

# Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

FOR IMMEDIATE RELEASE

November 16, 2009

## STERLING SHOES INCOME FUND (TSX: SSI.UN)

### FUND ANNOUNCES THIRD QUARTER 2009 RESULTS

VANCOUVER, BC, November 16, 2009 – Sterling Shoes Income Fund (the “Fund”) today reported its financial results for the quarter ended September 30, 2009.

“The continuing recession resulted in weaker sales within our industry and increased promotional activity due to reduced consumer discretionary spending. The Fund’s performance followed the same pattern. Rising unemployment rates in our key markets, most notably British Columbia, Ontario and Alberta, as well as unseasonable weather conditions throughout most of Canada, negatively impacted sales.” said Jeremy Horwitz, President and Chief Executive Officer.

“Management is continuing its efforts to conserve cash through aggressive cost reductions and inventory management. During the third quarter 2009, we improved our inventory position by approximately 12%, on a units per store basis, compared to the same time last year. We believe our efforts will steer Sterling towards sustainable long-term earnings and growth once economic conditions stabilize.”

The Fund today announced that its Board of Trustees has approved a cash distribution of \$0.01862 per trust unit for the period from November 1, 2009 to November 30, 2009, payable on December 15, 2009 to unitholders of record at the close of business on November 30, 2009. Sterling Shoes is continuing to pay equivalent distributions to the exchangeable LP units of the Partnership.

#### Financial Results for the three months ended September 30, 2009

During the three months ended September 2009, sales decreased 6.5% to \$31.7 million from \$33.9 million in the same period last year. Same store sales fell by 12.8% for the three-month period ended September 30, 2009 compared to the same period in 2008. Sales reductions reflect current weak economic conditions.

Cost of sales as a percentage of sales for the three months ended September 30, 2009 was 59.3% compared to 51.1% for the same period during 2008. Due to unfavourable economic conditions during the quarter-ended September 30, 2009 more promotional activity took place during that quarter than during the same period in 2008 which contributed to weaker gross margin.

Cost of sales was also impacted by the deterioration of the Canadian dollar versus the U.S. dollar earlier in 2009. Substantially all footwear sold in Canada is manufactured outside of Canada. Consequently, the cost of substantially all of our purchases is exposed to currency fluctuations either directly or indirectly. During the three and nine-month periods ended September 30, 2009, approximately 54% and 47% of product purchases were denominated in U.S. dollars, respectively. During the quarter ended September 30, 2009 the Canadian dollar was worth approximately 12% less against the U.S. dollar than during the same period in 2008 which increased purchase prices, inventory valuation and cost of sales.

Store and selling expenses for the three months ended September 30, 2009 were 36.3% of sales, compared to 35.7% for the same period during 2008. Store and selling expenses have a fixed underlying core with a large variable component, primarily consisting of expenses relating to occupancy and employee costs. General and administrative (“G&A”) expenses for the three-months ended September 30, 2009 were 6.0%

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of sales, compared to 5.1% from the same period in 2008 largely due to higher computer maintenance costs this year. We continue to review business processes to seek ways to reduce overall costs.

Adjusted EBITDA for the three-months ended September 30, 2009 was negative \$0.6 million compared to \$2.6 million for the same period during 2008 for the reasons cited above.

During 2008 and 2009, the global economic and financial crisis has significantly impacted the Canadian economy. This crisis has resulted in reduced liquidity in the financial markets, increased unemployment rates, decreased consumer confidence and adversely affected the retail industry. The erosion of the Fund's valuation is primarily a result of these factors, future economic uncertainty and the higher cost of capital assumptions in the valuation methodology contributed to the impairment charges against the Fund's goodwill and intangible asset balances at September 30, 2009.

The Fund undertook a detailed analysis in its determination of the fair value of its intangible assets. As a result of this analysis, the Fund incurred an impairment charge of \$33.2 million for the three-months ended September 30, 2009. This is a non-cash charge.

## **Financial Results for the nine months ended September 30, 2009**

For the nine-month period ended September 30, 2009, sales rose 2.0% to \$90.0 million from \$88.2 million in the same period last year. Same store sales fell by 5.7% for the nine-month period ended September 30, 2009 compared to the same period in 2008.

Cost of sales as a percentage of sales for the nine months ended September 30, 2009 was 56.8% compared to 51.7% for the same period during 2008, for reasons similar to those impacting the three-month period ending September 30, 2009.

Store and selling expenses for the nine months ended September 30, 2009 were 37.9% of sales, compared to 37.8% for the same period during 2008. This stabilization reflects our focus on reducing store payroll.

General and administrative ("G&A") expenses for the nine-months ended September 30, 2009 were 5.8% of sales, compared to 6.1% for the same period in 2008. G&A expenses have been reduced in nearly all cost categories as a result of our comprehensive review of business processes to manage the business through the current economic volatility.

Adjusted EBITDA for the nine-months ended September 30, 2009 was negative \$1.0 million compared to \$3.6 million for the same period during 2008 due to weaker gross margins.

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## STERLING SHOES INCOME FUND

### Consolidated Balance Sheets

(Unaudited - Expressed in thousands of dollars, except per unit and number of unit figures.)

	As at September 30, 2009	As at December 31, 2008
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ -
Accounts receivable	649	885
Inventory	43,005	39,892
Prepaid expenses and deposits	400	484
	<b>44,054</b>	<b>41,261</b>
LEASEHOLDS AND EQUIPMENT	20,479	19,996
GOODWILL	-	828
INTANGIBLE ASSETS	16,623	49,041
	<b>\$ 81,156</b>	<b>\$ 111,126</b>

### LIABILITIES AND UNITHOLDERS' EQUITY

<b>CURRENT</b>		
Bank indebtedness	\$ 6,781	\$ 467
Accounts payable and accrued liabilities	18,346	14,951
Distributions payable	124	221
	<b>25,251</b>	<b>15,639</b>
FUTURE INCOME TAXES	2,364	7,000
TERM LOAN	5,000	5,000
CONVERTIBLE DEBENTURES	22,343	21,847
DEFERRED LEASE INDUCEMENTS	1,972	2,234
UNITHOLDERS' EQUITY	24,226	59,406
	<b>\$ 81,156</b>	<b>\$ 111,126</b>

## STERLING SHOES INCOME FUND

### Consolidated Statements of Income and Comprehensive Income

(Unaudited - Expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Nine-month period ended	
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2009	Sept 30, 2008
SALES	\$ 31,685	\$ 33,895	\$ 89,975	\$ 88,248
COST OF SALES	18,777	17,333	51,117	45,603
GROSS MARGIN	12,908	16,561	38,858	42,646
<b>EXPENSES</b>				
Store and selling	11,502	12,112	34,122	33,400
General and administrative	1,892	1,736	5,232	5,370
	13,394	13,846	39,354	38,769
Income before interest, amortization and non-controlling interest	(486)	2,714	(496)	3,877
Interest expense	672	494	1,968	1,647
Loss (Gain) on disposal of leaseholds and equipment	26	-	260	333
Impairment of goodwill and intangible assets	33,246	-	33,246	-
Amortization of leaseholds and equipment	1,002	818	2,538	2,348
(LOSS) / INCOME BEFORE TAXES	(35,432)	1,402	(38,508)	(452)
Future income taxes recovery	(4,636)	-	(4,636)	(724)
NET (LOSS) / INCOME AND COMPREHENSIVE (LOSS) / INCOME	(30,796)	1,402	(33,872)	272
Basic and diluted net (loss) / income per unit	\$ (4.64)	\$ 0.21	\$ (5.10)	\$ 0.04
Basic weighted average number of units outstanding	6,641,860	5,313,488	6,641,860	5,313,488
Diluted weighted average number of units outstanding	7,823,885	6,641,860	7,823,885	6,641,860

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## STERLING SHOES INCOME FUND

### Consolidated Statements of Unitholders' Equity

For the nine month period ended September 30, 2009

(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)

	Unitholders' capital	Equity component of Debentures	Accumulated earnings	Accumulated distributions	Accumulated deficit	Total
<b>BALANCE, December 31, 2007</b>	\$ 47,847	2,657	18,909	(22,444)	(3,535)	\$ 46,969
Reclassification of Class D LP units from non-controlling interest	11,962		4,801	(5,611)	(810)	11,152
Re-valuation of inventory per CICA Handbook s.3031 [note 2]			3,306		3,306	3,306
Net income for the period			271	-	271	271
Distributions declared			-	(7,472)	(7,472)	(7,472)
<b>BALANCE, September 30, 2008</b>	\$ 59,809	2,657	27,287	(35,527)	(8,240)	\$ 54,226
Net income for the period	-	-	6,453	-	6,453	6,453
Distributions declared	-	-	-	(1,273)	(1,273)	(1,273)
<b>BALANCE, December 31, 2008</b>	\$ 59,809	2,657	33,740	(36,800)	(3,060)	\$ 59,406
Net loss for the period	-	-	(33,872)	-	(33,872)	(33,872)
Distributions declared	-	-	-	(1,308)	(1,308)	(1,308)
<b>BALANCE, September 30, 2009</b>	\$ 59,809	2,657	(132)	(38,108)	(38,240)	\$ 24,226

## STERLING SHOES INCOME FUND

### Consolidated Statements of Cash Flows

(Unaudited - Expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Nine-month period ended	
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2009	Sept 30, 2008
<b>OPERATING ACTIVITIES</b>				
Net (Loss) Income	\$ (30,796)	\$ 1,402	\$ (33,872)	\$ 271
Items not involving cash				
Impairment of goodwill and intangible assets	33,246	-	33,246	-
Future income taxes recovery	(4,636)	-	(4,636)	(724)
Amortization of leaseholds and equipment	1,002	818	2,538	2,348
Loss on disposal of leaseholds and equipment	26	-	260	-
Amortization of deferred lease inducements	(101)	(97)	(539)	(282)
Accreted interest expense	169	17	496	446
	(1,090)	2,140	(2,507)	2,392
Change in non-cash working capital balances related to operations				
Accounts receivable	(336)	(295)	236	261
Inventory	(3,820)	(8,889)	(3,114)	(16,620)
Revaluation of inventory per CICA HB S3031	-	-	-	3,306
Prepaid expenses and deposits	36	231	84	207
Accounts payable and accrued liabilities	3,353	5,322	3,395	4,729
	(767)	(3,631)	601	(8,117)
Cash (used in) / provided by operating activities	(1,857)	(1,491)	(1,906)	(5,725)
<b>INVESTING ACTIVITIES</b>				
Acquisition of leaseholds and equipment	(1,087)	(1,840)	(3,279)	(5,527)
Lease inducements received	192	0	277	132
Cash used in investing activities	(895)	(1,840)	(3,002)	(5,395)
<b>FINANCING ACTIVITIES</b>				
Operating loan	3,123	5,822	6,314	7,807
Payment of distributions	(371)	(2,491)	(1,406)	(10,547)
Cash provided by / (used in) financing activities	2,752	3,331	4,908	(2,740)
<b>CASH OUTFLOW DURING THE PERIOD</b>	-	-	-	(13,860)
<b>CASH, BEGINNING OF PERIOD</b>	-	-	-	13,860
<b>CASH, END OF PERIOD</b>	\$ -	\$ -	\$ -	\$ -
<b>Supplemental cash flow information</b>				
Interest paid	\$ 96	\$ 71	\$ 1,142	\$ 932

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## *Conference Call Notification*

Please note the Fund's conference call will take place at 11:00 am Pacific standard time (2:00 pm EST) on Tuesday, November 17, 2009. The number to participate in the teleconference is Toll-free: 866-226-1792 or 416-340-2216. 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 December 1, 2009 using the passcode 3471300 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 Units by the Fund or future disposition of Units held by SSI 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 Income Fund*

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 six separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 162 stores (as at November 16, 2009) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Fund currently employs over 1,000 employees. The Fund's units are listed on the Toronto Stock Exchange under the symbol SSI.UN. The Fund's convertible debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

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

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

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

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