The Wet Seal, Inc.

Our Initial Conclusions

June 2012

CLINTON GROUP

INFRASTRUCTURE | AGILITY | EXPERTISE

Globally Diversified Investment Institution Specializing In Alternative Investment Strategies

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Executive Summary

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We believe Wet Seal needs to optimize its capital structure and fix its operations. Shareholders have been patient long enough.

- As noted in our letter to the Board, the operating performance of the business has been dismal and the stock has underperformed
  - Both long- and short-term performance has been worse than peers, despite many efforts to remake the business
  - The stock now trades near a multi-year low and a low EBITDA multiple; yet, 13 million shares are sold short
- In our calls with management and the Board, it is unclear whether operating performance is turning around
  - Management expresses confidence, but the Board appears unconvinced
  - No objective or financial measures of improved performance, yet
- Everyone does agree that the capital structure is inefficient, with significant excess cash
  - Continuing to operate with an acknowledged, dramatically suboptimal capital structure is inexcusable
  - The un-needed cash dampens already low returns on invested capital from poor operating performance
  - The Board can create value for shareholders with a stroke of its pen by authorizing a self tender with excess cash
- Shareholders have, understandably, grown impatient; this Board needs to act or it will be held accountable
  - We believe there will be overwhelming shareholder support for replacing the Board in the event things do not improve
  - We are strongly considering all of our options

Optimizing the Capital Structure

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A well-executed stock tender offer will increase the Company's share price.

- Wet Seal has $75 - $100 million of excess cash
  - Cash is driving ROIC down to historically low levels
  - Cash as a percentage of market cap is higher than peers; ROIC is lower
  - Entire growth strategy can be executed with much less cash
    - Our analysis only suggests using existing cash - we have not even considered adding leverage to the balance sheet
- With an appropriately sized / structured self-tender, the stock would trade to $4.00 or higher
  - Buy 20+% of outstanding shares at a premium
  - With constant P/E multiple, the stock trades to ~$4.00
  - If store expansion strategy is executed well, the NPV of the stock rises to ~$6.00
  - We believe the stock will trade in the $4.00-$5.00 range
- Benefits
  - Take advantage of historically low stock price and high cash balance
  - Signal to the market that the Board has confidence that a turnaround is coming
  - Show commitment to the creation of shareholder value
  - Insistence on capital structure discipline is critical component of good corporate governance

Comparable Companies: Net Cash a % of Market Capitalization

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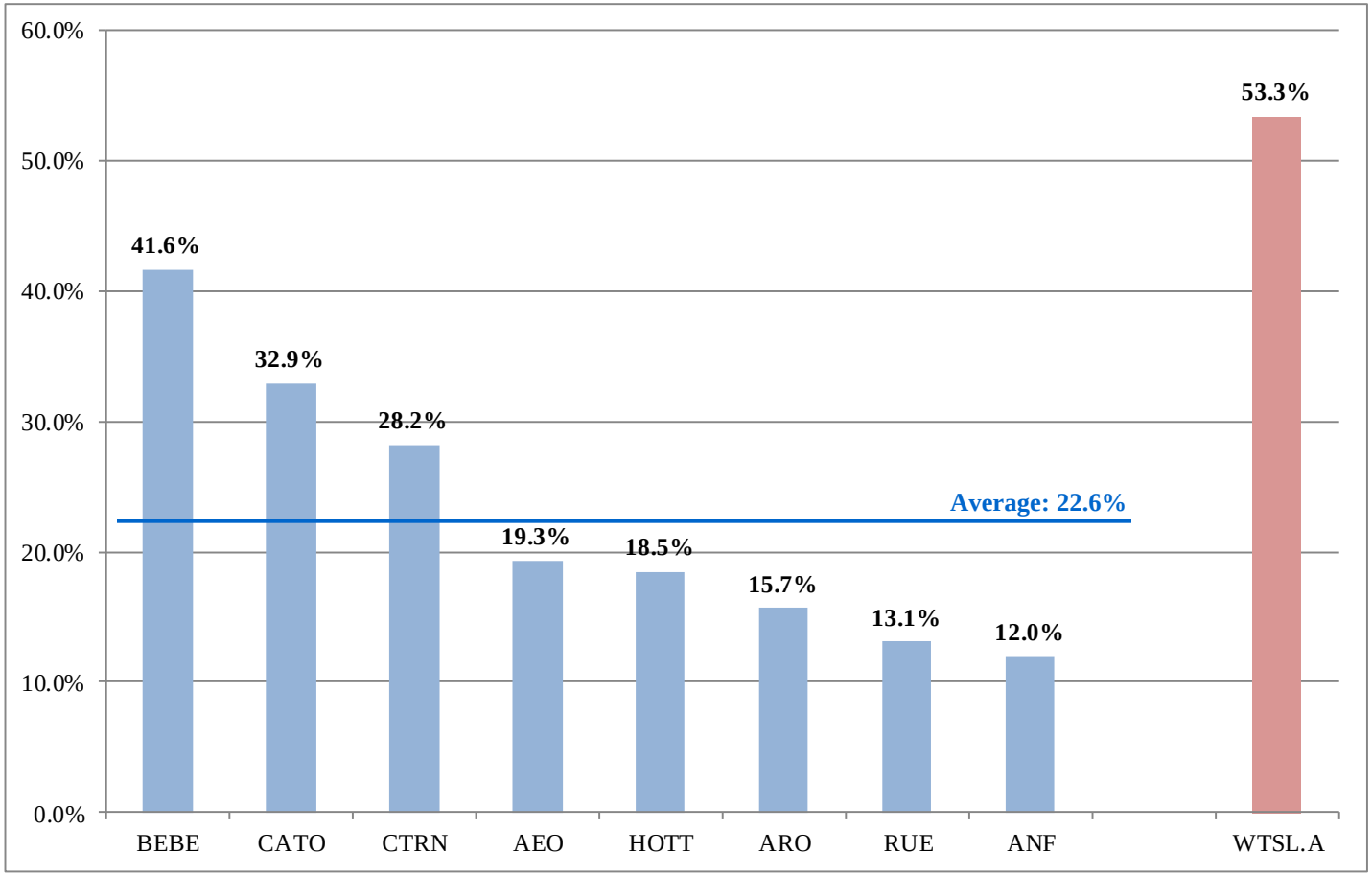
Wet Seal is overcapitalized on an absolute basis and compared to its peers, leading to an inferior Return on Invested Capital.



ROIC LTM	4.0%	16.7%	NM	12.1%	9.9%	19.2%	9.1%	30.0%	**4.4%**

Source: Capital IQ and Company Filings. As of June 25, 2012.

Excess Cash and Operating Performance Drive ROIC Down

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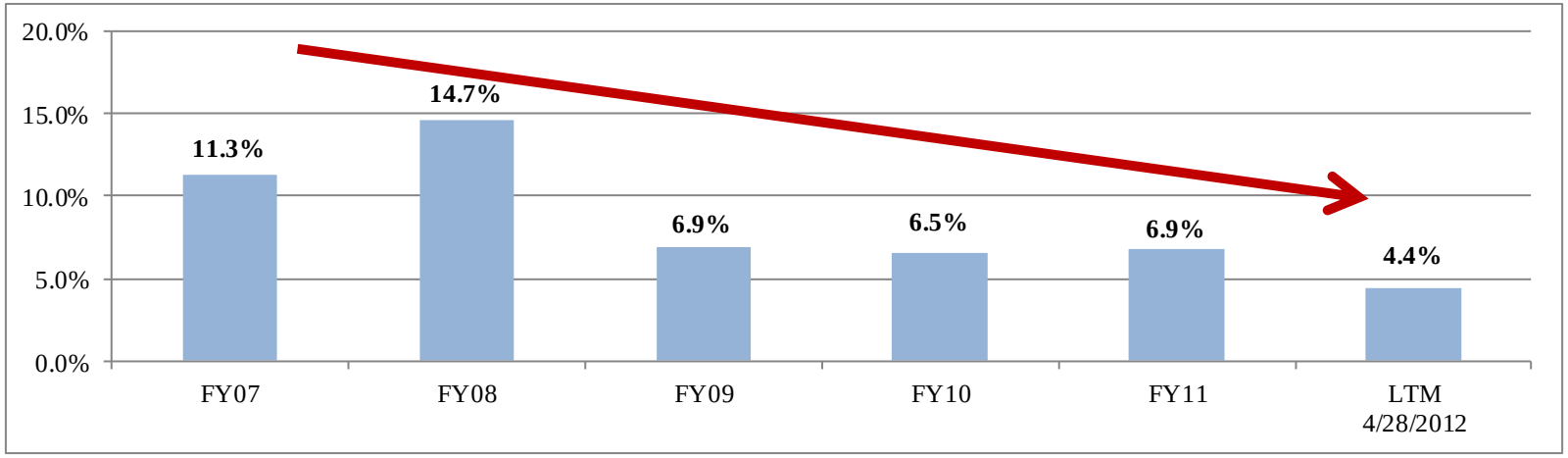
As Wet Seal's ROIC[1] declined from 11.3% to 4.4%, the stock has declined from $6.48 per share to $3.00 per share.



- Large cash balances and weak operating performance have led to low and declining ROIC
- In turn, low ROIC has led to poor stock price performance, relative to peers and the market (since F07, stock down 54%)
- To levers to pull to help ROIC:
  - Improve operating performance to generate higher net income
  - Reduce invested capital by returning unused and excess capital to shareholders so they can deploy

Source: Capital IQ and Company Filings. As of June 25, 2012.
Note: Fiscal year 2011 ends January 28, 2012.
(1) Normalized for one-time items. Assumes 40% tax rate.

Significant Excess Cash Even After Executing Growth Plan

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Cash on hand and future free cash flow generation provide plenty of flexibility, even for dramatic future store count expansion.

- There is more than sufficient liquidity to execute even a 100 store per year expansion (which seems aggressive) in the future
- Obviously, such a large expansion would not make sense unless the unit economics and cash flow improve first

	FY12PF	FY13E	FY14E	FY15E	FY16E
Revenue	$613.4	$663.1	$763.1	$901.9	$1,048.4
Growth	*-1.1%*	*8.1%*	*15.1%*	*18.2%*	*16.2%*
EBITDA	**$36.6**	**$44.7**	**$59.8**	**$79.6**	**$99.6**
Margin	***6.0%***	***6.7%***	***7.8%***	***8.8%***	***9.5%***
Wet Seal Stores	492	532	632	732	832
Net Additions	*20*	*40*	*100*	*100*	*100*
Comps	*-3.5%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Arden B Stores	66	66	66	66	66
Comps	*-5.4%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Cash Flow From Operations	$19.6	$46.0	$59.9	$61.0	$73.0
Capex for New Stores	($7.5)	($13.0)	($32.5)	($32.5)	($32.5)
Other Capex	($21.8)	($24.0)	($24.0)	($24.0)	($24.0)
Free Cash Flow	**($9.6)**	**$9.0**	**$3.4**	**$4.5**	**$16.5**
Total Cash	**$147.3**	**$156.4**	**$159.8**	**$164.3**	**$180.8**

Source: Company Filings and Clinton Estimates. As of June 25, 2012.
Note: Fiscal year 2011 ends January 28, 2012.

Right-Sized Tender Could Create Long-Term Value

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Repurchasing 20+% of the outstanding shares would be an effective use of the Company's capital, leading to 25% accretion.

- We believe there is at least $75 million in excess cash on the balance sheet
  - Would leave $73 million in pro forma cash
  - Plenty of cash to support working capital needs
  - Store count expansion could be funded, including with future cash flow
  - Acquisitions are a bad idea now, but could be executed with equity or debt in future
- A self-tender (even at $4) would be accretive to FY13 EPS by 25.8%, implying a $3.86 stock price

Buyback Assumptions:			
Total Buyback	$75.0	Current Market Value of Equity	$277.7
Price Per Share	$4.00	Current Shares Outstanding	90.5
Premium to Current Share Price	*30.3%*	*% of Shares Repurchased*	*20.7%*

Pro Forma Analysis:

Fiscal Year End 2/1/2014	WTSL.A 2013E	Adjustments	Pro Forma 2013E
Income Statement			
EBIT	$24.4		$24.4
Interest Expense (Income), net	(0.0)	0.1	0.0
Other Non-Operating Expense	0.0		0.0
Pre-Tax Income	24.4		24.4
Provision for Taxes	9.8		9.8
Net Income	14.7		14.6
Number of Shares Outstanding	90.5	(18.8)	71.7
Fully Diluted EPS (In Dollars)	$0.16		$0.20
Accretion			**25.8%**
Price / Implied Price	**$3.07**		**$3.86**
P/E Multiple	**18.9x**		**18.9x**
Capitalization			
Total Cash (4/28/12)	$148.1	($75.0)	$73.1
Total Debt (4/28/12)	0.0	0.0	0.0

Source: Company Filings and Clinton Estimates. As of June 25, 2012.

Good Capital Stewardship Plus Expansion Creates Value

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A meaningful share repurchase today would really pay off (stock up 90+%) if operating performance improves and store counts increase.

$75 Million Share Buyback - EV/EBITDA Valuation				
	FY13E	FY14E	FY15E	FY16E
EBITDA	**$44.7**	**$59.8**	**$79.6**	**$99.6**
Valuation Multiple	7.0x	7.0x	7.0x	7.0x
Enterprise Value	**$313.1**	**$418.4**	**$557.4**	**$697.2**
Net Cash	$81.3	$84.6	$89.2	$105.6
Equity Value	**$394.4**	**$503.0**	**$646.5**	**$802.8**
Shares Outstanding	71.7	71.7	71.7	71.7
Implied Stock Price	$5.50	$7.01	$9.02	$11.20
Implied Stock Price Discounted to Today @ 15.0%				**$5.88**
Premium to Current Price	**91.7%**			

$75 Million Share Buyback - P/E Valuation				
	FY13E	FY14E	FY15E	FY16E
EPS	**$0.20**	**$0.30**	**$0.44**	**$0.59**
Valuation Multiple	18.9x	18.9x	18.9x	18.9x
Stock Price	**$3.77**	**$5.72**	**$8.30**	**$11.09**
Implied Stock Price Discounted to Today @ 15.0%				**$5.83**
Premium to Current Price	**89.9%**			

Source: Company Filings and Clinton Estimates. As of June 25, 2012.
Note: Fiscal year 2011 ends January 28, 2012.