

RETAIL HARDLINES RESEARCH

Greg Melich, CFA	212 446 9484	gmelich@isigrp.com
Oliver Wintermantel	212 446 5634	owintermantel@isigrp.com
Michael Montani	212 446 5632	mmontani@isigrp.com

1 of 6



Thu
Sep 8
2011

Amazon Says "Tax Me" Next Year

Amazon's tax agreement with California legislators could prove more important to retail by 2013 than any nuggets of Back to School talk. AMZN appears ready to drop resistance to collecting sales tax in states where they don't have a nexus. Three things to watch:

- 1) **California proposed "deal" is the biggest move toward AMZN willingness to accept sales taxation.** Amazon cut a tentative deal with CA legislative leaders Wednesday night that would allow it to postpone collecting sales taxes in California until September 2012. In turn, AMZN would build CA distribution centers and drop its battle to overturn the state's new law that requires online retailers to collect sales tax.
 - 2) **The extrapolation to AMZN supporting Federal action is also new, and ultimately a bigger deal.** Our Washington analyst, Andy Laperriere, sees the odds of passing a new law before the 2012 elections as very low. That said, into 2013, with traditional retailers and now AMZN on record supporting taxation, the odds should be growing.
 - 3) **Every silver lining has a cloud?** "Leveling the playing field" should theoretically help brick and mortar retailers by removing the price differential from taxes. But it would also "free up" Amazon to consider new categories, more flexible distribution models (think same day delivery) which could expand their potential market.
- **Price, assortment, service, and convenience are all critical in retail.** The price "edge" of not taxing sales is certainly important for larger ticket branded products. Yet as eCommerce penetration has reached 8% of relevant retail sales (ex autos, gasoline, and restaurants), for incremental share gain assortment, selection, service could be bigger.
 - **Amazon's share in taxable states appears to be slightly HIGHER than in those without, suggesting sales tax does not determine market share.** TraQline data suggest that Amazon's \$ share is 10bps higher in states where it collects sales tax, implying that brick-and-mortar retailers cannot hope for sustained significant share reversal if Amazon collects taxes. Our survey of 380 retail exec in February found that only 9% believe AMZN's success was mainly "a tax avoidance scheme."
 - **If AMZN accepts internet taxation, it suggests it has reached a point in the growth curve where enhanced assortment and service matter more to grow share. Watch WSM and SPLS.** This could expand Amazon's acquisition set to multichannel retail where nexus concerns prevented it in the past. Williams Sonoma has strong brands and DTC is 45% of sales, trading at 6x EBITDA. Staples' B2B business is the second largest Internet distributor in the U.S., trading at 40% of sales, 10x P/E and 5x EBITDA.

Bottom Line: Internet taxation, if it comes to pass, net/net is a benefit to traditional good retail assets (brands, stores and DCs). But it could put more pressure on weaker retail assets (grocery stores?) that could face a new competitor. It would also free up Amazon to enhance their position in service and assortment, potentially adding more immediacy SKUs (generally untaxed food, consumables) with faster delivery of all products (more DCs closer to consumers). Internet taxation will not be a salvation for those who aren't able to win on the other traditional metrics. AMZN can get that much better in those areas.

Background: We believe approximately \$80-\$90bn of internet retail sales "escape" local taxation, implying \$3bn-\$7bn of forgone tax collection by state. Since the U.S. Supreme Court's 1992 *Quill vs North Dakota* decision, states can only require retailers to collect taxes if they have an in-state physical "nexus" such as stores or distribution centers. Amazon currently collects sales taxes in just 5 states – Kansas, Kentucky, New York, North Dakota and Washington. 23 states have shifted sales taxes to "use" taxes, putting the obligation on the consumer to pay the tax. Of the estimated \$165bn of Internet/catalog sales in the US, we believe 50% currently get taxed, which drives our \$3bn-\$7bn estimate.



*See the last page for an important disclosure regarding these stocks and this report.

Online Sales Tax

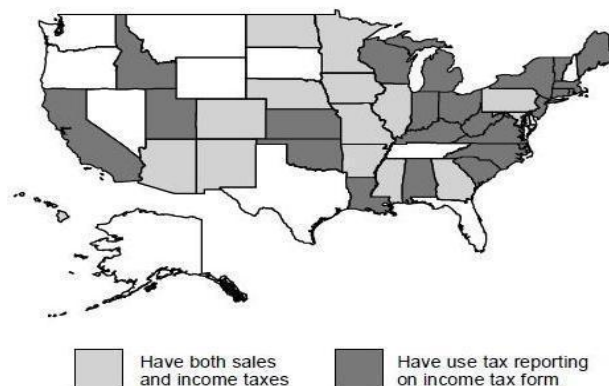
The controversy around online sales tax continues. Current law requires retailers which have a physical presence in the states, known as a nexus, to charge sales tax; otherwise, consumers are obligated to pay a "use tax" (i.e. the customers themselves are required to pay sales taxes to their state and local governments). Traditional brick and mortar retailers like Best Buy believe that the current law puts online retailers into an unfair advantage and a federal online tax would create a more level playing field for all retailers regarding the prices they charge to customers. The argument is that tax policy should be channel neutral and not favor one segment of an industry over another. Additionally, state legislators see an opportunity to collect additional income.

The Main Street Fairness Act. In July, Sen. Durbin introduced a bill (titled the *Main Street Fairness Act*) that would require all retailers to collect sales tax. This would overturn the current law, which is backed by a 1992 Supreme Court decision, which states that under current federal law, states in the U.S. can require retailers to collect taxes only if they have an in-state physical presence such as stores or DCs. Sen Durbin argues that states across the country, states and localities are expected to "lose" as much as \$24bn (based on a study from the University of Tennessee) in uncollected taxes on Internet/ catalogue sales in 2012. We struggle to get close to this number. We believe it is closer to \$3bn - \$5bn. Of the estimated \$165bn of Internet/catalog sales in the US, we believe 50% currently get taxed. Either way, if the act passes, states must accept "streamlined" methods for tax collection. So far, 20 states (see Exhibit 6) have modified their sales tax systems to meet the streamlined standard.

Exhibit 2

"Use Tax" Reporting

States with use tax reporting on individual income tax return.



Source: ISI Research

It appears that sales tax has not driven AMZN's share gains. Overall, Amazon's "taxed" states have a 10bps higher dollar share than "untaxed" states. As detailed in Exhibit 1, our analysis suggests, that brick-and-mortar retailers cannot hope for significant share gains if Amazon has to collect sales tax in every state. We analyzed Amazon's market share in states where it collects sales taxes today vs. states where it doesn't. Of the 13 product categories that TraQline covers (including Consumer Electronics, Appliances, Home Improvement, Home Goods, Sporting Equipment, etc) Amazon's dollar share in states in which it collects sales taxes, is on average 10bps higher than in states where it doesn't collect taxes. The categories that have a higher share in "untaxed" states are categories related to home improvement or home goods – categories with a higher average ticket and which have a low Internet penetration.

Exhibit 1

Amazon Market Share Difference - Last 4Q

Taxed States (KS, KY, NY, ND, WA) vs. Untaxed States (All others)

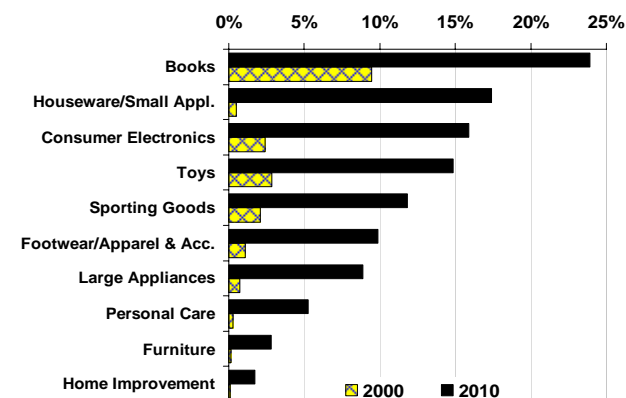
	Dollar Share		Unit Share	
	Share Difference (untaxed - taxed)	Which is higher?	Share Difference (untaxed - taxed)	Which is higher?
Amazon Total Share – All Products	-0.1	taxed	-0.1	taxed
Power Tools & Accessories	-0.2	taxed	-0.2	taxed
Hand Tools / Accessories	0	tie	-0.2	taxed
Kitchen & Bath Improvement	-0.1	taxed	-0.3	taxed
Building/Plumbing/Electric/Safety	0.1	untaxed	0.2	untaxed
Home Improvement Products	0	tie	0	tie
Furniture/Home Accessories	0.1	untaxed	0.1	untaxed
Lawn & Garden	0.4	untaxed	0.2	untaxed
Consumer Electronics	-0.1	taxed	0	tie
Major Appliances	-0.2	taxed	-0.3	taxed
Small Appliances	-0.4	taxed	-0.6	taxed
Sports Equipment	-1.7	taxed	-1.1	taxed
Other, Not Assigned	0	tie	-0.1	taxed

Source: TraQline; ISI Research

Exhibit 3

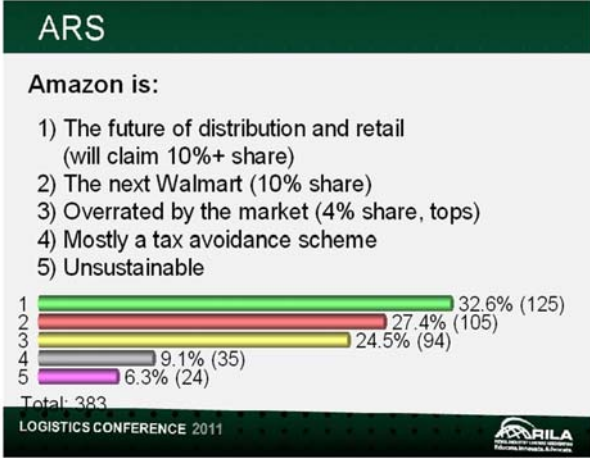
Online Penetration

Who is getting disintermediated?



Source: Forrester, Census Bureau; ISI Research

Exhibit 4
RILA Logistics Conference 2011
Retail industry leaders are bullish on Amazon.



Source: RILA; ISI Research

States like California and Texas have recently signed laws that require sales tax collection by all online retailers with in-state subsidiaries that support retail operations. Other states with a similar law include South Dakota, Kansas and Oklahoma. Texas Gov. Rick Perry signed a state budget bill in July that requires sales tax collection by all online retailers with in-state subsidiaries that support retail operations, such as distribution centers.

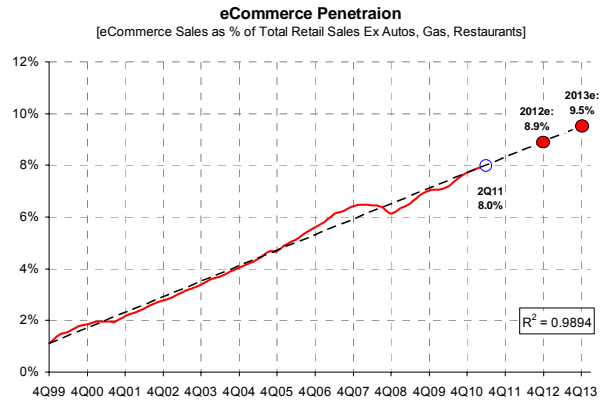
The new law states that an online retailer must collect sales taxes in Texas if it has a substantial, or at least 50%, ownership interest in an in-state physical facility – which lead many online retailers to wind down its interests in TX.

Amazon is investing capital and creates jobs in states like Indiana, which don't require AMZN to collect taxes. Amazon is opening its 4th fulfillment center in the state. Operating fulfillment centers via a subsidiary in Indiana enables Amazon to avoid collecting sales taxes on online purchases as Indiana doesn't consider subsidiaries as constituting an in-state physical presence.

Amazon changing tactics? We believe Amazon anticipates that the law will change in the near future and is acting now instead of waiting for a decision. According to news agencies, Amazon cut a tentative deal with legislative leaders Wednesday night in California that would allow it to postpone collecting sales taxes from Californians until September 2012. In turn, AMZN would drop its battle to overturn the state's new law that requires online retailers to collect sales taxes. That said, if Congress settles the contentious issue of how online purchases should be taxed, that decision would override Amazon's deal with CA.

However, our Washington analyst, Andy Laperriere, sees the odds of passing a new law before the elections next year as very low. Gov. Jerry Brown has not commented yet if he supports the deal. Last week Gov. Jerry Brown rejected a proposal from Amazon to invest \$500mn in California over the next 5 years and create 7,000 jobs by 2015 to avoid collecting sales tax.

Exhibit 5
eCommerce Penetration
Penetration could hit 10% by 2013.



Source: Census Bureau; ISI Research

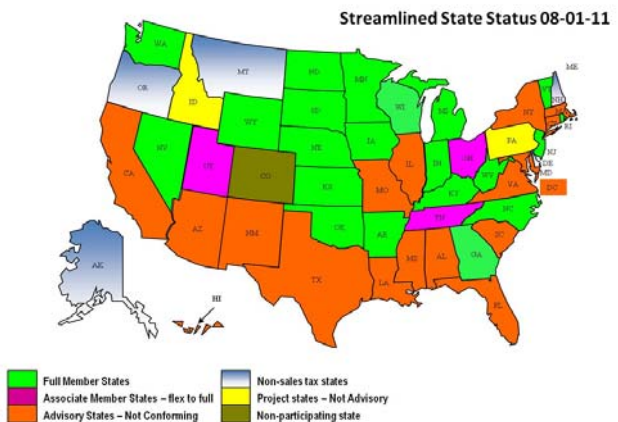
The language in the Californian law that was passed in June was designed to enforce tax collection within federal rules (for retailers that generate \$500mn+ in online sales) by stating that affiliate web sites and corporate subsidiaries constitute a nexus. Affiliates, often informational web sites and blogs, earn a cut of any sales online retailers close from clicks on ads on their sites. According to proponents of the law in California, the state could raise about \$200mn a year in tax revenues that currently go uncollected.

What if...

... the Main Street Fairness Act passes and all Internet sales are being taxed?

We believe Amazon could then focus on next day or same day delivery across the U.S. Best Buy is a big advocate of online taxation, because they believe that it is an unfair advantage for AMZN and other online retailers if

Exhibit 6
Streamlined State Status

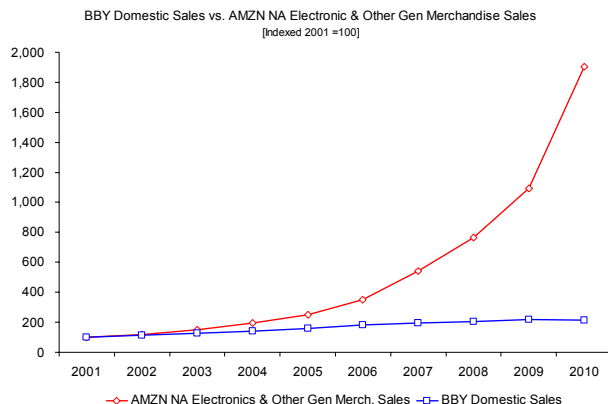


Source: streamline tax; ISI Research

Exhibit 7

Domestic Sales Growth: Amazon vs. Best Buy

The chart shows Amazon's strong growth, compared to Best Buy's anemic growth.



Source: Company data; ISI Research

they don't have to collect sales tax in States where they have to pay the sales tax. That might be true in the short run, and Amazon's sales growth would probably fall by several hundred basis points all else equal in 2012.

But we believe that AMZN would focus on building a state of the art supply chain across the U.S. with next day or same day delivery. This could hurt brick-and-mortar retailers, that try to build out their online business. The build out of DCs and its supply chain would benefit AMZN over proportionately in the long run, in our view. The company could focus on different categories in which it is currently not playing (i.e. fresh food, etc).

... online taxation comes and Amazon buys the #2 U.S. online retailer Staples (SPLS, Hold rated, \$16 base case) or wholesaler United Stationers (USTR, Hold rated, \$32 base case).

This is a long shot, and not widely talked about. We don't believe AMZN would be interested in buying SPLS or any other nationwide retailer in the current tax environment, because it would trigger a sales tax collection immediately in every state. However, if the U.S. passes the Main Street Fairness Act, Amazon could consider buying

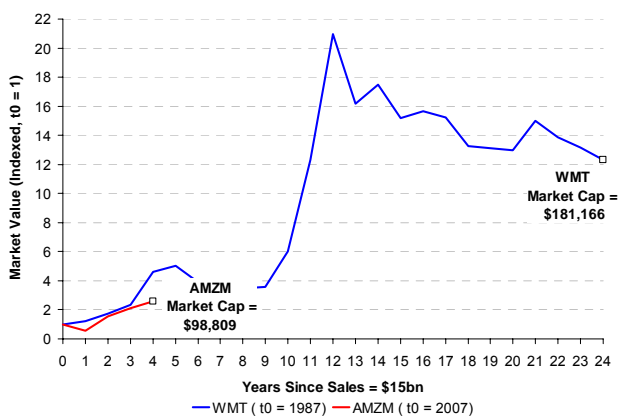
Staples, the #2 online retailer, or a wholesaler like United Stationers for its supply chain, distribution centers, and B2B businesses.

Amazon dominates the B2C world, but it is not playing in the B2B area. The barriers of entry to break into B2B are very high. Amazon would have to build specialized B2B DCs and hire and train sales reps that call on companies. We believe that SPLS' Commercial arm could be an interesting target for Amazon when the law changes.

Exhibit 8

Amazon: The Walmart of 20 Years Later?

XXX



Source: FactSet; ISI Research

Staples' B2B division has over \$13bn of global sales (approx \$10bn U.S. sales), an 8.5% operating margin, online penetration in the 90%+ range, and DCs in 29 States and 19 countries across the globe. Our sum-of-the-parts analysis values Staples' North American Delivery business, which drives the valuation, at \$12 vs. the current SPLS stock price of \$14.

Exhibit 9

Top 10 Internet Retailer

Amazon accounts for 20% of total U.S. eCommerce sales. An increase of over 350bps YoY

	2010		Web Sales		Web Sales As % Of		Rank				Share of Top 500			Share of Total e U.S. Commerce		
	Total Co Revenues (\$bn)	YoY %-Δ	(\$bn)	YoY %-Δ	Total Co. Sales	Category	2007	2008	2009	2010	2009	2010	bps Δ	2009	2010	bps Δ
Amazon.com Inc.	\$34.2	40%	\$34.2	40%	100%	61%	1	1	1	1	19.4%	22.9%	346	17.0%	20.5%	357
Staples Inc.	\$24.5	1%	\$10.2	4%	42%	54%	2	2	2	2	7.8%	6.8%	(93)	6.8%	6.1%	(66)
Apple Inc.	\$65.2	79%	\$5.2	15%	8%	20%	7	5	4	3	3.6%	3.5%	(9)	2.9%	3.1%	20
Dell Inc.	\$61.6	17%	\$4.8	13%	8%	18%	4	3	3	4	3.4%	3.2%	(15)	3.1%	2.9%	(25)
Office Depot Inc.	\$11.6	-4%	\$4.1	0%	35%	22%	3	4	5	5	3.2%	2.7%	(50)	2.8%	2.5%	(38)
Walmart.com	\$421.8	4%	\$4.1	17%	1%	7%	14	13	6	6	2.8%	2.7%	(3)	2.4%	2.5%	4
Sears Holdings	\$43.3	-2%	\$3.1	12%	7%	6%	8	7	8	7	2.2%	2.1%	(12)	1.9%	1.9%	(5)
Liberty Media Corp.	\$11.0	32%	\$3.0	10%	28%		11	11	11	8	2.2%	2.0%	(17)	1.6%	1.8%	18
OfficeMax Inc.	\$7.2	-1%	\$2.9	16%	40%	38%	6	6	7	9	2.0%	1.9%	(4)	1.9%	1.7%	(20)
CDW Corp.	\$8.8	7%	\$2.7	11%	31%		9	8	9	10	2.0%	1.8%	(13)	1.7%	1.6%	(8)
Top 10	\$689	11%	\$74	22%							48%	50%	129	42%	45%	236

Source: Internet Retailer; ISI Research

Exhibit 10
ISI Comp sheet

September 8, 2011				Stock Movement			ISI EPS			Consensus EPS			PE		Lease Adj. EV / EBITDAR		RNOA		FCF Y	Div Y	P/S	Lease Adj. Debt / EBITDAR	Price/Book	SI			
Name	Tckr	Yr End	Rating	Price	Mkt Cap	EV	-30D	-90D	YTD	Q1 2011	2012	Q1 2011	2012	2011	2012	2011	2012	2011	2012	2011	2011	2011	2011	2010	% Out		
Auto Part Retail																											
Advance Auto	AAP	12/2010	Buy	61	4,712	5,172	8%	-7%	-8%	\$1.20	\$4.70	\$5.40	\$1.18	\$4.70	\$5.35	12.9x	11.3x	6.5x	6.2x	14.7%	14.8%	6.2%	0.4%	0.8x	2.1x	4.5x	5.2
AutoZone	AZO	08/2010	Hold	316	13,578	16,396	9%	12%	16%	\$6.90	\$18.94	\$21.45	\$6.96	\$19.22	\$22.13	16.7x	14.7x	9.7x	9.7x	25.9%	27.2%	4.5%	0.0%	1.7x	2.6x	18.4x	3.0
Genuine Parts	GPC	12/2010	Hold	53	8,464	8,823	0%	-1%	4%	\$0.93	\$3.50	\$3.70	\$0.94	\$3.49	\$3.78	15.3x	14.4x	9.0x	9.0x	16.3%	16.4%	7.0%	3.4%	0.7x	1.7x	3.0x	3.7
O'Reilly Automotive	ORLY	12/2010	Hold	67	9,418	9,574	10%	13%	12%	\$1.04	\$3.66	\$4.10	\$1.00	\$3.61	\$4.13	18.4x	16.4x	9.5x	9.0x	12.4%	12.9%	4.4%	0.0%	1.6x	1.8x	2.9x	4.9
Auto Average																											
7% 4% 6%																											
Home Improvement																											
Home Depot	HD	01/2011	Buy	32	51,189	61,957	-9%	-13%	-7%	\$0.59	\$2.35	\$2.75	\$0.59	\$2.36	\$2.69	13.8x	11.8x	7.5x	7.6x	12.7%	14.1%	8.0%	3.1%	0.7x	2.1x	2.7x	2.1
Fortune Brands	FO	12/2010	Hold	56	8,842	11,602	-8%	-13%	-7%	\$0.84	\$3.20	\$4.05	\$0.70	\$2.88	\$3.32	17.6x	13.9x	10.5x	10.0x	6.0%	6.9%	6.6%	0.0%	1.2x	3.2x	1.6x	1.6
Lowe's	LOW	01/2011	Hold	20	25,023	31,135	-13%	-26%	-22%	\$0.35	\$1.60	\$1.85	\$0.33	\$1.59	\$1.78	12.3x	10.6x	5.9x	6.3x	8.8%	9.5%	6.7%	2.7%	0.5x	2.2x	1.4x	1.2
Lumber Liquidators	LL	12/2010	Hold	15	416	361	-6%	-44%	-41%	\$0.26	\$1.05	\$1.30	\$0.24	\$1.01	\$1.24	14.0x	11.2x	6.3x	6.4x	12.9%	14.5%	7.2%	0.0%	0.6x	1.5x	2.3x	22.8
Masco	MAS	12/2010	Hold	8	2,785	5,032	-27%	-41%	-37%	\$0.12	\$0.15	\$0.35	\$0.07	\$0.04	\$0.38	53.9x	22.7x	7.9x	7.5x	3.6%	4.5%	7.3%	3.8%	0.4x	6.1x	1.8x	6.3
Sears Holdings	SHLD	01/2011	Sell	54	5,813	8,418	-23%	-35%	-26%	-\$2.60	-\$2.55	-\$1.40	-\$2.29	-\$1.96	-\$1.08	nm	nm	10.9x	8.7x	1.3%	2.0%	-6.2%	0.0%	0.1x	5.6x	0.7x	10.2
Sherwin Williams	SHW	12/2010	Hold	74	7,909	8,928	-5%	-11%	-12%	\$1.71	\$4.90	\$5.50	\$1.70	\$4.80	\$5.49	15.1x	13.5x	9.2x	8.6x	13.5%	14.7%	6.6%	2.0%	0.9x	2.1x	4.9x	5.8
HI Average																											
-13% -26% -22%																											
Home Furnishing																											
Bed Bath & Beyond	BBBY	02/2011	Buy	57	14,338	12,597	-1%	2%	17%	\$0.83	\$3.65	\$4.20	\$0.84	\$3.68	\$4.20	15.7x	13.7x	7.7x	7.6x	22.7%	22.3%	6.3%	0.0%	1.5x	1.7x	3.6x	2.3
Williams-Sonoma	WSM	01/2011	Buy	32	3,371	2,750	-16%	-26%	-12%	\$0.38	\$2.25	\$2.55	\$0.38	\$2.23	\$2.51	14.0x	12.4x	5.3x	5.9x	16.5%	16.7%	6.5%	2.0%	0.9x	2.0x	2.7x	4.2
HF Average																											
-8% -12% 3%																											
Consumer Electronics																											
Best Buy	BBY	02/2011	Hold	24	9,612	9,203	-16%	-23%	-29%	\$0.45	\$3.25	\$3.25	\$0.53	\$3.46	\$3.66	7.5x	7.4x	3.1x	4.6x	10.2%	9.5%	13.8%	4.8%	0.2x	3.1x	1.5x	10.0
RadioShack	RSH	12/2010	Hold	12	1,252	1,399	-17%	-26%	-35%	\$0.37	\$1.55	\$1.75	\$0.38	\$1.59	\$1.80	7.7x	6.8x	3.8x	5.2x	9.5%	10.8%	15.6%	0.0%	0.3x	4.0x	1.5x	10.9
hregg	HGG	03/2011	Hold	11	443	415	-10%	-14%	-46%	\$0.08	\$1.25	\$1.35	\$0.06	\$1.20	\$1.35	9.0x	8.3x	3.7x	5.8x	10.1%	9.3%	0.4%	0.0%	0.2x	3.8x	1.4x	24.0
CE Average																											
-11% -19% -28%																											
Office Products																											
Office Max	OMX	12/2010	Hold	6	496	254	-21%	-42%	-67%	\$0.20	\$0.58	\$0.70	\$0.24	\$0.67	\$0.76	10.0x	8.2x	1.2x	4.5x	5.9%	5.8%	11.8%	0.0%	0.1x	4.5x	0.8x	20.1
Office Depot	ODP	12/2010	Hold	2	688	806	-35%	-42%	-54%	\$0.00	-\$0.04	\$0.00	\$0.01	-\$0.02	\$0.11	nm	nm	2.9x	4.8x	3.4%	3.4%	5.9%	0.0%	0.1x	4.7x	1.0x	12.0
Staples	SPLS	01/2011	Hold	14	9,872	10,750	-13%	-34%	-39%	\$0.46	\$1.35	\$1.40	\$0.47	\$1.39	\$1.53	10.3x	9.9x	4.9x	5.5x	9.8%	9.7%	11.2%	2.8%	0.4x	2.5x	1.4x	4.0
United Stationers	USTR	12/2010	Hold	30	1,375	1,764	-10%	-16%	-6%	\$0.80	\$2.50	\$2.90	\$0.81	\$2.53	\$2.95	12.0x	10.3x	7.1x	7.5x	9.0%	9.8%	11.0%	1.3%	0.3x	3.0x	1.8x	5.0
Office Average																											
-20% -34% -42%																											
Discounters & Clubs																											
Walmart	WMT	01/2011	Hold	52	181,952	220,640	-2%	-5%	-3%	\$0.95	\$4.45	\$4.90	\$0.97	\$4.48	\$4.90	11.7x	10.7x	6.3x	6.4x	14.1%	13.9%	6.1%	2.8%	0.4x	1.7x	2.6x	1.3
Target	TGT	01/2011	Buy	51	34,659	49,231	0%	4%	-16%	\$0.68	\$4.15	\$4.20	\$0.73	\$4.23	\$4.32	12.2x	12.1x	7.6x	7.9x	10.4%	9.6%	3.3%	2.2%	0.5x	3.0x	2.2x	2.2
Costco	COST	08/2010	Hold	81	35,823	34,326	3%	0%	12%	\$1.11	\$3.34	\$3.70	\$1.10	\$3.33	\$3.63	24.2x	21.8x	10.3x	10.3x	17.0%	17.3%	3.2%	1.0%	0.4x	1.2x	3.3x	1.4
BJ's	BJ	01/2011	Hold	51	2,778	2,538	1%	0%	6%	\$0.49	\$3.01	\$3.15	\$0.50	\$2.94	\$3.16	16.9x	16.2x	6.2x	7.7x	8.5%	8.7%	5.1%	0.0%	0.2x	3.5x	2.4x	4.8
DC Average																											
1% -1% 0%																											
HARDLINES & DISCOUNTERS																											
HL Average																											
-5% -17% -19%																											
													13.4x	11.9x	6.6x	7.0x	11.6%	11.9%	6.8%	1.3%	0.6x	2.8x	1.4x	7.9			

Source: ISI Research


INTERNATIONAL STRATEGY & INVESTMENT

Consumer Research

ANALYST CERTIFICATION: The views expressed in this Report accurately reflect the personal views of those preparing the Report about any and all of the subjects or issuers referenced in this Report. No part of the compensation of any person involved in the preparation of this Report was, is, or will be directly or indirectly related to the specific recommendations or views expressed by research analysts in this Report.

DISCLOSURE: Neither ISI nor its affiliates beneficially own 1% or more of any class of common equity securities of the subject companies referenced in the Report. No person(s) responsible for preparing this Report or a member of his/her household serve as an officer, director or advisory board member of any of the subject companies. No person(s) preparing this report or a member of his/her household have a financial interest in the subject companies of this Report. At various times, the employees and owners of ISI, other than those preparing this Report, may transact in the securities discussed in this Report. Neither ISI nor its affiliates have any investment banking or market making operations. No person(s) preparing this research Report has received non-investment banking compensation from the subject company in the past 12 months. ISI does and seeks to do business with companies covered in this research Report and has received non-investment banking compensation in the past 12 months.

DISCLAIMER: This material is based upon information that we consider to be reliable, but neither ISI nor its affiliates guarantee its completeness or accuracy. Assumptions, opinions and recommendations contained herein are subject to change without notice, and ISI is not obligated to update the information contained herein. Past performance is not necessarily indicative of future performance. This material is not intended as an offer or solicitation for the purchase or sale of any security.

	Buy	Hold	Sell	Total
Consumer-Hardlines	6	15	3	24
Consumer-Softlines	9	10	2	21
Consumer-Lodging	4	2	0	6
Energy-Integrated Oil	5	5	0	10
Financials-Brokers, Trust Banks & Exchanges	6	4	0	10
Financials-Large Cap Banks	5	5	0	10
Health Care-Biotech & Pharma	7	4	0	11
Industrials-Machinery	8	4	0	12
REITS	8	22	0	30
Technology-IT Hardware	3	3	0	6
TOTAL	61	74	5	140
	44%	53%	4%	100%

ISI has assigned a rating of BUY to 44% of the securities rated as of 6/30/11.

ISI has assigned a rating of HOLD to 53% of the securities rated as of 6/30/11.

ISI has assigned a rating of SELL to 4% of the securities rated as of 6/30/11.

Due to rounding the above numbers may add up to more than 100%.