

# Sterling

STERLING SHOES LIMITED PARTNERSHIP

2580 Viscount Way Richmond BC Canada V6V 1N1 TEL 604.270.6114 FAX 604.278.7751

FOR IMMEDIATE RELEASE

March 17, 2011

**STERLING SHOES INC. (TSX: SSI)**  
*(formerly Sterling Shoes Income Fund)*

**STERLING ANNOUNCES FOURTH QUARTER AND FULL YEAR 2010 RESULTS**

**HIGHLIGHTS:**

- Following an international search the Company hired a new President and CEO, Dave Alves, who joined the Company and the board of directors on November 10, 2010.
- Management reduced inventory by \$7.8 million compared to a year-earlier, a decrease of 21.5%.
- The Company's cash position rose to \$7.4 at December 31, 2010 up \$3.3 million from a year earlier due to our aggressive approach to clearing out older inventory.
- The Company converted from an income trust structure to a corporate structure.
- During the year the Company renewed its bank credit facilities for a 3 year term.

VANCOUVER, BC, March 17, 2011 – Sterling Shoes Inc. (the “Company” or “Sterling”), formerly Sterling Shoes Income Fund (the “Fund”), today reported its financial results for the quarter and year-ended December 31, 2010.

“2010 was the beginning of a transformation for Sterling, which will continue throughout 2011 as we reposition ourselves to achieve operational efficiencies and growth,” said Mr. Dave Alves, President and CEO. “We’re moving in a new direction, with a focused and committed team. Sterling has a great reputation and history as a retailer throughout Canada and has a very exciting future ahead of it.

During 2011 we will focus on leveraging the profit potential of our existing store base and operating divisions. Once we have executed the 2011 plan we will be in a position to leverage our more efficient foundation for future growth.” said Mr. Alves.

In early 2011, we re-organized our business units to increase focus and accountability throughout the organization. Our operating divisions (banners) have been re-organized as Shoe Warehouse, Sterling Shoes and Freedman / Joneve. Each division has a senior leader responsible for delivering its results.”

The Store Operations group has also been re-organized. Scot Sheeler joined Sterling as Vice-President, Store Operations on January 4, 2011 with a mandate to improve the efficiency and effectiveness of our store network. Scot is a senior executive with over 20 years of diverse and progressive experience in the retail industry. He has expertise in the creation and execution of operational strategies with extensive experience in store operations, in-store marketing, store planning, and loss prevention. Scot's recent experiences include serving as President & CEO of Advanced Electronics, and Vice President, Stores (Zellers Western Region) for the Hudson's Bay Company.

We have created a supply chain and merchandise-planning group, have shifted the management of inventory to this newly created department and consolidated supply chain functions into it. We are excited to announce that Sairose Kassam will be joining the Sterling team on March 28, 2011 as the Vice

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President, Supply Chain. Sairose is a successful retailer with over 20 years of progressive senior management experience. Sairose's recent experiences include Vice President, Merchandising for Roots Canada Limited where she was the senior executive responsible for design, buying, planning, and execution of improved sourcing, vendor alliances and supply chain management. We are also re-organizing our warehousing and distribution functions to improve efficiencies and reduce costs in stores and throughout the organization. These cost-saving initiatives have already begun to show results, for instance, the removal of non-selling activities at the store level, and moving these activities to the warehouse has allowed us to reduce store costs, improve the appearance of our stores and free up our staff to better serve our customers.

Another key part of our strategy is the improvement of our product assortment. One key initiative that we focused on at the end of 2010 was the reduction of inventory. This action resulted in lower margins, but has positively impacted our balance sheet; reducing inventory and generating cash flow. "We've created a stable foundation upon which our operating divisions can focus on improving performance. This has allowed us to improve the freshness of the product mix in our chains and reduce the previously increasing costs of warehousing and logistics related to maintaining unproductive inventory," said Mr. Alves.

We successfully launched our new enterprise resource planning ("ERP") system in our Freedman banner on January 16, 2011 and have turned on all planned areas of its functionality. The system has significantly increased visibility into our business and the stability of our inventory reporting. Remaining banners are planned to go live with the new system during the second quarter of 2011. In addition to the ERP implementation, the Company is increasing its organizational intelligence through investments in people and other business intelligence tools. The Company has already implemented a new business intelligence tool, IBM-Cognos in 2011 and has created a financial planning and analysis group to service the information needs of the organization and allow better organizational decision-making.

"Finally, we have initiated a brand strategy review of all divisions, and now have clearly defined and differentiated customer profile and market segmentation for each division. This clarity will provide the focus and energy for our buying, marketing, recruitment and store operations teams as well as revitalize the image of our respective banners to our customers," said Mr. Alves.

## **Financial Results for the three and twelve-month periods ended December 31, 2010**

During the three and twelve-month periods ended December 31, 2010, sales were \$39.3 million and \$127 million respectively, representing a decrease of 4.5% and 3.2% from \$41.2 million and \$131.2 million during the respective periods a year earlier. Same-store sales for the three and twelve-month periods ended December 31, 2010 decreased by 4.0% and 5.0% respectively, compared to the same periods during 2009.

Cost of sales as a percentage of sales for the three-month and twelve-month periods ended December 31, 2010 was 56.1% and 56.8%, compared to 43.7% and 52.7% respectively for the same periods during 2009.

As a substantial amount of capital was invested in aged inventory, management focused on reducing this unproductive inventory late 2010. Management undertook a number of initiatives to address this issue in late 2010 with a new approach to inventory management including our product mix, purchasing and planning processes. Unproductive inventory was marked down during the last quarter to stimulate sales

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and to clear out old inventory consistent with our strategy of improving inventory turnover and improving the freshness of inventory mix throughout the Company. As a consequence gross margin was eroded by these one-time efforts which resulted in estimated charges of \$1.2 million and \$3.0 million during the three and twelve-month periods ended December 31, 2010 respectively. Excluding these charges, cost of sales as a percentage of sales for the three and twelve-month periods ended December 31, 2010 was 52.6% and 54.3% respectively.

Store and selling expenses for the three and twelve-months ended December 31, 2010 were 33.0% and 36.5% of sales, compared to 30.7% and 35.7% for the same periods during 2009, respectively. Store and selling expenses have a fixed underlying core with a large variable component, primarily consisting of expenses relating to occupancy and employee costs. In nominal dollar terms, store and selling expenses increased by \$334 thousand and decreased \$369 thousand for the three-month and twelve-month periods ending December 31, 2010 as a result of management's actions to reduce costs in managing the business through the current economic volatility. However the decrease as a percentage of sales was nullified by the decrease in sales in 2010.

General and administrative ("G&A") expenses for each of the three and twelve-months ended December 31, 2010 were 6.8% of sales, compared to 5.8% for both periods in 2009, respectively.

G&A expenses have increased in the three and twelve months ended December 31, 2010 primarily due to investments in human resources, severance costs, executive search fees incurred for recruiting a new CEO and other key business executives, as well as the costs to convert to a corporation. The implementation of the Company's strategic initiatives will result in further investments in talented personnel. Management expects to see quick payback in improved organizational performance, margin improvements, cost reductions in operations and increased profitability as a result of this investment.

EBITDA for the three and twelve-months ended December 31, 2010 was 4.1% and -0.2% of sales, respectively, compared to 19.8% and 5.8% for the same periods during 2009. The variance in EBITDA is accounted for by the reduction in sales, the estimated one-time margin erosion to clear older inventory and inventory impairment charges. Excluding these items EBITDA for the three and twelve-months ended December 31, 2010 was 7.6% and 2.4% respectively.

The Company's net debt improved at December 31, 2010 by \$3.8 million compared to a year earlier.

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<b>STERLING SHOES INC.</b>		
<b>Consolidated Balance Sheets</b>	<b>As at</b>	<b>As at</b>
(Expressed in thousands of dollars, except per share and number of share figures.)	<b>December</b>	<b>December</b>
	<b>31, 2010</b>	<b>31, 2009</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 7,444	4,119
Accounts receivable	359	195
Inventory	28,614	36,446
Prepaid expenses and deposits	336	187
	<u>36,753</u>	<u>40,947</u>
LEASEHOLDS AND EQUIPMENT	17,969	19,595
INTANGIBLE ASSETS	16,623	16,623
	<u>\$ 71,345</u>	<u>\$ 77,165</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	16,226	15,006
Term loan	1,000	5,000
	<u>17,226</u>	<u>20,006</u>
FUTURE INCOME TAXES	793	2,364
TERM LOAN	3,500	-
CONVERTIBLE DEBENTURES	23,264	22,520
DEFERRED LEASE INDUCEMENTS	1,653	2,057
SHAREHOLDERS' EQUITY	24,910	30,218
	<u>\$ 71,345</u>	<u>\$ 77,165</u>

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**STERLING SHOES INC.**

**Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in thousands of dollars, except per share and number of share figures.)

	Three-month period ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	<i>(unaudited)</i>			
SALES	\$ 39,348	\$ 41,195	\$ 127,028	\$ 131,170
COST OF SALES	22,065	18,011	72,173	69,127
GROSS MARGIN	17,283	23,184	54,855	62,043
EXPENSES				
Store and selling	12,998	12,664	46,416	46,785
General and administrative	2,690	2,383	8,298	7,616
Conversion costs	0	-	398	-
Amortization of leaseholds and equipment	790	863	3,535	3,401
	16,478	15,910	58,646	57,802
Income/(Loss) before interest, impairment and non-controlling interest	805	7,274	(3,791)	4,241
Interest and financing expense	657	669	2,612	2,637
Impairment of goodwill and intangible assets	0	0	0	33,246
Unrealized loss on foreign exchange	256	0	256	0
Loss on disposal of leaseholds and equipment	-	367	220	627
INCOME / (LOSS) BEFORE TAXES	(109)	6,238	(6,879)	(32,269)
Future income taxes recovery	1,571	-	1,571	4,636
NET INCOME / (LOSS) AND COMPREHENSIVE INCOME / (LOSS)	1,462	6,238	(5,308)	(27,633)
Basic net income/(loss) per share	\$ 0.22	\$ 0.94	\$ (0.80)	\$ (4.16)
Diluted net income/(loss) per share	0.21	0.82	(0.80)	(4.16)
Basic weighted average number of shares outstanding	6,641,860	6,641,860	6,641,860	6,641,860
Diluted weighted average number of shares outstanding	7,823,885	7,823,885	7,823,885	7,823,885

**STERLING SHOES INC.**

**Consolidated Statements of Shareholders' Equity**

For the year ended December 31, 2010

(Expressed in thousands of dollars, except per share and number of share figures.)

	Shareholders' capital	Equity component			Accumulated deficit	Shareholders' equity
		of Debentures	Accumulated earnings	Accumulated distributions		
<b>BALANCE, December 31, 2008</b>	\$ 59,809	2,657	33,740	(36,800)	(3,060)	\$ 59,406
Net loss for the period	-	-	(27,633)	-	(27,633)	(27,633)
Distributions declared	-	-	-	(1,555)	(1,555)	(1,555)
<b>BALANCE, December 31, 2009</b>	\$ 59,809	2,657	6,107	(38,355)	(32,248)	\$ 30,218
Net loss for the period	-	-	(5,308)	-	(5,308)	(5,308)
<b>BALANCE, December 31, 2010</b>	\$ 59,809	2,657	799	(38,355)	(37,556)	\$ 24,910

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## STERLING SHOES INC.

### Consolidated Statements of Cash Flows

(Expressed in thousands of dollars, except per share and number of share figures.)

	Three-month period ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(unaudited)	(unaudited)		
<b>OPERATING ACTIVITIES</b>				
Net Income/ (Loss)	\$ 1,462	\$ 6,238	\$ (5,308)	\$ (27,633)
Items not involving cash				
Impairment of goodwill and intangible assets	-	-	-	33,246
Future income taxes recovery	(1,571)	0	(1,571)	(4,636)
Amortization of leaseholds and equipment	790	863	3,535	3,401
Loss on disposal of leaseholds and equipment	-	367	220	627
Amortization of deferred lease inducements	(86)	(11)	(404)	(550)
Accreted interest expense	195	175	747	673
	791	7,632	(2,781)	5,128
Change in non-cash working capital balances related to operations				
Accounts receivable	931	456	(165)	690
Inventory	8,646	6,560	7,832	3,445
Prepaid expenses and deposits	(2)	213	(149)	297
Accounts payable and accrued liabilities	(2,010)	(3,340)	1,219	55
	7,565	3,889	8,737	4,487
Cash provided by operating activities	8,356	11,521	5,956	9,615
<b>INVESTING ACTIVITIES</b>				
Acquisition of leaseholds and equipment	(423)	(346)	(2,131)	(3,626)
Lease inducements received	-	96	-	374
Cash used in investing activities	(423)	(250)	(2,131)	(3,252)
<b>FINANCING ACTIVITIES</b>				
Term loan	(250)	(6,781)	(500)	(467)
Payment of distributions	-	(371)	-	(1,777)
Cash used in financing activities	(250)	(7,152)	(500)	(2,244)
<b>CASH INFLOW DURING THE PERIOD</b>	<b>7,683</b>	<b>4,119</b>	<b>3,325</b>	<b>4,119</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>(239)</b>	<b>-</b>	<b>4,119</b>	<b>-</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 7,444</b>	<b>\$ 4,119</b>	<b>\$ 7,444</b>	<b>\$ 4,119</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ 659	\$ 906	\$ 1,866	\$ 1,963

### Conference Call Notification

Please note the Company's conference call will take place at 10:00 am Pacific Standard Time (1:00 pm EST) on Friday, March 18, 2011. The number to participate in the teleconference is Toll-free: 866-226-1793 or 416-340-2218. To ensure your participation, please call in about five minutes before the start of the call. For those unable to participate, a telephone replay will be available until April 1, 2011 using the passcode 6006551 at 800-408-3053 or 416-695-5800.

### Forward-looking statements

Certain statements in this press release may constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements often use, but are not limited to, such words as "may", "will", "expect", "should", "believe", "intend", "plan", "anticipate", "potential", and other similar terminology. These statements reflect current expectations of management regarding future events and operating performance and speak only as of the date of this press release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the following factors: general economic conditions and markets and, in particular, the potential impact of the current economic downturn, the cost and availability of capital, the possibility of deterioration in the Company's working capital position, the impact on the Company's liquidity if it were to go offside of the covenants in its debt facilities, our ability to maintain profitability and manage growth, risks associated with leasing and expansion, competition, inventory and sourcing risk, ability to identify and respond to changing consumer fashion preferences, risks associated with international purchasing, reliance on key personnel, dependence on consumer spending, unseasonable weather conditions, uncertainties arising from world events, intellectual property risks, foreign exchange fluctuations on imported merchandise, labour relations, seasonality and fluctuations in cash distributions, fluctuations in distributable cash based on our performance, restrictions on potential growth, future issuances of Shares by the Company or future disposition of Shares held by SSI

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Investments Inc., income tax matters, changes in accounting standards, including the transition to IFRS, and increases in interest rates. The actual timing of and number of additional store openings could differ materially from what is described herein if Sterling is unable to reach timely and satisfactory agreements with the various landlords as to the final lease documentation, to secure adequate labour and materials to construct the stores, to deliver sufficient inventory, to adapt its operational systems, or to hire, train and integrate employees. Although the forward-looking statements contained in this press release are based upon what our management believes to be reasonable assumptions, we cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this press release and we assume no obligation to update or revise them to reflect new events or circumstances.

## *About Sterling Shoes Inc.*

Sterling is a leading Vancouver-based footwear retailer offering a broad selection of private label and brand name shoes and accessories in five Canadian provinces through its five separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 161 stores (as at March 17, 2011) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Company currently employs over 1,200 employees. The Company's shares are listed on the Toronto Stock Exchange under the symbol SSI. The Company's convertible debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

For further information, please visit us at [www.SterlingShoesInc.com](http://www.SterlingShoesInc.com), or contact:

Daniel S. Gumprich  
Chief Financial Officer  
(604) 270-6114

*Additional information about Sterling Shoes Inc. can be found in the disclosure documents filed by Sterling Shoes Inc. with the securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).*