

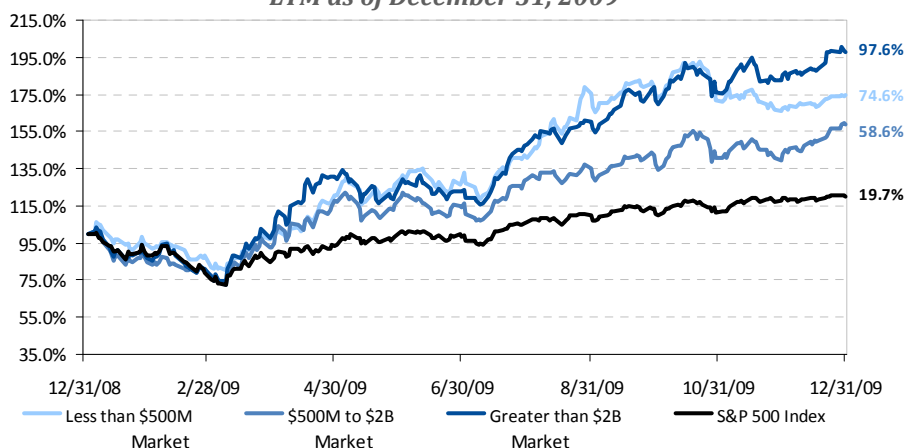
Active Insights Quarterly

Perspective and Commentary on the Active Lifestyle Market Q4 2009

- **Sporting Goods**
- **Outdoor & Leisure**
- **Footwear & Apparel**

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Market Performance of Active Lifestyle Stocks
LTM as of December 31, 2009



2009 A Rebound Year – Stocks continued their upward March from 2009 lows. The Active Lifestyle composite was up an impressive 73% during 2009, outperforming the S&P 500 index which grew 20%.

Online Sales Score – Seasonal online retail sales grew by an estimated 5% reaching \$27.8B. ComScore also estimates that nearly four out of five consumers visited an online retailer during this holiday shopping season.

Consumers More Confident – The Consumer Sentiment Index increased over 20% in December 2009 from the prior December 2008 survey. Confidence improved mainly due to widespread price discounting by merchants attempting to spark holiday sales as well as somewhat more positive expectations for economic growth.

Improved Valuation Multiples – EBITDA multiples remain strong for the entire composite, with average multiples improving 33% over the last twelve months ending 12-31-09.

EBITDA Multiples for Active Lifestyle Companies

Market Cap Range (\$million)	Average TEV / LTM EBITDA		
	12/31/2008	12/31/2009	% Change
Less than \$500	6.7x	8.3x	23%
\$500 - \$2,000	5.9x	8.8x	51%
Greater than \$2,000	7.1x	10.6x	49%
Average of Entire Composite	6.5x	8.6x	33%

Notes – Excludes companies with EBITDA multiples below zero or above 20.0x

Source: Capital IQ and Company Filings.



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Market Overview – Public Companies

The Active Lifestyle sector as a composite currently trades at an average valuation of 8.6x trailing 12-month EBITDA, down slightly from 9.0x at 9-30-09.

Average Stock Performance Improved Across all Sectors in 2009 – Stock prices in the composite grew by an average of **85%** in 2009, up significantly from the average decline of **52%** in 2008. Sector stock performance was as follows:

Sector	TTM 12-31-09	TTM 12-31-08
Retailers	151%	-52%
Equipment	63%	-61%
Apparel	61%	-53%
Footwear	57%	-41%
Outdoor Vehicles	52%	-49%

Inventory Contracting Faster than Revenue Declines –

Inventory levels for composite companies declined 17% over the twelve months ending Q3 2009 on an average decline in revenue of only 6%. A slight uptick in sales could result in increased margins and earnings as retailers would not have to further discount merchandise to move inventory.

Public Company	Market Capitalization (\$M)	Total Enterprise Value (\$M)	Total Enterprise Value /		LTM EBITDA Margin
			LTM Revenue	LTM EBITDA	
Footwear					
Adidas	\$10,524	\$13,681	0.9x	11.7x	7.6%
ASICS	\$1,696	\$1,685	0.7x	6.8x	9.7%
CROCS	\$486	\$412	0.6x	NM	NM
Deckers Outdoor	\$1,329	\$1,203	1.6x	7.1x	22.2%
Heelys	\$60	(\$8)	NM	NM	NM
K-Swiss	\$347	\$186	0.7x	NM	NM
LaCrosse Footwear	\$79	\$75	0.6x	7.8x	7.3%
Nike	\$32,070	\$28,631	1.6x	10.5x	14.9%
Phoenix Footwear	\$4	\$6	0.1x	NM	NM
Rocky Brands	\$42	\$122	0.5x	7.8x	6.7%
Skechers USA	\$1,360	\$1,101	0.8x	NM	1.3%
Timberland	\$1,014	\$902	0.7x	9.7x	7.2%
Weyco Group	\$267	\$255	1.2x	14.0x	8.4%
Wolverine World Wide	\$1,311	\$1,244	1.1x	8.7x	12.6%
Average			0.8x	9.3x	9.8%
Apparel					
Billabong	\$2,168	\$2,358	1.7x	10.0x	17.5%
Columbia Sportswear	\$1,322	\$1,112	0.9x	8.5x	10.6%
Oxford Industries	\$322	\$494	0.6x	7.3x	8.4%
Perry Ellis International	\$195	\$344	0.5x	11.0x	4.2%
Quiksilver	\$257	\$1,177	0.6x	8.8x	6.7%
Tefron	\$7	\$26	0.2x	NM	NM
Under Armour	\$1,338	\$1,263	1.6x	11.7x	13.3%
VF Corp.	\$8,072	\$9,088	1.3x	9.6x	13.1%
Volcom	\$408	\$308	1.1x	8.1x	13.3%
Warnaco	\$1,918	\$1,897	1.0x	9.0x	10.8%
Average			0.9x	9.3x	10.9%
Equipment					
Adams Golf	\$19	\$8	0.1x	NM	NM
Aldila	\$18	\$16	0.3x	NM	NM
Amer Sports	\$729	\$1,555	0.7x	NM	3.2%
AT Cross	\$78	\$82	0.6x	8.4x	6.8%
Brunswick	\$1,123	\$1,415	0.5x	NM	NM
Callaway Golf	\$475	\$370	0.4x	NM	1.5%
Cybox International	\$20	\$38	0.3x	11.1x	2.7%
Escalade	\$31	\$62	0.5x	12.5x	4.2%
Head NV	\$40	\$167	0.4x	5.1x	7.0%
Jarden	\$2,494	\$4,550	0.9x	7.5x	11.8%
Mizuno	\$611	\$687	0.4x	14.6x	2.7%
Nautilus	\$62	\$55	0.2x	NM	NM
Orange 21	\$8	\$11	0.3x	NM	NM
Smith & Wesson	\$213	\$252	0.6x	4.3x	14.7%
Sport Supply Group	\$156	\$168	0.7x	7.1x	9.4%
Sturm Ruger	\$185	\$132	0.5x	2.6x	19.4%
Average			0.5x	8.1x	7.6%
Outdoor Vehicles					
Arctic Cat	\$166	\$155	0.3x	11.0x	2.8%
Johnson Outdoors	\$90	\$93	0.3x	6.2x	4.2%
Marine Products	\$177	\$152	2.6x	NM	NM
Polaris Industries	\$1,409	\$1,536	0.9x	7.1x	13.3%
Average			1.0x	8.1x	6.8%
Retailers					
Big 5 Sporting Goods	\$368	\$428	0.5x	8.3x	5.9%
Cabela's	\$954	\$956	0.4x	4.1x	8.9%
Dick's Sporting Goods	\$2,798	\$2,832	0.7x	8.5x	7.8%
Dover Saddlery	\$12	\$24	0.3x	7.5x	4.2%
Dreams	\$61	\$83	1.1x	NM	NM
Finish Line	\$681	\$531	0.4x	6.7x	6.5%
Foot Locker	\$1,731	\$1,431	0.3x	5.7x	5.2%
Gander Mountain	\$123	\$481	0.4x	11.5x	3.8%
Genesco	\$558	\$564	0.4x	4.8x	7.6%
Golfsmith	\$36	\$66	0.2x	8.1x	2.4%
Hibbett Sports	\$629	\$604	1.1x	10.0x	10.5%
Lululemon Athletica	\$2,111	\$2,009	5.1x	NM	21.6%
Pacific Sunwear	\$260	\$244	0.2x	NM	NM
Sport Chalet	\$33	\$81	0.2x	NM	NM
West Marine	\$179	\$156	0.3x	6.7x	3.9%
Winmark	\$115	\$135	3.7x	13.2x	27.9%
Zumiez	\$374	\$292	0.7x	8.9x	8.2%
Average			0.9x	8.0x	8.9%
Overall Average			0.8x	8.6x	9.0%

Merger & Acquisition Overview

Selected Transactions in Q4 2009

Date	Target	Buyer	Transaction Value (\$M)	Transaction Value /		Brief Target Business Description
				LTM Revenue	LTM EBITDA	
12/31/2009	Barnes Bullets	Freedom Group	-	-	-	Manufactures small arms ammunition
12/28/2009	Surfstitch	Billabong (BBC)	-	-	-	Australian online board sports retailer
12/28/2009	Yakima Products	Kemflo International	-	-	-	Engages in the design, manufacture, and sale of destination hardware and gear such as vehicle racks for the outdoor industry
12/28/2009	Salu (SkinStore.com)	Drugstore.com	\$36.0	0.9x	-	Online retailer of clinical skin care and beauty products
12/24/2009	LineDrive	Matrix Group Limited	-	-	-	Softball and fast pitch catalog and on-line equipment retailer
12/23/2009	Canterbury Australia & New Zealand	JD Sports Fashion	\$2.6	-	-	Manufactures and sells rugby apparel
12/21/2009	Oval Concepts brand	Advanced Sports	-	-	-	Designer of handlebars, stems, aero-bars, seat posts, and fork technology in Switzerland
12/16/2009	Art Gun Technologies	Delta Apparel (DLA)	-	-	-	Designs and develops software that gives shoppers the ability to design apparel products by choosing different styles, colors, and graphics
12/15/2009	FGX International (FGXI)	Essilor International (EI)	\$440.0	2.0x	9.1x	Designs and markets non-prescription reading glasses, sunglasses, and costume jewelry
12/09/2009	Nautilus, StairMaster and Schwinn Fitness	Fit Dragon and World Gear	\$12.3	-	-	Commercial exercise equipment
12/04/2009	The Brunton Company	Fenix Outdoor (OM:FIX B)	-	-	-	Provides compasses and GPS receivers for outdoor enthusiasts and professionals
12/01/2009	Blitz Surf Shop Limited	Euan Nelson	\$0.7	-	-	An outlet for fashion wear, skateboard, and surfing accessories
11/27/2009	Swell.com	Billabong (BBC)	-	-	-	Provides apparel, accessories, footwear, and gifts
11/17/2009	Rugged Shark Apparel	S. Goldberg & Co., Inc.	-	-	-	Manufactures marine footwear
11/06/2009	Expresso Fitness Corporation	Interactive Fitness Holdings	-	-	-	Develops and supplies interactive cardio fitness systems for the commercial health club market
10/27/2009	Ecko portfolio of brands	Iconix Brand Group	\$124.5	1.4x	-	Manufactures apparel and lifestyle products, the Ecko portfolio includes Ecko Unlimited, Marc Ecko, the Rhino logo and Zoo York
10/27/2009	Retail Convergence	GSI Commerce (GSIC)	\$350.0	1.5x	23.3x	Owns and operates SmartBargains.com and RueLaLa.com
10/22/2009	Socks4Life.com	One Click Ventures	-	-	-	An online sock retailer
10/20/2009	Wear Me Apparel (Kids Headquarters)	Li & Fung	\$400.0	0.6x	-	Engages in designing, manufacturing, and marketing children's and infant's apparel
10/13/2009	Line 7 Limited	Charles Parsons (NZ) Limited	-	-	-	Manufactures and designs marine and nautical casual wear, active wear, and sports clothing for men and women
10/09/2009	Oxylane Group, 17 Stores	CE Participations	\$172.6	-	-	Seventeen sporting retail stores in France

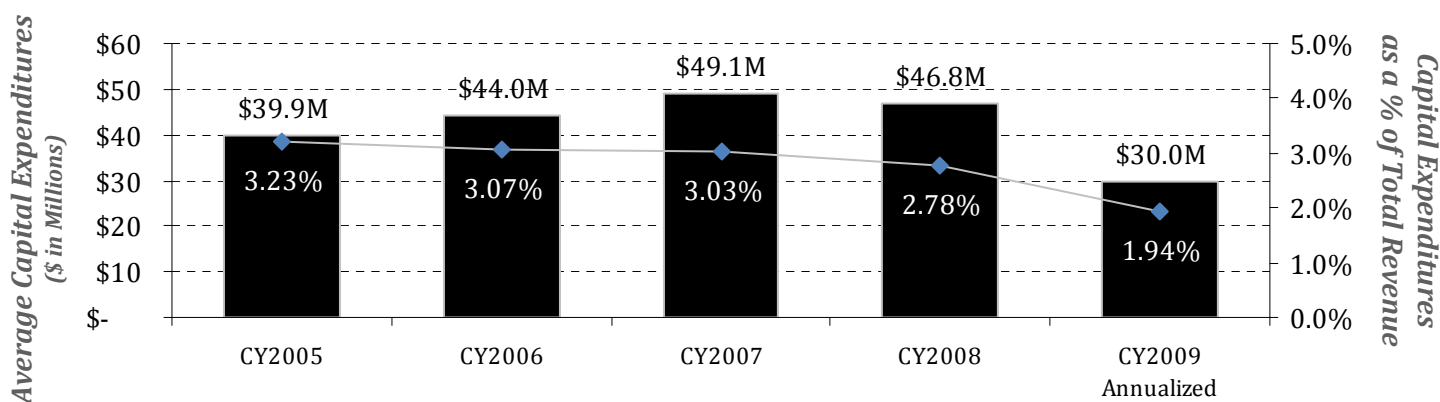
Strategic M&A Still the Game Plan – Companies like Billabong, Iconix Brand Group, and Li & Fung continued to make acquisitions in 2009. We consider this a positive sign as companies focus more on strategic initiatives and less on preserving cash.

A Hot Deal Requires Shades – On December 16, FGXI announced it signed a definitive agreement to merge with Essilor International. FGXI shareholders will receive \$19.75 per share in cash representing approximately a 40% premium to FGXI's share price.

Online Retailers Continue to Converge – Starting with the Amazon.com/Zappos.com transaction in July 2009, we have seen a number of online retailer acquisitions such as Drugstore.com/Skinstore.com, GSI/Retail Convergence (owns SmartBargains.com and RueLaLa.com), and Billabong/Swell.com.

Capital Expenditure Trends

- Capital expenditures for the Active Lifestyle sector have been declining since 2007 on a dollar basis and have been on a steady decline as a percentage of total revenue from 2005
 - Average capital expenditures peaked in 2007 at \$49 million, or 3.03% of total revenue
- Aggregate capital expenditures for the Active Lifestyle sector are expected to have declined by approximately 36% in 2009, on top of the 5% decline in 2008
- The Institute for Supply Management (“ISM”) expects a 4.0% decline in capital expenditures in 2010, although ISM survey respondents from the Apparel category expect to increase capital expenditures in 2010
- Companies who have delayed capital expenditures over the last 2 years may need to raise capital to further invest in infrastructure

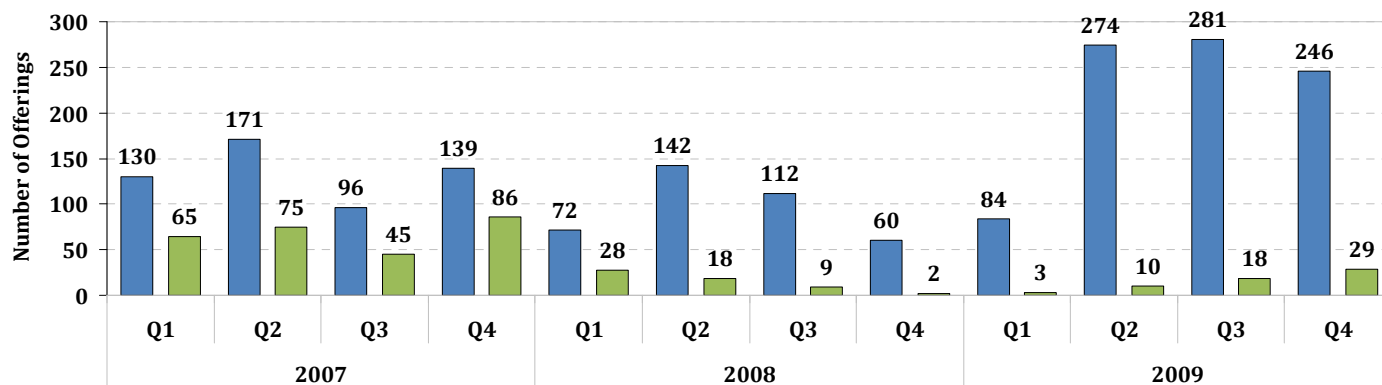


Source: Capital IQ, ISM, and Company filings. Annualized figures include three actual 2009 calendar quarters.

Public Offering Environment

U.S. Public Offerings Completed: Last 12 Quarters

■ Follow-On Offerings ■ IPOs



2009 Delivered – 2009 follow-on and IPO transaction volume increased by 129% and 5%, respectively, from 2008 levels. Q4 2009 was another excellent quarter for public offerings with over **three times** as many follow-on offerings and over **thirteen times** as many IPOs than during the same quarter in 2008.

Two Consumer Offerings in Q4 2009 – rue21, a fashion retailer, completed a \$148M IPO in November 2009 and G-III Apparel, an apparel manufacturer, completed a \$38M follow-on offering in December 2009.

Industry Interview

Interview with Russ Lesser *President of Body Glove*



Russ Lesser, President of Body Glove, recently spoke with Sam Orme at D.A. Davidson. Body Glove is a 57 year old company headquartered in Redondo Beach, CA that licenses its brand to water sports and outdoor focused manufacturers.

Since 1953, Body Glove has grown to become the ultimate watersports brand. How has the consumer downturn impacted Body Glove?

2008 was the best year ever for our worldwide sales. It was 25% higher than any prior year. We don't have our complete sales numbers for 2009 yet, but through eleven months we are slightly ahead of 2008. Some of our categories are down, but the ones that have increased have more than offset the negatives. For example, since boat sales have been down dramatically over the past two years, some of our boating related products such as life vests, wake boards, etc., have declined, but we have had huge increases in overseas sales and other categories such as cellular accessories.

Do you anticipate revenue growth in 2010?

I believe we will see some growth, especially in overseas markets where we are not as saturated as we are in the United States. However, we have some new categories of products coming on line which should add additional revenue. As far as our budgets however, I am being conservative and projecting very minimal growth.

Body Glove primarily licenses its brand to selected partners. What are some of the benefits of the licensed model?

The biggest advantage of the licensing model is the lack of two words in your vocabulary. Inventory and Receivables. The disadvantages are a limitation on your upside profits if a product hits big, the lack of control, and the fact that your customers have to deal with more than one company to purchase a complete line of products. However, another big advantage is that using the licensing model, you find experts in each product category you license, instead of having to be an expert yourself in everything.



What were some of the challenges in transitioning from in-house manufacturing to a purely licensed model?

Bill and Bob Meistrell, identical twins, formed the company in 1953. They sold the first commercially viable wetsuit, and that formed the authentic roots of the company. We manufactured wetsuits in our factory in California until 1997 at which time we sold the manufacturing division and licensed it back. The wetsuits are now produced in Thailand and they do an excellent job. This move was probably the best move we ever made, as prior to this we were spending about 80% of our time on wetsuits and 20% of our time on licensing the brand. The fact is the most important asset we own is not a wetsuit, or a swim suit, or a fin, mask and snorkel. It is the brand Body Glove. Now that we spend 100% of our time managing licensees, marketing and promoting the brand to keep it important with the end consumer, we have experienced rapid growth. The move to the licensing model was not difficult except for the shutting down the factory and laying off a very talented and loyal production staff. Fortunately we did this in a very professional and systematic way, and we secured jobs for about 80% of the staff before we completed the shutdown.

What new Body Glove licensees and/or products are you most excited about this season?

There are several new products coming out that we are excited about. We have a new water filter program which includes systems for your home, and portable water bottles with a built in filter that you can take just about anywhere and safely drink the local water. I know it works, as I spent a couple of weeks in China this past July, and every hotel had the sign "Do NOT drink the tap water." Our family filled our Body Glove filter bottles from the tap for two weeks and no one got sick. It can also be used on back packing trips where it can be dangerous to drink directly out of lakes or streams. One purpose of this project is to try and cut down on the use of plastic bottles. As we are all learning, bottled water is not only one of the biggest marketing rip-offs in history, charging as much as 2900 times more than water from a tap, (and usually it IS water from a tap run through a filter) the bottled water industry uses about 34 million barrels of oil yearly. Unfortunately only about 10% of the plastic bottles are recycled, resulting in about 20 million tons of plastic bottles winding up in landfills, or in the oceans.

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Industry Interview

Interview with Russ Lesser *President of Body Glove*



This product is endorsed by the Surfrider Foundation. Another product category we are excited about is the new “pet” line, which consists of exciting fun new products for your dog that accompanies you in your active lifestyle. We also have formed a joint venture with American Wave Machines to develop “Body Glove Waves,” which is a technologically advanced wave pool. These will allow people to “surf” all over the world, not just where the ocean is producing waves.

What % of your sales are in the U.S. and how do you see that evolving over the next few years?

Right now about two thirds of our sales are in the United States. We believe we will continue to expand our numbers in the USA, however we expect that overseas sales will become a higher percentage of the total, due to the fact that we have been in the domestic market for 50 plus years, and have only recently begun to make inroads into Asia, South America and Europe. Therefore the brand is not nearly as established in those markets giving us greater opportunity for rapid growth.

What measures have been taken to preserve the Body Glove brand?

The key to a successful licensing business is obviously to start with a good brand. Body Glove is one of the best, most recognized brands. The next step is to find the right partners, people who are interested in a long term relationship and not a quick buck. We have a great group of licensees, some of whom have been involved with us for 20 years or more. Then, you need a qualified, very creative staff to market and promote the brand. Our staff of creative people, including our art department, the filmmakers in our video department, our public relations personnel, etc., are fabulous. The primary goal is to keep the brand visible and popular with our consumers through advertising, editorial, website, PR, etc. We also have a great team of people who work with our licensees to make sure the products all look like Body Glove products and are of the quality that we want with every Body Glove product.

The “The Year of the Reef” song you wrote received some worldwide acclaim and helped to promote the conservation of coral reefs. Were you surprised on how successful it was?

As a hobby, I play in a band named “Thin Ice.” Three of us who work at Body Glove are in the band, along with my two sons and some friends. We are called Thin Ice because when we are playing that’s what we feel we are on. The motto of our band is “The more you drink, the better we sound.” We have a lot of fun with it, don’t take it too seriously, and none of us are planning to quit our day jobs. 2008 was designated “The International Year Of the Reef” around the world to bring attention to how important coral reefs are to the future of humanity. The coral reefs are the rain forests of the ocean. The organizers wanted a theme song, and when a professional songwriter wanted more money than they had in the budget, I volunteered to write the song. Actually I was way over my head on this one, however it came out pretty good, and we recorded it. Then we gave it to ReefCheck, one of the environmental groups sponsoring the IYOR. They put it on their website, and suddenly groups from all over the world were asking for the music and lyrics to teach their kids. We were a bit blown away by this, and are quite proud that what we wrote and recorded has been sung by thousands of kids around the world, and they not only learned how fun it is to sing, but they learned about the value and importance of coral reefs. Hopefully the song has made a small difference in the world and our future. It can be heard on myspace.com/thinicetheband.

What is your best or favorite watersports adventure?

There are probably two events that tie as my favorite. The first would be a dive trip to Fiji with Jean-Michel Cousteau where we stayed at his resort. My wife and I went along with our best friends and a group of very interesting people, including Academy Award nominated songwriter Carol Connors, Barbi Benton of television and Playboy fame, David Crosby of Crosby, Stills and Nash, etc. It is where my wife Charlotte fell back into love with scuba diving. The second would be a night dive in Kona, Hawaii, where we were surrounded by about 17 manta rays, some of which had wingspans of 15 feet or more. It was incredibly beautiful, and my wife now wants to come back in her next life as a manta ray. They seemed to bond with us spiritually, and I recommend that dive to all divers who travel to the Big Island of Hawaii. Jack’s Diving Locker in Kailua-Kona does a great job organizing that dive.



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Q4 2009



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Active Lifestyle Sector Focus

D.A. Davidson & Co. provides research coverage and/or market making for the following active lifestyle companies:

Big 5 Sporting Goods (BGFV)	Finish Line (FINL)	Nautilus (NLS)	Sport Supply Group (RBI)
Cabela's (CAB)	Gander Mountain (GMTN)	Nike (NKE)	Under Armour (UA)
Columbia Sportswear (COLM)	Heelys (HLYS)	Orange 21 (ORNG)	Volcom (VLCM)
Crocs (CROX)	Hibbett Sports (HIBB)	Pacific Sunwear (PSUN)	Zumiez (ZUMZ)
Cybex International (CYBI)	K Swiss (KSWS)	Perry Ellis (PERY)	
Deckers Outdoor (DECK)	LaCrosse Footwear (BOOT)	Rocky Brands (RCKY)	
Dick's Sporting Goods (DKS)	Lululemon Athletica (LULU)	Smith & Wesson (SWHC)	

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