



Recreational Equipment, Inc. and Subsidiaries
FINANCIAL STATEMENTS
 For the years ended December 31, 2008 and 2007



Report of Independent Certified Public Accountants

Board of Directors
 Recreational Equipment, Inc.

We have audited the accompanying consolidated balance sheets of Recreational Equipment, Inc. and Subsidiary (collectively the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Recreational Equipment, Inc. and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Seattle, Washington
 March 17, 2009

Recreational Equipment, Inc.
CONSOLIDATED BALANCE SHEETS
 December 31, 2008 and 2007
 (IN THOUSANDS)

| | 2008 | 2007 |
|--|------------|------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 140,745 | \$ 13,506 |
| Short-term investments | - | 131,447 |
| Accounts receivable, less allowance for doubtful accounts of \$673 and \$256, respectively | 11,719 | 22,615 |
| Inventories | 206,484 | 180,971 |
| Deferred income taxes | 28,887 | 23,248 |
| Prepaid expenses and other | 22,750 | 17,880 |
| Total current assets | 410,585 | 389,667 |
| Property, plant, and equipment, net | 383,774 | 368,360 |
| Deferred income taxes | 9,023 | 3,526 |
| Other | 5,296 | 6,803 |
| Total assets | \$ 808,678 | \$ 768,356 |
| Liabilities and members' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 58,770 | \$ 64,996 |
| Customer related obligations | 77,406 | 69,986 |
| Patronage refunds payable | 70,572 | 58,598 |
| REI Visa rebate payable | 34,126 | 28,451 |
| Business taxes and other accrued liabilities | 25,327 | 21,537 |
| Accrued payroll and related benefits | 25,258 | 37,073 |
| Retirement and profit-sharing liabilities | 15,479 | 19,451 |
| Income taxes payable | 7,024 | 8,349 |
| Total current liabilities | 313,962 | 308,441 |
| Deferred rent and other liabilities | 49,288 | 41,882 |
| Members' equity: | | |
| Memberships | 114,996 | 102,067 |
| Retained earnings | 330,432 | 315,966 |
| Total members' equity | 445,428 | 418,033 |
| Total liabilities and members' equity | \$ 808,678 | \$ 768,356 |

Recreational Equipment, Inc.
CONSOLIDATED STATEMENTS OF INCOME
 For the years ended December 31, 2008 and 2007
 (IN THOUSANDS)

| | 2008 | 2007 |
|--|--------------|--------------|
| Net sales | \$ 1,434,569 | \$ 1,342,024 |
| Cost of sales | 830,125 | 754,671 |
| Gross profit | 604,444 | 587,353 |
| Operating expenses: | | |
| Payroll-related expenses | 272,929 | 253,852 |
| Occupancy, general and administrative | 257,924 | 226,975 |
| | 530,853 | 480,827 |
| Operating income | 73,591 | 106,526 |
| Other income, net | 8,603 | 10,798 |
| Income before patronage refunds and income taxes | 82,194 | 117,324 |
| Patronage refunds, net | 64,223 | 53,423 |
| Income before income taxes | 17,971 | 63,901 |
| Provision for income taxes | 3,505 | 22,474 |
| Net income | \$ 14,466 | \$ 41,427 |

Recreational Equipment, Inc.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

For the years ended December 31, 2008 and 2007

(IN THOUSANDS)

| | Memberships | Retained Earnings | Total Members' Equity |
|------------------------------|-------------|-------------------|-----------------------|
| Balance at December 31, 2006 | \$ 92,675 | \$ 274,539 | \$ 367,214 |
| Memberships issued | 9,392 | - | 9,392 |
| Net income | - | 41,427 | 41,427 |
| Balance at December 31, 2007 | 102,067 | 315,966 | 418,033 |
| Memberships issued | 12,929 | - | 12,929 |
| Net income | - | 14,466 | 14,466 |
| Balance at December 31, 2008 | \$ 114,996 | \$ 330,432 | \$ 445,428 |

The accompanying notes are an integral part of this financial statement.

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Recreational Equipment, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008 and 2007

(IN THOUSANDS)

| | 2008 | 2007 |
|---|------------|-------------|
| Operating activities | | |
| Net income | \$ 14,466 | \$ 41,427 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 50,487 | 40,772 |
| Provision for sales returns | 4,006 | 2,169 |
| Benefit from deferred income taxes | (11,136) | (3,623) |
| Deferred rent expense | 1,661 | 1,812 |
| Loss on sale of equipment and asset write-downs | 572 | 116 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in accounts receivable | 10,896 | (9,981) |
| Increase in inventories | (20,399) | (22,956) |
| Increase in prepaids and other current assets | (4,870) | (5,750) |
| (Decrease) Increase in payables and other accrued expenses | (3,347) | 27,769 |
| Net cash provided by operating activities | 42,336 | 71,755 |
| Investing activities: | | |
| Purchases of short-term investments | - | (1,191,072) |
| Proceeds from sale of short-term investments | 131,447 | 1,204,823 |
| Purchases of property and equipment | (70,214) | (105,283) |
| Proceeds from landlords for leasehold improvements | 10,741 | 9,135 |
| Net cash provided by (used in) investing activities | 71,974 | (82,397) |
| Financing activities: | | |
| Proceeds from sale of memberships | 12,929 | 9,392 |
| Net cash provided by financing activities | 12,929 | 9,392 |
| Net increase (decrease) in cash and cash equivalents | 127,239 | (1,250) |
| Cash and cash equivalents at beginning of year | 13,506 | 14,756 |
| Cash and cash equivalents at end of year | \$ 140,745 | \$ 13,506 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for: | | |
| Interest | \$ - | \$ 27 |
| Income taxes | \$ 15,588 | \$ 28,971 |

The accompanying notes are an integral part of these financial statements.

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Recreational Equipment, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

1. Business Overview

Recreational Equipment, Inc. and its subsidiary ("REI" or the "Company") operate as a cooperative for the purpose of purchasing and selling outdoor equipment and sporting goods through 105 retail stores located throughout the United States and via the Internet and mail order to the United States and internationally. The Company sells and services gift cards through its wholly owned subsidiary, REI Customer Services, Inc.

2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated upon consolidation.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include payments due from banks for third-party credit card and debit card deposits which are typically received within 24 to 48 hours of the sales transaction, except for transactions occurring on a Friday, which are generally processed the following Monday. Amounts due from banks for these transactions, which are classified as cash, totaled \$9,318,000 and \$9,365,000 at December 31, 2008 and 2007, respectively. The Company maintains cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

5. Cash Management

The Company's cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Accounts payable at December 31, 2008 and 2007 included \$8,453,000 and \$13,406,000, respectively, of checks issued but not yet presented for payment. Furthermore, accrued payroll at December 31, 2008 and 2007 included \$6,461,000 and \$1,204,000, respectively, of checks issued but not yet presented for payment.

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Recreational Equipment, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Short-Term Investments

Short-term investments held at December 31, 2007 consisted primarily of auction rate securities purchased from institutions. Such securities have legal maturities that typically are at least 20 years, but have interest rates that reset on a periodic basis (typically less than 90 days). Furthermore, the Company had the right to sell these securities at each reset date, and as such are deemed short-term investments. These securities were carried at cost, which approximates fair value and which is based on quoted market values. Beginning in mid-February 2008, many auction rate securities failed auction due to sell orders exceeding buy orders. Anticipating this possibility, the Company sold their investments in auction rate securities in advance of these failed auctions and did not experience any losses related to the sales of these securities. The Company did not hold any short-term investments at December 31, 2008.

7. Fair Value of Financial Instruments

The carrying value of financial instruments, including cash and cash equivalents, receivables, and payables, approximate fair value at December 31, 2008 and 2007.

8. Inventories

Inventories are valued at the lower of cost or market. Cost is determined by using a weighted-average cost method. The Company records a write-down of inventories which are obsolete or slow-moving based upon historical experience and the application of the specific identification method.

9. Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation is computed primarily by using the straight-line method based on the assets' estimated useful lives, which are 15 to 30 years for buildings and improvements; 3 to 10 years for equipment, furniture, and fixtures; and 3 years for rental equipment. Leasehold improvements are amortized using the straight-line method over the lease period or useful life of the improvements, whichever is shorter. Maintenance and repairs are charged to expense as incurred, and renewals and betterments which add to the productive capacity or extend the useful life of the asset are capitalized. Pre-opening costs for new store locations are expensed as incurred.

The Company capitalizes certain costs incurred in connection with developing or obtaining internal-use software in accordance with Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed for or Obtained for Internal Use*. Costs of \$2,249,000 and \$4,522,000 were capitalized for the years ended December 31, 2008 and 2007, respectively, and have been recorded within property, plant, and equipment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Deferred Rent

As part of entering into certain retail store leases, the lessor provides the Company with a tenant improvement allowance. Typically, such allowances are in the form of cash and represent reimbursements to the Company for tenant improvements made to the leased space. These improvements are capitalized as fixed assets, and the allowances are classified as a deferred rent liability. In accordance with Financial Accounting Standards Board (FASB) Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases*, this incentive is considered a reduction of rental expense by the lessee over the term of the lease and recognized on a straight-line basis over the same term. Tenant allowances in the amounts of \$35,049,000 and \$28,049,000 were included as a component of deferred rent during the years ended December 31, 2008 and 2007, respectively.

A majority of the Company's retail store leases have payment escalation clauses. The Company records rent expense on a straight-line basis in accordance with SFAS No. 13, *Accounting for Leases*. Rent expense in excess of cash payments is recorded as a deferred rent obligation.

11. Revenue Recognition

The Company recognizes revenue from product sales when products are purchased by customers at the Company's stores or when products are shipped for internet and mail order. Revenue is recorded net of estimated sales discounts and allowances for returns. Shipping revenue is included in net sales and the related costs of shipping are included in cost of goods sold. Proceeds received from gift cards are recorded as deferred revenue which is a component of customer related obligations on the consolidated balance sheets. The Company recognizes revenue associated with gift cards at such time as the items are redeemed for merchandise or services, or redemption becomes unlikely. The determination of the likelihood of redemption is based on an analysis of the Company's historical redemption trends. The Company collects amounts from customers, which under common trade practices are referred to as sales taxes, and records these amounts on a net basis.

12. Memberships

As a cooperative, the Company is owned by its members. Each member is entitled to one vote in the election of the Company's Board of Directors. Since January 1, 2008, the nonrefundable, nontransferable, one-time membership fee has been \$20 dollars. During 2007, the fee was \$15 dollars. As of December 31, 2008, there were approximately 9.4 million members.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Advertising

The Company expenses the costs of advertising as incurred to distribute catalogs and engage in other activities, to increase brand awareness and stimulate demand. The Company receives cooperative advertising expense reimbursements from vendors who support their marketing and advertising activities. Cooperative reimbursements from vendors are recorded in the period the related advertising expenditure is incurred. The vendor consideration is classified as a reduction of advertising expense when the reimbursement represents specific, incremental and identifiable costs. Advertising expense for the years ended December 31, 2008 and 2007 was \$39,445,000 and \$33,710,000, respectively.

17. Asset Impairment and Closure of Certain Operations

When facts or circumstances indicate that the carrying values of long-lived assets may not be recoverable, an evaluation for impairment is performed. An asset is considered impaired when estimated undiscounted, future cash flows are less than the carrying amount of the asset. In the event that the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon a discounted future cash flow model. Property, plant, and equipment assets are grouped at the lowest level in which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Accordingly, as of December 31, 2008, the assets of one retail location were adjusted to their estimated net realizable value, which resulted in a reduction in the carrying value of property, plant and equipment of \$488,000, which is reflected in occupancy, general and administrative expenses. No other long-lived assets are considered impaired at December 31, 2008.

18. Sabbatical Leave

In accordance with the provisions of EITF 06-02, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*, the Company records the compensation cost associated with sabbatical leaves over the requisite service periods. The Company provides paid leave to employees with service of 15 or more years. The sabbatical leave liability as of December 31, 2008 and 2007 was \$3,119,000 and \$2,853,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Patronage Refunds

The Company declares a patronage refund to members based on the level of qualifying member purchases during the year, which is limited to the distribution of operating income as defined, as required by the Company's bylaws. Members have an unqualified right to redeem their refunds in the year they are issued plus the succeeding year. For example, if a patronage refund is issued in February 2008 for 2007 calendar year purchases, those members would have a right to redeem their refund through December 31, 2009. Members lose their right to redeem the refunds allocated to them if they do not request payment or obtain a merchandise credit within this period. Members may redeem their refunds for merchandise credit upon receipt of the refund notice, or they may redeem the refunds for cash between July 1st and December 31st in each year the dividend is outstanding. The Company records the patronage refunds payable liability based upon its estimated refunds that will be claimed by its members prior to the refund expiration date. The Company has historical experience that demonstrates that less than 100% of its members claim their patronage refunds within the time period these refunds are available to them. The 2008 patronage refunds of \$64,223,000 are net of estimated refunds that will expire at the end of 2010, and the 2007 patronage refunds of \$53,423,000 are net of estimated refunds that will expire at the end of 2009.

14. Customer Related Obligations

Customer related obligations consist primarily of deferred revenue for unredeemed gifts cards and merchandise credits. The Company recognizes income from gift cards and merchandise credits when: 1) the gift card or merchandise credit is redeemed by the customer; or 2) the likelihood of the gift card or merchandise credit being redeemed by the customer is remote (breakage). Breakage rates are determined based upon historical redemption patterns. Gift card and merchandise breakage income is included in other income in the consolidated statements of income.

15. Income Taxes

The Company operates as a cooperative subject to taxes on all income not distributed to members. The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis. The deferred tax assets and liabilities are calculated using the enacted tax rates that are expected to be in effect when the differences are expected to reverse. The Company establishes a valuation allowance for deferred tax assets if it is more likely than not that these items will expire before the Company is able to realize the benefit or future deductibility is uncertain.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

19. Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FSP FIN 48-3). FSP FIN 48-3 permits an entry within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Company has elected to defer the application of Interpretation 48 and will adopt this interpretation for the year ending December 31, 2009. The Company evaluates its uncertain tax positions using the provisions of FASB Statement 5, *Accounting for Contingencies*. Accordingly, a contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE B - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following (in thousands):

| | 2008 | 2007 |
|---|------------|------------|
| Property, plant, and equipment: | | |
| Buildings and improvements | \$ 209,620 | \$ 198,037 |
| Equipment, furniture, and fixtures | 268,925 | 230,539 |
| Leasehold improvements | 126,608 | 99,343 |
| Rental equipment | 3,022 | 2,838 |
| | 608,175 | 530,747 |
| Less: accumulated depreciation and amortization | 313,706 | 264,837 |
| | 294,469 | 265,910 |
| Land | 83,269 | 81,101 |
| Construction-in-progress | 6,036 | 21,349 |
| Net property, plant, and equipment | \$ 383,774 | \$ 368,360 |

NOTE C - LINE OF CREDIT

The Company has a line of credit available with a bank that permits borrowings of up to \$25,000,000. Interest on outstanding borrowings accrues at the prime rate which expires in June 2009. No amounts were outstanding under this line of credit at December 31, 2008 and 2007. At December 31, 2008, approximately \$296,000 of the amounts available under the line of credit was reserved for outstanding letters of credit. The Company was in compliance with all covenants imposed by the line of credit agreement as of December 31, 2008 and 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE D - INCOME TAXES

The provision for income taxes is as follows for the years ended December 31 (in thousands):

| | 2008 | 2007 |
|-----------------------------|----------|-----------|
| Provision for income taxes: | | |
| Current: | | |
| U.S. federal | \$ 3,883 | \$ 22,740 |
| State | (672) | 3,357 |
| | 3,211 | 26,097 |
| Deferred | 294 | (3,623) |
| | \$ 3,505 | \$ 22,474 |

A reconciliation from the U.S. statutory rate to the effective tax rate is as follows for the years ended December 31 (amounts in thousands):

| | 2008 | | 2007 | |
|--|----------|---------|-----------|---------|
| | Amount | Percent | Amount | Percent |
| Tax at U.S. statutory rate | \$ 6,290 | 35.00% | \$ 22,365 | 35.00% |
| State income taxes, net of federal tax benefit | 593 | 3.30% | 2,182 | 3.41% |
| Tax-exempt income | (421) | (2.34%) | (1,005) | (1.57%) |
| Tax Credits | (2,066) | (11.5%) | - | - |
| Other | (891) | (4.96%) | (1,068) | (1.67%) |
| | \$ 3,505 | 19.50% | \$ 22,474 | 35.17% |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE D - INCOME TAXES - Continued

Significant components of the Company's deferred income taxes are as follows for December 31, (in thousands):

| | 2008 | 2007 |
|---|-----------|-----------|
| Deferred tax assets (liabilities): | | |
| Current: | | |
| Patronage refunds | \$ 7,715 | \$ 5,221 |
| Inventory basis differences | (4,822) | (4,524) |
| Gift cards | 14,499 | 14,464 |
| Accruals for financial statements in excess of tax deductions | 11,265 | 7,608 |
| State tax expense | 230 | 479 |
| | 28,887 | 23,248 |
| Noncurrent: | | |
| Fixed asset depreciation and basis differences | (11,491) | (2,706) |
| Accruals for financial statements in excess of tax deductions | 18,061 | 5,201 |
| Nonqualified pension accrual | 897 | 1,031 |
| Other | 1,556 | - |
| | 9,023 | 3,526 |
| Net deferred tax assets | \$ 37,910 | \$ 26,774 |

NOTE E - EMPLOYEE BENEFITS PLAN

The Company has a defined contribution retirement and profit-sharing plan covering employees meeting certain eligibility requirements (generally, one year and 1,000 hours of service). Company contributions are based on a percentage of eligible participant compensation ranging from 5% to 15%, depending on the Company's profitability. The retirement and profit-sharing plan Company contributions were approximately \$15,034,000 and \$19,063,000 for the years ended December 31, 2008 and 2007, respectively.

The Company also has a nonqualified, deferred compensation plan which provides the Company's highly compensated employees with a contribution equal to that which would have been allocated to them under the qualified retirement plan were it not for the limitations imposed by IRC Section 401(a)(17) and Section 415. The plan also provides a voluntary pay deferral option enabling participants to contribute a portion of their respective annual compensation. The Company's contributions to the nonqualified deferred compensation plan are based on a percentage of eligible participant compensation ranging from 5% to 15%, depending on the Company's profitability. Total participant and employer contributions were approximately \$1,563,000 and \$1,208,000 for the years ended December 31, 2008 and 2007, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Leases

The Company conducts a majority of its operations from leased facilities that include 81 domestic retail stores. These leases are classified as operating leases. All leases expire within the next 20 years but contain various renewal options. Certain of these leases contain provisions for contingent rentals based on a percentage of sales revenue. Contingent rentals totaled \$156,000 and \$79,000 during 2008 and 2007, respectively. Rental expense under operating leases was approximately \$31,050,000 and \$27,009,000 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments under noncancelable operating leases as of December 31, 2008, are as follows (in thousands):

| | |
|------------|------------|
| 2009 | \$ 38,472 |
| 2010 | 40,748 |
| 2011 | 41,195 |
| 2012 | 39,833 |
| 2013 | 36,998 |
| Thereafter | 173,716 |
| | \$ 370,962 |

2. Other Commitments

In the ordinary course of opening new stores or remodeling existing stores, the Company enters into construction related contracts. These commitments are typically for a period of less than one year and totaled approximately \$900,000 as of December 31, 2008.

3. Contingencies

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of business that have not been finally adjudicated. In management's opinion, these actions, when finally concluded and determined, will not have a material adverse effect upon the consolidated financial position of the Company.

NOTE G - RELATED PARTY TRANSACTIONS

During 2006, the Company purchased a 20 percent equity interest for \$1,000,000 in a company that designs and distributes footwear. During 2007, the Company purchased additional common stock in the amount of \$251,000 which increased its equity interest to 21.6%. The Company accounts for this investment under the equity method and recognized their proportionate share of losses during the years ended December 31, 2008 and 2007 in the amount of \$393,000 and \$130,000, respectively. As of December 31, 2008, the Company analyzed the ability to recover this investment and determined it was not recoverable. As a result the Company wrote down the value from \$637,000 to \$0. As of December 31, 2008, the Company had advances of \$1,284,000 to this entity for merchandise, which are recorded as prepaid merchandise. The Company expects this company to honor all merchandise deliveries related to these advances and will be used for merchandise in the first quarter of 2009.

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