Financial Statements and Report of Independent Certified Public Accountants

Recreational Equipment, Inc.

December 31, 2009 and 2008

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Report of Independent Certified Public Accountants

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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, 2009 and 2008, 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, 2009 and 2008, 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 19, 2010

Recreational Equipment, Inc.

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

(IN THOUSANDS)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 261,476	$ 140,745
Accounts receivable, less allowance for doubtful accounts of $122 and $673, respectively	12,418	11,719
Inventories	202,983	206,484
Deferred income taxes	30,795	28,887
Prepaid expenses and other	21,319	22,750
Total current assets	528,991	410,585
Property, plant, and equipment, net	368,085	383,774
Deferred income taxes	16,034	9,023
Other	6,801	5,296
Total assets	$ 919,911	$ 808,678
Liabilities and members' equity		
Current liabilities:		
Accounts payable	$ 79,087	$ 58,770
Customer related obligations	84,079	77,406
Patronage refunds payable	76,295	70,572
REI Visa rebate payable	34,561	34,126
Business taxes and other accrued liabilities	24,511	25,327
Accrued payroll and related benefits	38,181	25,258
Retirement and profit-sharing liabilities	21,569	15,479
Income taxes payable	20,357	7,024
Total current liabilities	378,640	313,962
Deferred rent and other long-term liabilities	53,517	49,288
Members' equity:		
Memberships	127,487	114,996
Retained earnings	360,267	330,432
Total members' equity	487,754	445,428
Total liabilities and members' equity	$ 919,911	$ 808,678

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

Recreational Equipment, Inc.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2009 and 2008

(IN THOUSANDS)

	2009	2008
Net sales	$ 1,455,351	$ 1,434,569
Cost of sales	804,834	830,125
Gross profit	650,517	604,444
Operating expenses:		
Payroll-related expenses	281,502	272,929
Occupancy, general and administrative	268,455	257,924
	549,957	530,853
Operating income	100,560	73,591
Other income, net	14,010	8,603
Income before patronage refunds and income taxes	114,570	82,194
Patronage refunds, net	67,222	64,223
Income before income taxes	47,348	17,971
Provision for income taxes	17,541	3,505
Net income	$ 29,807	$ 14,466

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

Recreational Equipment, Inc.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

For the years ended December 31, 2009 and 2008

(IN THOUSANDS)

	Memberships	Retained Earnings	Total Members' Equity
Balance at January 1, 2008	$ 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
Cumulative effect of adoption of accounting principle	-	28	28
Memberships issued	12,491	-	12,491
Net income	-	29,807	29,807
Balance at December 31, 2009	$ 127,487	$ 360,267	$ 487,754

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

Recreational Equipment, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009 and 2008

(IN THOUSANDS)

	2009	2008
Operating activities		
Net income	$ 29,807	$ 14,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,602	50,487
Provision for sales returns	942	4,006
Benefit from deferred income taxes	(8,919)	(11,136)
Deferred rent expense	2,160	1,661
Loss on sale of equipment and asset write-downs	1,247	572
Changes in operating assets and liabilities:		
Accounts receivable	(699)	10,896
Inventories	5,146	(20,399)
Prepaids and other current assets	1,431	(4,870)
Accounts payables and other accrued expenses	61,482	(3,347)
Net cash provided by operating activities	145,199	42,336
Investing activities:		
Proceeds from sale of short-term investments	-	131,447
Purchases of property and equipment	(42,887)	(70,214)
Proceeds from landlords for leasehold improvements	5,928	10,741
Net cash provided by (used in) investing activities	(36,959)	71,974
Financing activities:		
Proceeds from sale of memberships	12,491	12,929
Net cash provided by financing activities	12,491	12,929
Net increase in cash and cash equivalents	120,731	127,239
Cash and cash equivalents at beginning of year	140,745	13,506
Cash and cash equivalents at end of year	$ 261,476	$ 140,745
Supplemental disclosures of cash flow information		
Cash paid for:		
Income taxes	$ 13,294	$ 15,588

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

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 110 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 $11,149,000 and $9,318,000 at December 31, 2009 and 2008, 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, 2009 and 2008 included $11,130,000 and $8,453,000, respectively, of checks issued but not yet presented for payment. Furthermore, accrued payroll at December 31, 2009 and 2008, included $7,036,000 and $6,461,000, respectively, of checks issued but not yet presented for payment.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

6. 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, 2009 and 2008.

7. 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.

8. Accounts Receivable

Accounts receivable are primarily due from landlords and vendors. The Company estimates its allowance for doubtful accounts based on length of time past due and ability to pay the obligation.

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; three to ten years for equipment, furniture, and fixtures; and three 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. Costs of $5,063,000 and $2,249,000 were capitalized for the years ended December 31, 2009 and 2008, respectively, and have been recorded within property, plant, and equipment.

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. 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 $36,249,000 and $35,049,000 were included as a component of deferred rent during the years ended December 31, 2009 and 2008, respectively.

A majority of the Company's retail store leases have payment escalation clauses. The Company records rent expense on a straight-line basis. 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 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 remote. 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. As of December 31, 2009, there were approximately 10 million members.

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 2009 for 2008 calendar year purchases, those members would have a right to redeem their refund through December 31, 2010. 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 2009 patronage refunds of $67,222,000 are net of estimated refunds that will expire at the end of 2011, and the 2008 patronage refunds of $64,223,000 are net of estimated refunds that will expire at the end of 2010.

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.

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. Advertising expense for the years ended December 31, 2009 and 2008, was $42,229,000 and $39,445,000, respectively.

17. Vendor Allowances

The Company receives rebates, allowances and cooperative advertising funds from vendors. Amounts received relating to the purchase of inventories are recognized as a reduction of cost of goods sold as merchandise is sold. Amounts received relating to the reimbursement of costs incurred, such as advertising, are recognized as a reduction in the related expense when there is a specific incremental identifiable benefit.

18. 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, 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, which is reflected in occupancy, general and administrative expenses. No other long-lived assets are considered impaired at December 31, 2009. Asset impairment for the years ended December 31, 2009 and 2008 was $1,045,000 and $488,000, respectively.

19. Sabbatical Leave

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, 2009 and 2008 was $3,221,000 and $3,119,000, respectively.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

20. Recent Accounting Pronouncements

In May 2009, the FASB issued guidance for subsequent events. The guidance sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for a potential recognition or disclosure in the financial statements. The adoption did not have an impact on the Company's consolidated financial statements.

In June 2009, the FASB issued guidance which established the FASB Standards of Accounting Codification ("Codification") as the source of authoritative GAAP recognized by the FASB. The Codification supersedes all the existing accounting and reporting standards. As the statement did not substantively change GAAP, but rather changed its organization and presentation, it did not have any effect on the Company's financial statements other than how the Company discloses some of its accounting policies.

NOTE B - PROPERTY, PLANT, AND EQUIPMENT

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

	2009	2008
Property, plant, and equipment:		
Buildings and improvements	$ 210,334	$ 209,620
Equipment, furniture, and fixtures	285,942	268,925
Leasehold improvements	135,417	126,608
Rental equipment	2,137	3,022
	633,830	608,175
Less: accumulated depreciation and amortization	366,164	313,706
	267,666	294,469
Land	83,145	83,269
Construction-in-progress	17,274	6,036
Net property, plant, and equipment	$ 368,085	$ 383,774

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 plus one and half percent which expires in June 2010. No amounts were outstanding under this line of credit at December 31, 2009 and 2008. At December 31, 2009, 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, 2009 and 2008.

NOTE D - INCOME TAXES

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

Provision for income taxes:	2009	2008
Current:		
U.S. federal	$ 17,704	$ 3,883
State	2,863	(672)
	20,567	3,211
Deferred	(3,026)	294
	$ 17,541	$ 3,505

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):

	2009		2008	
	Amount	Percent	Amount	Percent
Tax at U.S. statutory rate	$ 16,572	35.00%	$ 6,290	35.00%
State income taxes, net of federal tax benefit	1,566	3.31%	593	3.30%
Tax-exempt income	-	-	(421)	(2.34%)
Tax Credits	(5)	-0.01%	(2,066)	(11.5%)
FIN 48 implementation	(970)	-2.05%	-	-
Other	378	0.80%	(891)	(4.96%)
	$ 17,541	37.05%	$ 3,505	19.50%

NOTE D - INCOME TAXES - Continued

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

Deferred tax assets (liabilities):	2009	2008
Current:		
Patronage refunds	$ 6,621	$ 7,715
Inventory basis differences	(3,602)	(4,822)
Gift cards	15,991	14,499
Accruals for financial statements in excess of tax deductions	11,777	11,265
State tax expense	333	230
Valuation Allowance - Unrealized Capital Loss	(325)	-
	30,795	28,887
Noncurrent:		
Fixed asset depreciation and basis differences	(4,035)	(11,491)
Accruals for financial statements in excess of tax deductions	17,181	18,061
Nonqualified pension accrual	1,410	897
Unrealized Capital Loss	479	-
Valuation Allowance - Unrealized Capital Loss	(154)	-
Other	1,153	1,556
	16,034	9,023
Net deferred tax assets	$ 46,829	$ 37,910

NOTE D - INCOME TAXES - Continued

The Company adopted guidance on accounting for uncertainty of income taxes for the year ending December 31, 2009. Significant judgment is required in evaluating our tax positions and determining the Company's provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. These reserves are adjusted in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense and tax liabilities. As of December 31, 2009, the liability for uncertain tax positions included $371 for the accrual of interest and penalties. Tax years 2005 through 2009 remain open to examination by the major taxing jurisdictions to which we are subject. The Company has federal, state and local examinations currently ongoing. Due to the potential for resolution of these examinations, and the expiration of various statutes of limitations, it is reasonably possible the Company's gross unrecognized tax contingency at December 31, 2009, could be recognized in the next 12 months. Management does not anticipate any potential settlement or examination to result in a material change to the Company's financial position.

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 expense were approximately $21,095,000 and $15,034,000 for the years ended December 31, 2009 and 2008, 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 $708,000 and $1,563,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Leases

The Company conducts a majority of its operations from leased facilities that include 84 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 $164,000 and $156,000 during 2009 and 2008, respectively. Rental expense under operating leases was approximately $35,588,000 and $31,050,000 for the years ended December 31, 2009 and 2008, respectively.

Future minimum lease payments under noncancelable operating leases as of December 31, 2009, are as follows (in thousands):

2010	$	40,450
2011		41,336
2012		40,618
2013		37,759
2014		35,485
Thereafter		146,562
	$	342,210

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 $715,000 as of December 31, 2009.

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 - SUBSEQUENT EVENTS

The Company evaluated subsequent events through March 19, 2010, the date the statements were available to be issued. There were no material subsequent events or transactions that required recognition or disclosure in these consolidated financial statements.