash From Operations	\$ 0.2	\$ 0.6	\$ 16.4	\$ 10.8	\$ 1.9	\$ 0.5	\$ 10.7	\$ 15.1
Cash From Investing	(11.5)	(5.7)	(22.4)	(17.8)	(12.3)	(5.8)	(22.9)	(17.2)
Cash From Financing	12.0	4.7	6.1	10.8	7.3	6.3	13.5	1.6
Net Change in Cash	0.7	(0.5)	0.1	3.8	(3.1)	1.0	1.3	(0.5)
Cash From Operations	0.2	0.6	16.4	10.8	1.9	0.5	10.7	15.1
+ Interest Expense (Income)	1.1	0.7	1.5	1.2	0.7	0.4	0.5	0.4
Capital Expenditures	(11.5)	(5.7)	(22.4)	(17.8)	(12.3)	(5.8)	(22.9)	(17.2)
Free Cash Flow Before Interest Expense	(10.2)	(4.5)	(4.6)	(5.8)	(9.7)	(4.9)	(11.7)	(1.8)
Free Cash Flow / Interest Expense	(9.47)	(6.78)	(3.13)	(4.85)	(13.54)	(13.76)	(22.63)	(4.97)
Free Cash Flow After Interest Expense	(11.3)	(5.1)	(6.1)	(7.0)	(10.4)	(5.3)	(12.2)	(2.1)
Debt Service								
Total Debt	\$ 29.2	\$ 21.9	\$ 17.2	\$ 22.0	\$ 18.6	\$ 17.7	\$ 11.8	\$ -
Revolver Available	39.0	20.9	10.6	18.0	9.0	7.3	10.2	32.0

Summary:

- ◆ Quickly eroding operations
- ◆ Dick's Sporting Goods entering California
- ◆ Need permanent solution to credit facility violations
- ◆ Credit Score: **"F1" (Critical)**



Dillard's

3Q and YTD Results & Credit Facility:

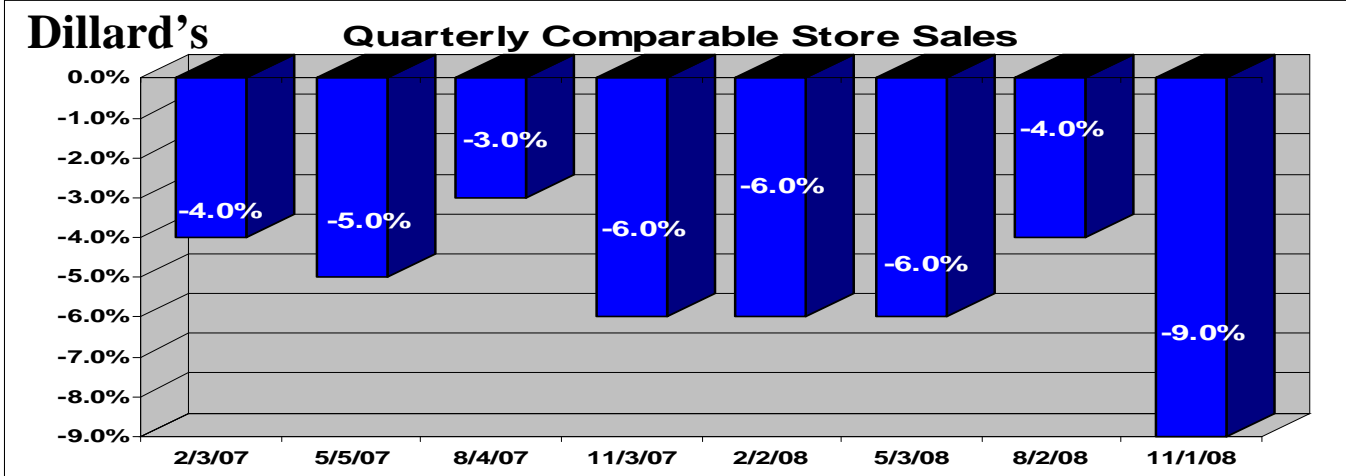
Dillard's

	<u>3 Months Ended</u>		<u>% Change/ Difference</u>	<u>9 Months Ended</u>		<u>% Change/ Difference</u>	<u>Trailing 12 Months</u>
	<u>11/1/2008</u>	<u>11/3/2007</u>		<u>11/1/2008</u>	<u>11/3/2007</u>		
	(Dollars in Millions)			(Dollars in Millions)			
Operating Performance:							
Sales	\$ 1,546.1	\$ 1,674.2	-7.6%	\$ 4,906.2	\$ 5,162.7	-5.0%	\$ 7,114.3
Store Count	317	331	-4.2%	317	331	-4.2%	N.A.
Comp Store Sales (% Change)	-9.0%	-6.0%		6.0%	-5.0%		N.A.
Gross Margins	30.6%	34.5%	-3.9%	31.3%	34.1%	-2.8%	31.6%
SG&A Margin	32.6%	33.5%	-0.9%	30.4%	30.1%	0.3%	29.0%
EBITDA	\$ (3.6)	\$ 43.2	-108.3%	\$ 118.5	\$ 281.9	-57.9%	\$ 297.5
EBITDA Margin	-0.2%	2.6%	-2.8%	2.4%	5.5%	-3.1%	4.2%
Op. Income (Loss)	\$ (72.1)	\$ (33.3)	-116.6%	\$ (95.1)	\$ 55.6	-271.2%	\$ 9.3
Int. Exp. (Income)	\$ 22.0	\$ 23.1	-4.8%	\$ 67.1	\$ 66.6	0.8%	\$ 92.1
Net Income (Loss)	\$ (56.0)	\$ (11.3)	-393.8%	\$ (91.7)	\$ 6.4	-1529.0%	\$ (44.4)
Interest Coverage	(0.16)	1.87	-108.7%	1.77	4.23	-58.3%	3.23
Capital Expenditures	\$ 51.9	\$ 102.4	-49.3%	\$ 161.7	\$ 339.0	-52.3%	\$ 219.1
Capex Margin	3.4%	6.1%	-2.7%	3.3%	6.6%	-3.3%	3.1%
Return on equity for period	Neg.	Neg.	--	Neg.	0.2%	N.M.	
Debt & Leverage Ratios:							
Total Debt	\$ 1,469.9	\$ 1,525.9	-3.7%	\$ 1,469.9	\$ 1,525.9	-3.7%	
Stockholders' Equity	\$ 2,399.3	\$ 2,472.3	-3.0%	\$ 2,399.3	\$ 2,472.3	-3.0%	
Tangible Net Worth	\$ 2,367.4	\$ 2,440.4	-3.0%	\$ 2,367.4	\$ 2,440.4	-3.0%	
Total debt to equity ratio	0.61	0.62	-0.7%	0.61	0.62	-0.7%	
Total liabilities to equity ratio	1.42	1.42	0.2%	1.42	1.42	0.2%	
Total debt to TTM EBITDA	4.94	2.89	71.2%	4.94	2.89	71.2%	

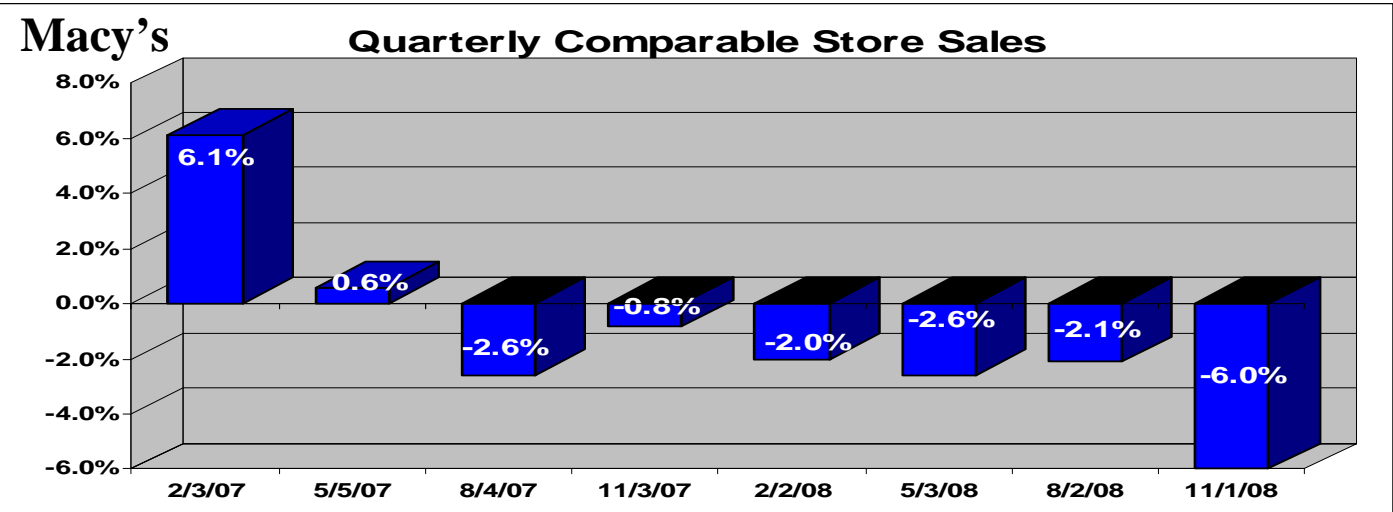
- Steep markdowns
- \$2.4 billion net worth
 - \$3.2 billion in real estate
 - \$2.2 billion in inventory

Original Facility Date: May 9, 2002
 Amendment Date: January 26, 2006
 Maturity Date: December 12, 2012
 Agent Banks: JPMorgan Chase Bank
 Maximum Borrowings: \$1.20 billion
 Availability (as of 11/1/08): \$746.8 million
 Security: Secured by inventory
 Covenants: No covenants, provided that availability exceeds \$100.0 million. If availability is less than \$100.0 million, the fixed charge coverage ratio must be greater than 1.0:1.0.

Same Store Sales – A Continuing Problem



December comps
Decreased 5%



Macy's
December
Comps down
4%

Debt & Real Estate Analysis

Dillard's

	2/2/2008	2/3/2007
	(in thousands)	
Unsecured notes due 2009 through 2028	\$952,392	1,052,392
Mortgage notes payable through 2013	<u>\$4,219</u>	<u>\$4,854</u>
	956,611	1,057,246
Current portion	<u>-196,446</u>	<u>-100,635</u>
	\$760,165	\$956,611

Total maturities of long-term debt in 2009 and 2010 are approximately \$26 million

As of 2/2/08

	<u>Number of stores</u>	<u>% of total store square footage</u>
Owned stores	247	77.0%
Leased stores	48	13.1%
Owned building on leased land	19	6.4%
Partly owned and partly leased	<u>12</u>	<u>3.5%</u>
	326	100.0%

The Company owns 77% of its stores outright and another 9.9% partially

- ◆ **Cutting costs:**
 - ◆ 8% layoffs of salaried workers
 - ◆ Recently announced 21 store closings
 - ◆ \$100 million in expense savings in 2009
 - ◆ Cutting capital expenditures by \$70 million
- ◆ **Battling with activist investors: Barrington Capital Group and Clinton Group**
- ◆ **Balance sheet becoming more leveraged as a result of deteriorating operations**
- ◆ **Availability under credit facility is adequate**
- ◆ **Credit Score: “D1” (Below Satisfactory)**

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