

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

The U.S. housing market weakened further in May, as contract signings on sales of previously owned homes fell 3.5% to the lowest level since September 2001. Pending sales are down 13.3% compared with a year earlier and are down 23% from the peak in early 2005.

The Unpredictable Consumer

Though official statistics suggest that the first five months of 2007 were solid for the nation's retailers – with sales rising 3.9% over the previous year – consumers are telling a very different story.

Many of them are feeling pinched on all sides. High gas prices, a steady increase in interest rates, rising food inflation, record consumer debt levels and a slumping housing market have unsettled consumers – the bulwark of the post-2001 expansion and the source of about two-thirds of economic activity in the United States.

But what differs in this consumer pullback is that people continue to shop.

Total consumer spending rose a robust 5.8% during the first five months of the year over the same period a year ago, according to the U.S. Commerce Department. And retail sales have been strong across virtually all categories, from garden supplies to food, tracked by the government.

Increasingly, however, consumers are bunching their shopping around times of big clearance sales, hurting retailers' profit margins and making the underlying sales trends unclear. Now more than ever, consumers are waiting and waiting and waiting until they see the price they want. Until then, they just don't want to buy, making forecasting the future very difficult.

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Retail Ventures Inc: Retailer of the Week

We are reaffirming Retail Ventures as an "E" high risk credit with an "unclear" outlook. Retail Ventures closed out the quarter with its usual cloudy balance sheet that contains a ton of items that are confusing at best to the naked eye. The company's warrants and PIES have created confusion and large losses over the last few periods, and the coming quarters will be no different. The one saving grace was the fact that the large losses were a result of non-cash charges, and this has actually left an improved liquidity position when compared to the same point last year. Granted, the PIES were issued during the past year. The borrowings on the revolvers are piling up, yet the company still has ample availability for the short-term. Operations continue to struggle on a comp store basis for most of the segments, yet DSW continues to drive the top line by injecting leased stores into more Nordstroms and Gordmans storefronts. Retail Ventures actually managed a small profit during the first quarter, a warm welcome compared to what we have become used to.

It is becoming clearer that Retail Ventures is desperate to dump the struggling Value City chain. The company has made it perfectly clear that the segment is up for sale, yet to date, there have been no suitors. The chain appears to have limited value, considering the majority of the stores are struggling dearly, and the majority are located in neighborhoods that are struggling dearly as well. There is an almost certain chance that a major change is coming in the near future for Value City. If Retail Ventures cannot find a buyer, look for a major store closing initiative for the troubled chain. ^

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The Unpredictable Consumer

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One reason that May retail sales were so strong – rising 5% over a year ago – is that a bevy of major chains, including Macy's and Home Depot, offered unusually attractive sales and promotions after a weak April.

Over Memorial Day weekend, 80% of consumers said that they would only consider buying items that were "on sale or deeply discounted," up from 27% a year ago, according to a survey by America's Research Group, a consumer behavior survey company. And consumer confidence has seesawed back and forth, from a healthy 108.2 in March to a 10-month low of 103.9 in May.

That's one reason why so many retailers are singing the blues. Over the past four months, a parade of major chains – including Pier 1 Imports, CompUSA, Borders, Office Depot and Blockbuster Video – have announced plans to shutter stores. Wal-Mart Stores recently said that it would scale back new Supercenter openings by one-third, and Target Corp. posted its first sales decline in more than four years at established stores in April, then followed with disappointing sales in May.

Retailers have different strategies to compensate. Swedish clothing giant H&M keeps a lean inventory of its fashionable clothes. A typical H&M store updates its store inventory each day – without resorting to running sales, thus avoiding a ruinous cycle of discount after discount.

Stores are also selling limited amounts of seasonal merchandise earlier, in an effort to avoid discounting late in the season. For instance, Wal-Mart introduced its back-to-school merchandise last week in its stores across the country. Three years ago, the back-to-school selling season didn't officially begin until August 1st.

Macy's has been trying unsuccessfully to wean its shoppers off discounts. The company has cut back the number of newspaper coupons and replaced them with targeted discounts to its credit-card customers. Also reduced were the number of one-day sales, which used to occur almost every other week. But sales have floundered. May sales at Macy's stores open at least a year fell 3.3%, a drop that analysts blamed in part on the cutback in promotions.

Restaurants have been particularly hurt by the downturn in consumer confidence.

This month, several of the nation's largest chains, including Cheesecake Factory Inc. and Wendy's International, warned that profits would fall short of Wall Street's expectations. One reason economists give is that higher gas prices have been more sustained than a year ago. Americans are spending nearly \$1.2 billion a day on gasoline, up from \$826 million a day in February, based on last week's national average gas price.

Even more worrisome is the sharp spike in food inflation, because it appears least likely to go away anytime soon. An increase in the demand for corn by corn-based ethanol products has driven up the price of just about every staple food product, as corn is used in everything from breakfast cereals to chicken feed.

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FYI for the DIY

... Residents opposed to **The Home Depot Inc.'s** proposal to build a store in the Sacramento, California area collected more than 1,000 signatures from project opponents.

... In other news, **The Home Depot** is holding a conference on July 10th to provided an update to its fiscal 2007 sales and earnings guidance to reflect the impact of the recently announced sale of HD Supply. Be sure to look for **Global's** update shortly thereafter.

... Meanwhile up north, **RONA Inc.**, the largest

Canadian distributor and retailer of hardware, renovation and gardening products, officially unveiled its new Pierrefonds, Quebec store. The big-box store represents a \$15 million investment in Pierrefonds and is the 367th RONA point of sale in Quebec.

... **Fastenal Company** will release its second quarter results on Thursday, July 12th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

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Bankruptcy Blotter

... **Interstate Bakeries Corp.** is seeking approval to sell property in Charlotte, North Carolina and Worcester, Massachusetts, for a total of about \$2.9 million. Interstate has snagged a \$2.0 million bid from the **Matlock Family Trust** for the property in Charlotte and a \$0.9 million offer from **Six Academy LLC** for the property in Worcester. Both properties are slated for auction on July 13th.

... The trustee for **Le-Nature's Inc.** agreed to sell the company's Latrobe bottling plant to **Giant Eagle** for \$20 million. An auction will be held August 9th, with a sale to be completed by August 21st.

... The court gave permission to **Tweeter Home Entertainment Group Inc.** to borrow the rest of the money available under the company's \$60 million DIP facility. The terms of the loan require Tweeter to find a lead bidder for its assets by June 29th and to complete an auction by July 10th and obtain court approval of the sale of assets by July 13th. The company has already won court approval for two sets of lead bidders for its assets.

... The newly appointed equity committee of **Hancock Fabrics Inc.** is requesting the unsecured creditors committee limit the scope of retaining a financial advisor, as the equity committee believes it can come up with a reorganization plan that will pay unsecured creditors in full. The unsecured creditors committee disagrees. A hearing is scheduled for July 18th.

... A group of hedge funds and big music publish-

ers say **Wachovia Bank** is wasting thousands of the scarce dollars left in the case of **Musicland Holdings Corp.**, with a senseless objection to court approval of the company's Plan of Reorganization. Confirmation hearings that began in November 2006 have been held up for months as Musicland works to convince the court it has enough cash to fulfill the distribution scheme laid out in that plan.

... **Cerberus Capital Management**, which has agreed to purchase the assets of **Tower Automotive**, is troubled by a deal Tower reached with the **United Furniture Workers Pension Fund A**, which would leave Cerberus liable for damages related to Tower's withdrawal from the pension fund. A hearing is scheduled for July 11th.

... **Delphi Corp.** won court approval to move ahead with the sale of its brake-manufacturing business in Mexico, for which it already has a \$15 million offer from **Robert Bosch LLC**. An auction would take place on or before July 17th, or if Delphi receives additional bids by July 10th.

... In other news, **Delphi** reported a \$45.0 million net loss for the month of May on sales of \$1.47 billion. The net loss included \$9.0 million of reorganization items.

... **Collins & Aikman Corp.** won approval to continue operating manufacturing plants for **Daimler-Chrysler Co.** and **General Motors Corp.** in an arrangement that heads off a forced shut-down of its plastic operations, while the company completes its ongoing asset sales.

Feedback?

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Suggestions?

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Specialty Items

... **The Container Store** announced the sale of a majority stake in the company to **Leonard Green & Partners LP** for an undisclosed price. The Container Store, with annual sales of \$600 million, has 39 stores, including 9 in Texas.

... **Haverty Furniture Companies, Inc.** reported sales for the second quarter ended June 30, 2007 of \$187.1 million, down 11.3% versus sales of \$211.0 million for the comparable period last year. Comp store sales for the period were down 12.7%.

... The owner of the **Huffman Koos** name opened a 70,000 square foot **H&K** furniture store in River Edge, New Jersey, holding off at least for now on earlier plans to open under the full name of the former Top 100 company. H&K is led by CEO **Anthony Mehran**, who bought the rights to the Huffman Koos name out of bankruptcy in 2005

and operates **Moda Furniture**.

... **Tiffany & Co.** plans to open a 2,100 square foot store in Brussels, Belgium, in the fall of 2008, on Boulevard de Waterloo 66, the city's premier street for luxury shopping.

... **Barnes & Noble, Inc.** is opening a new bookstore next week in Roanoke, Virginia, and announced the signing of a lease agreement to open a new bookstore in Stuart, Florida. The Florida store will open next August.

... For the fiscal year ended April 1, 2007, sales at **Redenvelope, Inc.** grew to \$121.3 million, or 7.1%, from sales of \$113.2 million for the prior year. The net loss for the year was \$3.5 million, down significantly from a loss of \$5.6 million for the prior year.

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Management on the Move

... **Jim Demme**, former CEO of **Bruno's Supermarkets**, was named Chairman of the Board of **Kings Super Markets Inc.** Mr. Demme is part of the investor group that acquired Kings from **Marks and Spencer**, the London-based food and department store retailer, in April 2006.

... **Sobeys Inc.** appointed **Francois Vimard** to the position of CFO, succeeding **Bruce Terry**, who made the personal decision to leave the company and pursue other interests. Mr. Vimard began his career at Sobeys in August 1995 and most recently served as EVP, Supply Chain and Technology.

... **Roger L. Headrick** stepped down from the Board of Directors of **CVS/Caremark** after a shareholder group called for his resignation. Mr. Headrick faced criticism from **CTW Investment Group** because investors did not like how Caremark Rx carried out its sale to CVS. Mr. Headrick was a former independent Caremark Director. Mr. Headrick denied that his stepping down had anything to do with the calls for his resignation.

... **Wal-Mart Stores** named **Linda Hefner** as EVP and General Manager of the Home Business unit, responsible for the overall home strategy, brand management, product development, and sourcing. Ms. Hefner most recently served as EVP of Global Strategy and Business Development for **Kraft Foods**.

... **Allan Karp** resigned from the Board of Directors of **Charlotte Russe Holding, Inc.** after having served the company since 1996.

... **The Talbots, Inc.** announced the retirement of **Harold B. Bosworth, Jr.**, EVP and Chief Merchandising Officer Talbots Brand. The company has begun a search for the appropriate replacement.

... **United Rentals, Inc.** announced the resignation of **Mark Suwyn** from its Board of Directors. Mr. Suwyn also serves as CEO of **NewPage Corporation**.

... Online jewelry retailer **Blue Nile Inc.** named **Scott Devitt** as its CFO. Mr. Devitt was previously Managing Director and Senior Analyst for the Internet Consumer Services Division at **Stifel Nicholas & Co.** Mr. Devitt will report to **Diane Irving**, who is completing her transition to company President, a post she has held since February.

... **Blockbuster** named **James Keyes** as the company's new Chairman and CEO. Mr. Keyes is the former President and CEO of **7-Eleven**, and a 21-year veteran of that company. Mr. Keyes replaces current Chairman and CEO **John Antioco**, who will be assisting with the transition.

... **Sharper Image Corp.** appointed **Andrew P. Reich** as its new EVP of Merchandising, replacing **William Feroe**, who is leaving the company at the end of August. Mr. Reich was previously a SVP and General Merchandising Manager with **The May Co.**

... In addition to the above, **Sharper Image Corp.** appointed **James M. Sander** SVP, General Counsel, and Corporate Secretary. Mr. Sander most recently was with **Holsworth Sander and Associates, PC**, a private law practice.

... **Office Depot** hired **Richard Diamond** as VP of Furniture, a new position, reporting to Scott Kerner, SVP of Merchandising. Mr. Diamond most recently served as COO for gift and décor resource **Harvey Lewis Designs**, located in Hong Kong.

Health & Beauty Aids

... **Walgreen Company** signed a definitive agreement to acquire **Option Care** in a cash transaction for \$19.50 per share. With the assumption of some debt, the transaction has a total enterprise value of approximately \$850 million. Option Care provides specialty pharmacy and home infusion services from a network of more than 100 pharmacies, including 61 that are company owned, in 34 states.

... **Express Scripts, Inc.** will release its second quarter results on Thursday, July 26th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **MinuteClinic**, a subsidiary of **CVS Caremark**, received the 2007 Connecticut Quality Improvement Award's entry level CQIA Innovation Prize for bringing more affordable, convenient and accessible health care solutions into consumers' daily

lives. The CQIA uses the **Malcolm Baldrige National Quality Award** criteria for performance excellence.

... **Tenet Healthcare Corporation** completed the previously disclosed sale of **Roxborough Memorial Hospital**, a 137-bed acute care hospital located in Philadelphia, and **Warminster Hospital**, a 153-bed acute care hospital located in Warminster, Pennsylvania, to **Solis Healthcare LLC** for approximately \$25.5 million, including a \$10.0 million note due in December 2009.

... On the other side of the ledger, **Tenet Healthcare Corporation** completed the purchase of **Coastal Carolina Medical Center**, a 41-bed acute care hospital located in Hardeeville, South Carolina, from **LifePoint Hospitals Inc.** for approximately \$35 million.

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Heard in the Grocery Aisle

... The Federal Mediator in the Southern California grocery talks recessed the negotiations after failing to make much headway in coaxing the major supermarket chains and the workers' union into a new contract. Meanwhile, the union plans to begin mobilizing workers this week to prepare for a strike or lockout, by selecting picket captains, stocking their food banks and assembling picket signs.

... Workers at six **Treasure Island Food** stores voted to decertify the **United Food and Commercial Workers** union. The UFCW and Treasure Island have tangled for several years.

... On a more positive note, **Kroger** workers in Toledo, Ohio, voted to approve a new three-year contract. The **United Food and Commercial Workers** Local 911, representing about 3,100 workers, had been negotiating with Kroger to replace a contract that expired April 7th.

... **Kohlberg Kravis Roberts** and **Clayton, Dubilier & Rice** completed their \$7.1 billion purchase of **U.S. Foodservice**, a unit of **Royal Ahold**. The buyers changed their financing method twice as investors balked at terms. They finally relied on bridge financing to complete the deal.

... **Penn Traffic Co.** expects to file Fiscal Year 2006 financial results with the SEC at the end of the month, the first public release of full year audited financial results since 2002. The company has obtained a waiver of certain provision of its credit facility delaying until September 30, 2007 the filing of its Fiscal Year 2007 results.

... In other news, **Penny Curtiss Baking Co.**, which is owned by **Penn Traffic**, informed its employees that it will phase out the contract baking business it does for **Aldi** next month. **Aldi** is taking its business to another baker in Pennsylvania.

... Meanwhile, **Aldi** plans to open 25 to 35 outlets in the Dallas/Fort Worth Metroplex by the fall of 2009, along with a distribution center to serve the Texas region, an interesting move since **Wal-Mart** already has nearly a one-third market share in the market. **Aldi's** expansion in Texas follows a similar southward push into Florida, where multiple stores are expected to open next year in Tampa and Orlando.

... **Marsh Supermarkets Inc.** has launched a campaign to remodel 70% of its stores within a year and rebrand every one of them. About 65 of the stores, including all former **LoBill** locations will be called **Marsh Hometown Markets**, while roughly 40 full-service, larger stores will be branded **Marsh the Marketplace**. Total cost of the renovations is expected to be approximately \$10 million.

... **Williams Discount Foods** bought six of the 23 **Albertsons** stores that were sold in Oklahoma last week. Two of the stores are in Oklahoma City, and one each in Edmond, Yukon, Del City and Midwest City.

... **RPCS Inc.**, which owns Price Cutter Plus, Price Cutter, Ramey and Smitty's grocery stores, acquired nine of the former **Albertsons** stores in the Tulsa, Oklahoma area. The acquisition almost doubles the size of the employee-owned company. **RPCS** is a member of **Associated Wholesale Grocers**.

... **Giant Eagle** is closing its video rental departments, putting more of an emphasis on sell-through DVDs and automated rental kiosks. **Giant Eagle** has about 100 video departments.

... **Loblaw Companies Limited** will release its second quarter results on July 26, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

Did You Know...?

The Retail Sector Newsletter has increased readership each week since publishing began?

Mass Merchant Musings

... Maine became the first state to regulate big-box retail expansion when **Governor John Baldacci** signed the **Informed Growth Act**, making it easier for towns and cities to review potential big-box expansion. The bill requires developments larger than 75,000 square feet to pay \$40,000 in escrow for independent impact studies and related review expenses.

... For the fiscal year ended March 31, 2007, **99 Cents Only Stores** reported sales of \$1.10 billion, up 7.9% versus the prior year, though net income of \$9.8 million was down 14.5% versus net income of \$11.4 million for the prior year. This year's earnings include approximately \$15 million in consulting fee charges versus \$10 million last year.

... **Dollar General** completed its merger with affiliates of **Kohlberg Kravis & Roberts & Co. L.P.**, **GS Capital Partners**, an affiliate of **Goldman Sachs**, **Citi Private Equity**, and other equity co-investors. The value of the transaction is approximately \$7.3 billion. **Dollar General's** common stock will cease to trade publicly prior to the opening of trading on July 9th.

... **Cost-U-Less, Inc.** reported sales for the second quarter ended July 1, 2007 of \$55.3 million, up 3.2% versus sales of \$53.6 million for the comparable period last year. Comp store sales for the quarter were up 3.3%. The company will provide second quarter earnings results on August 15th.

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Off the Rack

... **Jones Apparel Group**, which entered a definitive agreement to sell its **Barneys New York** subsidiary to **Istithmar** for \$825 million, received a competing proposal from **Fast Retailing Co., Ltd.**, a Japan-based company, offering \$900 million. In the event that Jones were to terminate the Istithmar Agreement, it would be required to pay a termination fee of approximately \$20 to \$23 million. Looks like a win-win for Jones.

... It appears that **Deb Shops Inc.** is up for sale. Though, reacting to industry speculation last week that the teen retailer had put itself on the block, CFO **Barry J. Susson** replied: "I would never comment on any question like that."

... **Charlotte Russe Holding, Inc.** will release its third quarter financial results on Wednesday, July 25th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Ross Stores Inc.** reported that a second Tampa location opened on July 7th as one of six of its **dd's Discounts** stores to open in Florida. The additional Florida stores are slated for Kissimmee, Daytona Beach and Panama City. There are additional openings scheduled for Texas in the next few weeks, but details were pending.

... **Vietnam's** apparel exports in the first half of the year rose 25.9% to \$3.4 billion, but fell short of targets as a U.S. program to monitor the country's imports led to buyers postponing orders. The **Department of Commerce** began monitoring imports of textile and apparel products after Vietnam joined the WTO in January.

... **Oprah Winfrey** plans to open a store across the street from Chicago's **Harpo's Studios**, where her television show is taped. The 4,500 square foot store will also include a café. The Chicago site is Oprah's first store, however her Web site has a boutique area where viewers can buy all sorts of O-branded merchandise.

... **GE Money**, the consumer lending unit of **General Electric Company**, and **Gap Inc.** announced they will offer a Visa credit card to customers of Gap, Banana Republic, and Old Navy. GE Money

also will continue to provide private label credit card programs for Gap Inc. through 2013. The Visa card will allow cardholders to earn rewards at all Gap, Banana Republic and Old Navy locations and everywhere Visa is accepted.

... While not abandoning large enclosed malls, **J.C. Penney** is putting more emphasis on building off-mall stores. Nearly 80% of the 250 new stores the company hopes to add by 2011 will be in off-mall locations.

... **Cache Inc.** successfully completed its acquisition of **Adrienne Victoria Designs, Inc.** for \$16.0 million, including \$3.5 million payable at closing with the remainder to be paid out through 2011, assuming certain performance levels are achieved.

... **The Children's Place** replaced its \$130 million secured Loan Agreement with a new \$100 million secured Loan Agreement with a \$30 million accordion feature. The facility also contains a \$20 million over-advance from July 1st to October 31st. The facility, which includes a \$100 million sublimit for Letters of Credit, matures in November 2010.

... In addition to the above, **The Children's Place** entered a new \$60 million Letter of Credit facility. The Letter of Credit facility can be terminated at any time by either party.

... **Syms Corp.** reported sales for the first quarter ended June 2, 2007 of \$67.1 million, up 1.4% versus sales of \$66.2 million for the comparable period last year. Net income for the quarter was \$0.7 million, down 88.3% versus net income of \$5.7 million last year, which included a \$10.4 million pre-tax gain on the sale of real estate located in Dallas, Texas and Rochester, New York.

... With sales through the first half of the year up a scant 1%, **Tandy Leather Factory** adjusted its sales and earnings guidance for the year downward. Sales for the year are now expected to be in the range of \$57 to \$59 million and earning in the range of 49 cents to 51 cents per share.

Did You Know...?

More non-manufacturing companies in the U. S. were growing in June than at any time since April last year, according to the Institute for Supply Management. The ISM index rose to 60.7% from 59.7%, the highest since 61.1% in April 2006.

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The Global World of Sports and Footwear

... **Liberty Mountain** and **Equinox** signed an agreement to merge their distribution businesses. The transaction is expected to close in August. Liberty Mountain's President, **Gary Heward**, will be President and Owner of the new combined company, while Equinox's President, **Robert Cross** is retaining control and ownership of Equinox, LTD and will be continuing as President of the Equinox manufacturing operations.

... **GSI Commerce Inc.** completed its private offering of \$150 million of unsecured 2.5% Convertible Senior Notes due June 1, 2027, which includes the exercise of the initial purchaser's over-allotment option. Net proceeds will be approximately \$145 million to be used for working capital, general corporate purposes and possible acquisitions.

Retail Ventures Inc:Retailer of the Week

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\$ figures in millions, 3-Months ended	5/5/2007 (Q1 YTD FY08)	4/29/2006 (Q1 YTD FY07)	Year-over-Year Change
Performance Ratios			
Total Revenue	\$754.10	\$721.50	4.51%
Gross Margin %	40.31%	40.28%	+3 bps
Operating Profit \$	\$27.9	-\$50.1	n/a
Operating Margin %	3.7%	-6.95%	+1,065 bps
Net Profit \$	\$2.7	-\$64.9	n/a
Profit Margin %	0.36%	-9%	+936 bps
Liquidity Ratios			
Cash and A/R % Current Liabilities	44.37%	35%	+937 bps
Working Capital	\$284.6	\$228.7	+24.44%
Current Ratio	1.43x	1.36x	+7 bps
Leverage Ratios			
EBITDA / Interest Expense	6.92x	negative EBITDA	n/a
Total Debt / Total Equity	344.24%	141.52%	-20,272 bps
Total Liabilities / Total Assets	92.87%	89.24%	-363 bps

OPERATING PERFORMANCE

Revenues for the first quarter were \$754.1 million, a 4.51% increase over the first quarter last year. Comp store sales continued their steady rapid decline, falling 5.2% from the same quarter last year. Of course, Value City steamrolled the drop in comps, as the segment saw its same store revenues fall 8.7% for the quarter. DSW, easily the best of the bunch, even saw comps fall 3.6%. Much of the drop in DSW comps is more then likely associated with the large increase in leased operations for the chain, as consumers can readily access DSW merchandise without ever setting foot in a DSW store. Revenues for the segment were up 12.8% due to 26 new stores and 116 new non-affiliated leased departments compared to the same period last year. The leased departments have produced far superior gross margins, and DSW's 140 basis point jump in gross margin was enough to offset the still troublesome Value City, which saw its gross margin fall by 200 basis points. Once again, DSW carried the show for the quarter. Overall operating margin was 3.7%, yet DSW's 10.4% margin was the only one on the plus side, as Value City was (4.6%) and Filene's Basement was (8%). The crazy warrant write-downs subsided for the quarter, and it was a huge relief to look down and see profits of \$2.7 million for the three months.

CAPITAL STRUCTURE

If diving deeper into virtual debt did anything for Retail Ventures, it surely created some nice gains in liquidity. At the close of the first quarter, the company had plenty of cash on the books. With \$168.7 million in cash and another \$99.3 million held as short-term investments, Retail Ventures should have plenty of funds to satisfy its short-term needs. The company closed the quarter with \$284.6 million in working capital and a solid 1.43x current ratio. If it comes down to it, there was still \$76.6 million available on the VCDS revolver and still \$142 million available on DSW's revolver.

Despite the heavier debt load, the company's EBITDA had little problem satisfying the interest payments on the increased debt load. However, the balance sheet still looks very ugly and with a debt to equity ratio of 344.24%, there is little reason to applaud the company's leverage position. The majority of the debt is on the revolvers, which is true debt, and the PIES, which will be converted to equity at some point. Once the conversion occurs, we will feel much better about the company's long-term future.

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Options and Resources

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Did You Know...?

Employment in the U.S. private sector grew by 150,000 in June, the fastest rate in seven months, according to the ADP employment report released last week. Non-farm payrolls rose about 175,000 after adding in government jobs, stronger than the 130,000 estimated by economists.

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Rating Changes and Outlooks

S&P Rating Changes				
Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
DOLLAR GENERAL CORP	B	BB+	NEG	NM
HILTON HOTELS CORP	BB-	BB+	NM	STA
HOME DEPOT INC, THE	BBB+	A+	STA	NM
DOLLAR GENERAL CORP	B	BB+	NEG	NM
TOYS R US INC - NEW CO	B	B-	STA	NM
LIMITED BRANDS INC	BBB-	BBB	NEG	STA
TOYS R US INC - NEW CO	B	B-	STA	NM
FINLAY ENTERPRISES INC	B	B	NEG	STA
FINLAY FINE JEWELRY CORP	B	B	NEG	STA
RESTAURANT CO (INC)	B-	CCC+	STA	NM
JO ANN STORES INC	B-	B-	STA	NEG
LOEHMANN'S HOLDINGS INC DE	B-	B	STA	STA
JACK IN THE BOX INC DE /FKA FOODMAKER INC	BB-	BB-	STA	NEG
DAVE & BUSTERS INC	B-	B-	STA	NEG
KROGER CO,THE	BBB-	BBB-	POS	STA
VISTAR CORP	B	NM	STA	NM

Did You Know...?

Chain store sales for the week ended June 30th rose 2.5% from the year-ago period. Sales growth for the month of June is now forecasted to be in the range of 1.5% to 2.0%, down slightly from a prior forecast of 2.0%.

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Hi Tech Entertainment

... **Movie Gallery**, the nation's No. 2 video rental chain, has defaulted on its senior credit facility, citing second quarter results that were "significantly softer than expected." The company said it may seek a waiver, amendment, forbearance or similar agreement from its lenders to remedy the defaults, and will try to conserve cash by accelerating store closings and consolidations.

... **Dell** will soon start selling its laptops and desktops at Asian retail chains and stores. The company broke from its practice of direct sales customers last month, and started selling low-priced PCs at **Wal-Mart Stores** in North America.

... **Rex Stores Corporation** converted its \$5.0 million Convertible Secured Promissory note for **Levelland/Hockley County Ethanol, LLC** into a 56% equity interest in **Levelland/Hockley**, which commenced construction on a 40 million gallon per year ethanol production facility in Texas.

... **Jason Kilar**, the former head of video and DVD businesses at **Amazon.com**, was named CEO of a planned online video service being developed by media conglomerate **News Corp.** and **NBC Univer-**

sal, a media and entertainment company formed in 2004 by the merger of **NBC** and **Vivendi Universal**. The as yet unnamed joint venture will launch a Web site later this year offering thousands of hours of movies and video clips.

... To support growing demand in North America, **Amazon.com, Inc.** plans to open a new 600,000 square foot fulfillment center in Phoenix, Arizona, during the third quarter of 2007. The center will fulfill orders for products from Amazon's media categories, which include Books, DVD, Music and Software.

... **Interactive Corporation (IAC)** will release its second quarter operating results on July 31, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... As a result of the receipt of a Wells Notice from the **SEC**, **Ingram Micro** is recording a charge of \$15 million in its second quarter ended June 30th to reserve for estimated losses associated with an inquiry being conducted by the SEC regarding certain transactions with **McAfee, Inc.**