

PACIFIC SUNWEAR NDQ-PSUN

RECENT PRICE **2.21** P/E RATIO NMF (Trailing:NMF Median:NMF) 25.3 23.1 14.3 7.3 6.8 5.7 2.5
 RELATIVE P/E RATIO NMF DIV'D YLD Nil VALUE LINE

TIMELINESS 4 Raised 6/1/12	High: 15.9 13.2 24.6 25.8 29.0 25.3 23.1 14.3 7.3 6.8 5.7 2.5	Target Price Range 2015 2016 2017
SAFETY 5 Lowered 8/5/11	Low: 5.1 7.2 10.7 17.3 20.3 13.1 13.0 1.0 0.7 2.9 1.1 1.2	
TECHNICAL 3 Raised 8/3/12	LEGENDS --- 6.0 x "Cash Flow" p sh ... Relative Price Strength 3-for-2 split 6/99 3-for-2 split 12/02 3-for-2 split 9/03 Options: Yes Shaded areas indicate recessions	
BETA 1.45 (1.00 = Market)		
2015-17 PROJECTIONS		
Price	Ann'l Total	
High 6	Gain (+170%)	Return 28%
Low 3	Gain (+35%)	Return 8%
Insider Decisions		
S O N D J F M A M		
to Buy	0 0 0 0 0 0 0 0 0 2	
Options	0 0 0 0 0 0 0 0 0 0	
to Sell	0 0 0 0 0 0 0 0 0 0	
Institutional Decisions		
3Q2011 4Q2011 1Q2012	Percent	60
to Buy 26 29 24	shares	40
to Sell 51 37 38	traded	20
Hld's(000) 37903 29765 29287		

Pacific Sunwear began in a store that opened in '80 for surfers in Newport Beach, California. By '87, the chain expanded into local malls, with 21 stores. Within a few years, it extended beyond California and the apparel selections widened to include casualwear. PSUN still sells merchandise in surf- and surfboard-oriented styles. But the product line now includes long pants, accessories, and young women's clothing. The company sold 15.75 million shares (adj. for subs. splits) in March, 1993 via underwriters led by Robertson, Stephens & Co.

CAPITAL STRUCTURE as of 4/28/12
 Total Debt \$74.2 mill. Due in 5 Yrs \$63.7 mill.
 LT Debt \$74.2 mill. LT Int \$3.5 mill.
 (43% of Cap'l)

Leases, Uncapitalized Annual rentals \$77.9 mill.
No Defined Benefit Pension Plan
Pfd Stock NMF
Common Stock 67,697,934 shs.
 as of 6/4/12
MARKET CAP: \$150 million (Small Cap)

CURRENT POSITION (\$MILL.)			
	2010	2011	4/28/12
Cash Assets	63.7	58.9	21.9
Receivables	-	-	-
Inventory (FIFO)	95.7	88.7	103.9
Other	16.5	21.8	25.4
Current Assets	175.9	169.4	151.2
Accts Payable	41.0	38.9	41.8
Debt Due	.5	.5	-
Other	41.7	67.9	57.0
Current Liab.	83.2	107.3	98.8

ANNUAL RATES of change (per sh)			
	10 Yrs.	5 Yrs.	Past Est'd '09-'11 to '15-'17
Sales	6.0%	-5.5%	-2.0%
"Cash Flow"	-	-	NMF
Earnings	-	-	NMF
Dividends	-	-	Nil
Book Value	1.0%	-14.5%	-17.0%

Fiscal Year Begins	QUARTERLY SALES (\$ mill.) ^A				Full Fiscal Year
	Apr.Per	Jul.Per	Oct.Per	Jan.Per	
2009	223.5	242.8	268.3	292.5	1027.1
2010	190.3	218.3	257.9	263.0	929.5
2011	171.9	200.9	226.8	234.2	833.8
2012	173.8	200	225	216.2	815
2013	165	185	215	220	785

Fiscal Year Begins	EARNINGS PER SHARE ^{A B}				Full Fiscal Year
	Apr.Per	Jul.Per	Oct.Per	Jan.Per	
2009	d.13	d.22	d.17	d.56	d1.07
2010	d.47	d.36	d.11	d.53	d1.46
2011	d.44	d.26	d.21	d.45	d1.36
2012	d.23	d.17	d.10	d.15	d.65
2013	d.15	d.12	d.05	d.08	d.40

Calendar	QUARTERLY DIVIDENDS PAID				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008					
2009					
2010					
2011					
2012					

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17
Sales per sh ^A	11.40	13.28	16.42	18.87	20.81	20.77	19.25	15.62	14.05	12.35	12.00	11.55	12.50
"Cash Flow" per sh	1.11	1.49	2.12	2.57	1.61	.88	.57	-.62	d.71	d.15	.05	.65	.65
Earnings per sh ^{A B}	.66	1.02	1.38	1.67	.56	d.27	d.59	d1.07	d1.46	d1.36	d.65	d.40	.30
Div'ds Decl'd per sh	-	-	-	-	-	-	-	-	-	-	Nil	Nil	Nil
Book Value per sh	4.07	5.47	6.11	7.41	7.24	6.90	5.71	4.66	3.24	1.68	1.05	.65	1.05
Common Shs Outst'g ^C	74.23	78.35	74.92	73.75	69.56	70.03	65.17	65.75	66.17	67.51	68.00	68.00	68.00
Avg Ann'l P/E Ratio	15.5	18.0	15.9	14.5	34.8	-	-	-	-	-	-	-	15.0
Relative P/E Ratio	.85	1.03	.84	.77	1.88	-	-	-	-	-	-	-	1.00
Avg Ann'l Div'd Yield	-	-	-	-	-	-	-	-	-	-	-	-	Nil
Sales (\$mill) ^A	846.4	1040.3	1229.8	1391.5	1447.2	1454.2	1254.9	1027.1	929.5	833.8	815	785	850
Gross Margin	37.4%	38.4%	40.6%	40.9%	35.8%	33.5%	31.6%	32.0%	28.1%	26.8%	27.5%	29.0%	35.0%
Operating Margin	13.4%	15.8%	18.0%	18.7%	9.1%	3.0%	1.2%	NMF	NMF	NMF	NMF	NMF	7.5%
Number of Stores	791	877	990	1105	1199	1107	932	894	852	733	625	600	600
Net Profit (\$mill)	49.7	80.2	106.9	126.2	39.6	d18.6	d39.3	d70.3	d96.7	d90.6	d44.0	d27.0	20.0
Income Tax Rate	38.4%	37.8%	37.8%	37.8%	38.3%	-	-	-	-	-	NMF	NMF	38.0%
Net Profit Margin	5.9%	7.7%	8.7%	9.1%	2.7%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	2.4%
Working Cap'l (\$mill)	109.3	243.0	257.5	304.2	194.7	187.1	98.1	116.7	92.7	62.1	35.0	15.0	45.0
Long-Term Debt (\$mill)	3.3	1.5	.4	.4	-	-	-	-	29.1	73.9	75.0	75.0	50.0
Shr. Equity (\$mill)	302.4	428.8	458.0	546.8	503.4	483.4	372.0	306.7	214.3	113.1	70.0	45.0	70.0
Return on Total Cap'l	16.3%	18.6%	23.3%	23.1%	7.9%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	18.0%
Return on Shr. Equity	16.4%	18.7%	23.3%	23.1%	7.9%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	28.5%
Retained to Com Eq	16.4%	18.7%	23.3%	23.1%	7.9%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	28.5%
All Div'ds to Net Prof	-	-	-	-	-	-	-	-	-	-	Nil	Nil	Nil

BUSINESS: Pacific Sunwear of California, Inc. operates a chain of 733 Pacific Sunwear, or PacSun, stores mostly in malls, in all 50 states and Puerto Rico. Apparel is inspired by West-Coast lifestyle. Offers brand-name (48% of '11 sales) and private-label (52%) casual apparel for teenagers and young adults. Sales by major product lines: men's apparel, 49%; women's apparel, 37%; accessories & footwear, 14%. Disc't'd One Thousand Steps, '07; d.e.m.o., Q1 '08. 2011 depreciation rate: 8.0%. Has about 9,100 empls. (incl. 2,700 full-time). Officers and directors own 33.2% of stock; G12 Ltd. 29.8% (4/12 proxy). Pres. & CEO: Gary H. Schoenfeld. Inc.: CA. Address: 3450 E. Miraloma Ave., Anaheim, CA 92806. Tel.: 714-414-4000. Internet: www.pacsun.com.

Pacific Sunwear has been showing signs of improvement of late. In the first quarter of fiscal 2012 (began January 29th), the share loss came in \$0.07 narrower than our estimate and compared favorably to the year-earlier tally, on a modest top-line increase. The result was helped by a gain of \$0.09 a share related to a derivative liability that stemmed from the issuance of convertible Series B preferred stock in connection with the company's financing deal last year. Notably, too, for the first time since 2005, both the men's and women's categories posted positive comps. And the momentum likely continued into the second quarter. **Nonetheless, turning the business around will not be smooth sailing for this teen retailer.** While we think the company's efforts to improve the merchandise assortment are finally getting the core customer to come around again, it remains to be seen how the important back-to-school and holiday seasons shape up. Against a weak economic backdrop and a challenging teen retail space, spurring customer traffic may still prove challenging. On the plus side, better inventory

management and lower operating expenses should enable Pacific Sunwear to shore up margins a bit. Still, a loss is likely in the cards for this year and next. **A return to profitability is possible down the road, on a smaller store base.** The company has been aggressively downsizing its store base, and is on track with the closure of 175-200 underperforming stores, as per its real estate restructuring plan. A smaller store base should bring fixed costs to a more manageable level and, hence, lead to increased leverage. Efforts to revive the business, though, will likely take time to bear fruit. All told, we see PSUN turning a profit in a few years. **We think there are better investment alternatives out there.** The stock is untimely and highly risky. And despite the wide rebound potential here, the shares are bound to remain volatile pending more tangible evidence of a turnaround.
J. Susan Ferrara August 3, 2012

CASH POSITION		
Current Assets to Current Liabilities:	211%	153%
Cash & Equiv's to Current Liabilities:	69%	22%
Working Capital to Sales:	10%	6%

(A) Fiscal year ends on the Saturday closest to January 31st of the next calendar year. (B) Diluted earnings. Based on GAAP. Excl. loss from discontinued operations: '07, 17¢; '08, 37¢; '11, 24¢. Qtrly. EPS may not add to total due to difference in shares outstanding. (C) In millions, adjusted for stock splits.

Company's Financial Strength	C
Stock's Price Stability	5
Price Growth Persistence	15
Earnings Predictability	30