

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

After hitting a pothole in the first quarter, the U.S. economy rebounded in the second quarter, growing at an annual rate of 3.4%, the fastest pace since the first quarter of 2006. Improvement was concentrated in a stronger trade performance, better investment in structures, faster government spending and a rebuilding of inventories.

Back To School Basics

With a few exceptions, the upcoming back-to-school shopping season doesn't figure to be especially kind to retailers. Facing cautious consumers looking for good deals, department stores and some specialty chains will be going heavy on the promotions to lure late summer shoppers.

In fact, budget conscious consumers will be able to send their kids back to school with all the necessities without a lot of expense thanks to intense price competition among retailers.

The battle for back-to-school dollars was already intense, but an announcement last week by Wal-Mart elevated the competition even further. The retailer said it planned to lower prices on 16,000 products across all stores with a focus on top brands for back-to-school needs.

"We know it's tough right now and Americans are looking for us to provide the best value, and we will," said Bill Simon, Wal-Mart's EVP and COO. "Let there be no doubt, we mean business when it comes to price leadership. We'll provide families with savings where it counts and continue to work closely with key suppliers, reduce packaging and lower shipping costs as we steer this program through fall and beyond."

According to Wal-Mart, families with school-age children are expected to spend an average of \$563

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Winn Dixie Stores Inc.: Retailer of the Week

This southeastern-based grocer, several months removed from its November 2006 emergence from bankruptcy, remains a high risk, 'E' credit with a near-term positive outlook. The grocer demonstrated vastly improved execution during its fiscal third quarter; the fruits of this labor resulted in positive adjusted EBITDA. This performance allowed the firm to maintain a healthy liquidity position entering its offseason. Cash and revolver availability remain earmarked to make upgrades to its existing store base of 521 units across Florida (358), Alabama (73), Louisiana (51), Georgia (23), and Mississippi (16). During its 21-month stint in Chapter 11, Winn Dixie closed roughly 400 stores and extracted over \$100 million in annualized operating costs from its P&L statement. Management is attempting to elevate the grocer's reputation among middle class shoppers without losing its blue collar clientele. Despite strong liquidity, this supermarket's chances of sustainable success will likely hinge upon its ability to co-exist in territories that contain much tougher competitors. Making the decision to run from Wal-Mart and compete head-to-head with Publix on variety, quality, and service will not be an easy undertaking. ^

OPERATING PERFORMANCE: 20 WEEKS & 40 WEEKS ENDED APRIL 4, 2007

| <i>\$ in millions, 20 weeks ended</i> | 4/4/2007 | YOY Var. | 4/5/2006 |
|---|-----------------|-----------------|-----------------|
| Weekly Average Sales | \$142.40 | 1.50% | \$140.30 |
| Gross Margin | 26.70% | 134 bps | 25.40% |
| Adjusted Operating Margin | 0.50% | 182 bps | -1.40% |
| Store Count | 521 | -9.20% | 539 |
| <i>\$ in millions, 40 weeks ended</i> | 4/4/2007 | YOY Var. | 4/5/2006 |
| Net Sales | \$5,524.70 | 0.80% | \$5,481.70 |
| Gross Margin | 26.60% | 68 bps | 25.90% |
| Adjusted Operating Profit (Loss) | (\$56.90) | N/A | (\$95.70) |
| Impairment Charges | \$20.80 | 128.60% | \$9.10 |
| Restructuring Charges | \$0.80 | -96.80% | \$24.70 |
| Reorganization Items, net gain | \$334.40 | 40.00% | \$238.80 |
| Earnings & Gain (Loss) on Disposal of Discontinued Operations | \$20.30 | N/A | (\$453.20) |

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Back To School Basics

(Continued from page 1)

on back-to-school this year. The National Retail Federation released a survey last week showing that a typical household will spend 6.9% more on back-to-school goods this year over 2006, to an average of \$564 per family from \$527.

That's a solid growth figure, but closer inspection shows underlying trends pointing to the industry's summer slump continuing.

Part of the expected increase in spending per household can be attributed to slight demographic shifts that will have fewer families spending on kids' clothes, supplies and computers this year. Overall spending is projected to grow at a more modest 4.5% clip, according to the NRF, to \$18.4 billion.

With the lower third of the nation's income earners under pressure from high gas prices, experts see a season that figures to be heavy on price slashing promotions to get people buying. Last year, non-auto retail sales rose more than 5% year-over-year in both August and September over 2005.

The NRF sees clothing sales, the biggest back-to-school category at about \$7.5 billion annually, coming in flat this year after a robust 2006. Stores grew clothing and accessory sales over 7% last August and 11% last September over 2005 levels.

Consumer Electronics, which grew about 5% last year, is expected to remain solid as parents update their school age children's software and computer accessory needs. "Electronics have evolved from luxuries to necessities, not only for college students but also for their younger siblings," says NRF Chief Executive Tracy Mullin. Wal-Mart figures to be the main destination of choice for price-sensitive electronics shoppers, analysts say.

Wal-Mart's back-to-school pricing initiative should not have come as a surprise to competitors who are also in the market with aggressive pricing and are familiar with Wal-Mart's strategies. In addition, back-to-school is similar to the holiday season in that all types of retailers recognize its importance and attempt to capture their share of sales through loss-leader promotions.

What's different this year in Wal-Mart's case is the company has gotten better at recognizing the value associated with sharing its pricing and advertising initiatives with the media because of the substantial free publicity such programs generate. A similar strategy was employed with the \$4 generic drug initiative, which was rolled out on a state-by-state basis and garnered the company tremendous favorable publicity along the way. In addition to the lowered prices on 16,000 unspecified items in unidentified merchandise classifications, the strategy also helps position Wal-Mart as a company that cares about saving people while others (oil companies) generate enormous profits on the backs of hardworking Americans who can barely afford to drive to work.

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Did You Know...?

The U.S. Senate and House of Representatives has renewed the import restrictions ban against Burma, which had been due to expire on July 26th. The ban is the result of human rights violations.

Mass Merchant Musings

... According to local papers, Port clerks and their employers at the Los Angeles and Long Beach ports have inked a new deal that should prevent a threatened strike. The new deal should also prevent late deliveries of fall and back-to-school product.

... With the purchase of 17 acres, **Wal-Mart** plans to open a store in the upscale community of Carlsbad, California, that may be its most upscale facility in the nation so far. According to a company spokesman, the store will be an "absolute paradigm shift," though no plans for the store have been submitted as of yet. Carlsbad's current zoning laws try to prevent solitary big-box stores.

... The Japanese supermarket unit of **Wal-Mart**,

Seiyu Ltd., now expects to post a first-half loss instead of a profit, citing weak sales of clothing and electrical appliances. Seiyu, 53% owned by Wal-Mart, estimates an operating loss for the period of \$18.5 million.

... **Target** opened 42 new Target stores yesterday (Sunday), bringing the number of U.S. stores to 1,537. California will see the most new stores (7), followed by Florida with 5, and Pennsylvania with 4.

... **Tesco** expects to have 30 **Fresh & Easy Neighborhood Markets** open by Christmas and 20 more open before the end of its fiscal year in late February. Beyond those 50 stores and 10 other sites it has already identified, it has 100 more locations in the pipeline.

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Bankruptcy Blotter

... The Unsecured Creditors Committee, through its counsel, **Cooley Godward Kronish LLP**, are seeking to compel Sun Entities (**Sun Capital**, private equity owners that acquired **Rag Shops**) to provide full disclosure with respect to its out of court restructuring of Rag Shop in March 2006 in which vendors agreed to take a 25% settlement for their invoices due. Sun has filed a secured claim in excess of \$22 million. A hearing is set for August 7th with objections due August 2nd.

... **Joan Fabrics Corp.** is seeking approval to tap its lenders' cash collateral to cover some expenses of its Chapter 11 wind-down. Lenders, led by Bank of America, have agreed to allow it to use their cash collateral through August 28th. A hearing is set for August 8th.

... Due to the disappointing results of its bankruptcy sale, **Tweeter Home Entertainment Group** scrapped its executive bankruptcy bonus program and apologized to workers for a failed attempt to pay severance benefits. The court approved a \$38 million sale to **Schultze Asset Management**, which is not expected to leave creditors with much recovery.

... **Interstate Bakeries Corp.** won approval to sell property in Charlotte, North Carolina and Worcester, Massachusetts, for a total of about \$2.95 million. **Six Academy LLC** can purchase the Worcester property for \$850,000, while **DS Carolina LLC** beat out stalking horse bidder the **Matlock Family Trust** to purchase the property in Charlotte for \$2.1 million.

... **Collins & Aikman** won court approval to enter into a \$7.5 million settlement with **Toyota**, a deal which spares the auto parts maker the cost of additional litigation. The dispute arose over Collins' claim that it had shipped Toyota \$9.5 million in parts prior to January 1, 2007. The agreement requires Toyota to keep paying for parts it received after January 1st.

... In other news, **Collins & Aiken** is seeking court approval to by-pass the bankruptcy auction process and sell its Columbia, Missouri, plant to **Engineered Plastic Components** for \$5.3 million as the company winds down operations. A hearing is scheduled for July 31st.

Hi Tech Entertainment

... **Movie Gallery Inc.** and certain lenders under its First Lien Credit Facility executed a forbearance agreement effective until August 14th, arising from existing defaults, absent any new defaults under the facility.

... **Circuit City Stores** is testing cable-operator partnerships with companies including **Comcast** and **Ethan Allen** furniture stores in an effort to provide a more complete customer experience.

... **Sixth Avenue Electronics** continued its expansion opening its 11th store, located in Commack, New York. A 12th store in Brick, New Jersey is slated to open later this year and additional Long Island locations are being considered.

... **Harvey Electronics** extended the closing date of its agreement to acquire **MyerEmco** to August 10th. The \$10 million cash deal, originally set to close this month, will join the two A/V and custom install chains, transforming Harvey from a nine-store metro New York dealer to a 19-unit regional stretching to the Mid-Atlantic States.

... **Theater Xtreme** approved its first California franchise location in Roseville, California, for **Cinema Works**. It is expected to open in December. The company also recently announced plans for an Alpharetta, Georgia franchise.

... **hgregg, Inc.** announced the closing of its initial public offering of 9.4 million shares of common stock, the completion by its subsidiary **Gregg**

Appliances, Inc. of a tender offer and consent solicitation for its outstanding 9% Senior Notes due 2013 and the completion of its debt refinancing. The company will use the net proceeds from the IPO together with cash on hand to fund a portion of the tender offer and redeem Gregg Appliances' junior notes. The shares are listed on the NYSE and trade under the symbol "HGG".

... **Blockbuster Inc.** is introducing a wider range of subscription plans including BLOCKBUSTER Total Access Premium, BLOCKBUSTER Total Access, and BLOCKBUSTER By Mail.

... Online DVD rental pioneer **Netflix Inc.** lowered the price of its two most popular subscription plans by a \$1 per month, relinquishing millions of dollars in revenue in an attempt to regain the upper hand in a cutthroat battle with **Blockbuster Inc.**

... **Aluratek, Inc.** entered into a distribution agreement with **Ingram Micro Inc.** Ingram Micro will carry the Aluratek product line, which includes digital photo frames, high-definition multimedia interface and home theater accessories, storage, USB and Bluetooth connectivity products.

... In addition to the above, **Ingram Micro Inc.** officially re-entered the booming Argentinean IT market with the opening of an office in Buenos Aires. The company expects to assemble a full team of about 35 employees by the end of the year.

Feedback?

Questions?

Suggestions?

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Management on the Move

... **Gap Inc.** appointed **Glenn Murphy** to serve as Chairman and CEO of the company. Mr. Murphy most recently served as Chairman and CEO of **Shoppers Drug Mart**, the largest drug store chain in Canada. Mr. Murphy succeeds **Robert J. Fisher**, the current Chairman of the Board who has served as interim CEO since January of this year.

... **Allen Questrom**, former CEO of **JCPenney** and **Federated Department Stores** (now **Macy's Inc.**), is expected to assume the role of non-executive Chairman of **Deb Shops**, which is being acquired by **Lee Equity Partners**.

... **Kohl's Corp.** increased the size of its Board of Directors to 12 members and elected **Stephanie Streeter** to fill the new seat. Ms. Streeter was the Chairman, President and CEO of **Banta Corp.** from 2004 until January, when Banta was acquired by **R.R. Donnelley & Sons Co.**

... **Wal-Mart Stores** announced the resignation of its Apparel Chief, **Claire Watts**. The company declined to say why Ms. Watts resigned. The departure comes after Wal-Mart retreated from attempts to lure shoppers with more fashionable clothing, including its Metro 7 line of dresses.

... **Family Dollar Stores, Inc.** named **James H. Hays** to the position of VP - Internal Audit. Prior to Family Dollar, Mr. Hays spent 19 years in various roles with **Delhaize Group**, most recently as Director of Internal Audit.

...Subject to the completion of the company's previously announced acquisition of **Genesco Inc.**, **The Finish Line** revealed that **Robert J. Dennis**, currently Genesco's President & COO, would

become President of the combined companies.

... **Five Star Products** named **Ira J. Sobtko** to the position of VP Finance, Secretary and Treasurer, replacing **Neal W. Collins**, who served as CFO but will now serve as VP and Assistant Secretary. Mr. Sobtko most recently served as VP, Finance of **National Patent Development Corporation**, which owns approximately 58% of Five Star's outstanding shares.

... **Best Buy Co., Inc.** promoted **Mike Norona** to the newly created position of President of Financial Services, which encompasses oversight of domestic and international programs. Mr. Norona will guide the company's financial services strategy to build deeper customer relationships by developing financial solutions that evolve with the company's customers' changing needs.

... **OfficeMax® Inc.** elected **William J. Montgoris** to serve on the company's Board of Directors. Mr. Montgoris has been a member of the Board of Directors of **Stage Stores, Inc.** since 2004 and is also a Trustee of five funds within **The Reserve Funds** family of money market mutual funds.

... **Office Depot** named **Steven M. Schmidt** as the company's new President of North American Business Solutions Division. Mr. Schmidt most recently served as President and CEO of the **ACNielsen Corporation**.

... **Ingram Micro Inc.** announced that **Kevin M. Murai**, President and COO, plans to resign from the company at the end of 2007 in order to care for his extended family in Toronto. **Alain Monie**, EVP and President of Ingram Micro Asia-Pacific, will replace Mr. Murai effective August 1, 2007.

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"Retail Sector Weekly"
and
Monthly Comps Analysis
Report*

Earnings Release Dates

Apparel/Department Stores

| | |
|------------------------------------|--------|
| Tandy Leather Factory, Inc. | 7-Aug |
| The Children's Place Retail Stores | 23-Aug |
| Citi Trends, Inc. | 29-Aug |

Consumer Electronics

| | |
|-----------------|--------|
| PC Mall, Inc. | 31-Jul |
| OfficeMax® Inc. | 1-Aug |
| Gateway, Inc. | 2-Aug |

Specialty

| | |
|--------------------------------|--------|
| Overstock.com, Inc. | 31-Jul |
| Haverty Furniture Companies | 2-Aug |
| A.C. Moore Arts & Crafts, Inc. | 6-Aug |
| Guitar Center, Inc. | 7-Aug |
| Tuesday Morning Corporation | 28-Aug |

Sporting Goods & Footwear

| | |
|----------------------------------|--------|
| Big 5 Sporting Goods Corp. | 1-Aug |
| Cabela's Incorporated | 2-Aug |
| Golfsmith International Holdings | 7-Aug |
| Hibbett Sports, Inc. | 23-Aug |
| Payless ShoeSource | 29-Aug |

Drug

| | |
|------------------------------|-------|
| CVS Caremark Corporation | 2-Aug |
| Omnicare, Inc. | 2-Aug |
| Tenet Healthcare Corporation | 7-Aug |

Home Centers

| | |
|------------------------|-------|
| United Rentals | 1-Aug |
| Interline Brands, Inc. | 3-Aug |

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Heard in the Grocery Aisle

... In the wake of an overwhelming ratification of a new four-year labor contract that covers some 65,000 employees working for **Albertsons, Ralphs** and **Vons** in Southern California, details of the pact are beginning to become clear – with the chief concession made by the chains being the elimination of a two-tier salary structure. In addition the contract shortens the waiting period for health insurance coverage for new hires and their children to six months.

... **CtW Investment Group**, which is affiliated with union pension funds, has called for the immediate resignation of **Whole Foods** CEO **John Mackey**, saying that he has lost credibility and shareholder confidence because of disclosures that he used message boards to post anonymous comments in which he criticized **Wild Oats**, the competitor he is now trying to buy.

... Meanwhile, **Whole Foods**, still hoping that it will be able to acquire **Wild Oats** for \$565 million, extended its offer yet again, to August 10th. A court hearing on the Federal Trade Commission challenge to the takeover is scheduled for August 1st.

... **Whole Foods Market, Inc.** will issue financial results for the company's third fiscal quarter ended July 1, 2007, after the market closes on Tuesday, July 31, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Supervalu** reported that its first quarter net income as \$148 million, up dramatically from the \$87 million generated during the same period a year ago. Sales for the quarter more than doubled to \$13.3 billion. The performance was attributed to the company's acquisition of many of **Albertsons'** assets a year ago.

... **Supervalu** plans to dispose of 15 more stores this year than originally planned, for a total of 50 that will be closed or sold by next February. The company has not disclosed which units are slated to be shuttered. In addition, the company plans to remodel 110 stores within its chain with an emphasis on a "fresh and healthy" concept.

... **Albertson's LLC** extended its two-year Transition Services Agreement with **Supervalu** through June 2009, with an option to extend it yet again through 2011. The original agreement was signed in 2006 when the two companies split up **Albertsons'** retail assets. **Albertson's LLC** currently operates over 350 stores in Arizona, Arkansas, Colorado, Florida, Louisiana, Nebraska, New

Mexico, South Dakota, Texas and Wyoming.

... **Save Mart Supermarkets** opened its first four **Lucky** stores in the San Francisco Bay Area last week. These are the first of 72 **Albertsons** stores acquired by **Save Mart** in the region that are being converted to **Lucky** stores, resurrecting a brand name that was dumped ignominiously by the end of the **Albertsons** regime.

... In Missouri, **Hy-Vee** plans to open two new stores in the Columbia area, taking over both a former **Wal-Mart** site and a former **Mega Market** store. The stores are expected to be open within a year.

... **Stater Bros. Markets** completed a \$1 million remodel of a supermarket in San Bernardino, California in which every department in the store was modified. No word on whether the upgrade will be rolled out to any of the company's other 163 locations.

... **Delhaize-owned Food Lion** is introducing new private label brands in its stores this summer. The new brands include **Smart Option**, which is designed to provide customers with an aggressively priced option on key, highly consumable items, and **Taste of Inspirations**, which will consist of premium products with quality that exceeds that of any other premium items the chain currently carries.

... Germany-based discount grocer **ALDI** plans to open 25 to 35 stores by 2009 in the Dallas/Fort Worth metro area of Texas. **ALDI** will stock its traditional assortment of private-label goods and intends to compete with **Wal-Mart**.

... The **Fresh Market**, a Greensboro, North Carolina-based, small-box fresh food retailer is seeking sites of around 20,000 square feet, primarily in upscale neighborhoods throughout New Jersey and in Long Island, New York, and communities north of New York City.

... **Haggen**, the Washington State-based supermarket retailer is near the end of a two-year hiatus from opening new stores, spending to remodel several existing locations instead. The company expects to begin opening new stores again in 2008.

... Natural foods at **Lowes Foods** have gone to the dogs. The chain is testing a dog food called **Homestyle Select**, which comes in several varieties, and is refrigerated like fresh cold cuts.

Did You Know...?

Sales of new homes in the U.S. declined more than expected in June, falling 6.6% to a seasonally adjusted annual rate of 834,000, the lowest since March's 830,000 and second lowest since 1999. Sales are down 22% compared with June 2006.

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Off the Rack

... Through a series of contracts estimated at \$250 million, Iceland-based investment firm **Baugur Group** acquired an 8% stake in **Saks Inc.** Speculation has risen that Baugur, after acquiring numerous U.K. and Scandinavian fashion labels, purchased the minority stake in Saks as a strategic move to ease the introduction of Baugur-owned brands into the upscale retail chain.

... **Nordstrom** reached an agreement to sell **Faconnable**, a wholly owned subsidiary, to **M1 Group** – a family-owned company based in Lebanon engaged in a number of diverse business activities, including telecom, airlines, energy and real estate – for \$210 million, pending customary closing conditions. As part of the agreement, Nordstrom will continue to buy Faconnable merchandise at historic levels for the next three years.

... **Donald Trump** introduced the latest addition to his line of branded products, the **Trump Home Collection** of furniture, at **Macy's** flagship store in New York City. The line is produced by **Lexington Home Brands**.

... As part of its plan to focus on beauty and intimates, **Limited Brands** is reported to have completed a 10% cut in its work force by laying off 370 employees, mainly at its headquarters in Columbus, Ohio and New York.

... According to reports, **Limited Brands** is currently testing a spinoff of its Victoria's Secret brand, Pink, and is expanding its Bath & Body Works stores.

... **J.C. Penney Company, Inc.** is simultaneously opening 14 new stores on August 3rd in eleven states across the country as part of its Long

Range Plan to open 250 new stores through 2011.

... **Deb Shops** agreed to sell 100% of its outstanding shares to **Lee Equity Partners** through its affiliate **DSI Holdings** for \$27.25 per share of common stock in an all-cash transaction. Total equity value of the transaction is approximately \$395 million, which will be financed by Lee Equity through cash and new committed credit facilities.

... **Charlotte Russe Holding, Inc.** reported sales for the third fiscal quarter ended June 30, 2007 of \$180.3 million, up 12.2% over sales of \$160.7 million for the comparable period last year. Net income for the quarter was \$10.1 million, slightly less than twice the net income of \$5.9 million for the third quarter last year.

... For its third quarter ended June 30, 2007, **Mothers Work, Inc.** reported sales of \$153.2 million, down 6.5% versus sales of \$163.9 million for the comparable period last year. Net income for the quarter was \$1.0 million including a \$4.5 million after-tax change for debt redemption, down 88.2% versus net income of \$8.8 million last year.

... **Coach, Inc.** will release its fourth quarter and fiscal year end results on Tuesday, July 31, 2007. Be sure to look for the results on **Global's** website shortly thereafter.

... **Roaman's**, a distinguished plus-size brand in the portfolio of **Redcats USA**, announced the launch of an exclusive collection of iconic logo accessories. The logo accessories highlight the Roaman's "R" throughout prints, quilting motifs, hardware and lining.

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FYI for the DIY

... Exploring strategic alternatives for the past three months, **United Rentals** signed a definitive merger agreement to be acquired by affiliates of **Cerberus Capital Management, L.P.**, in a transaction valued at approximately \$6.6 billion, including the assumption of approximately \$2.6 billion in debt obligations.

... Following the lead of **Global Credit Services**, **Moody's Investors Service** cut its credit ratings on **Home Depot** by four notches and said it may downgrade the retailer again, citing higher debt levels and company's stock buyback program. **Standard & Poor's Ratings Services** and **Fitch Ratings** also have recently downgraded Home Depot's corporate credit ratings because of the company's more aggressive financing strategy.

... Given the announced sale of its **HD Supply** chain and based on weaker conditions in the housing sector, **Home Depot's** recently released forecasts show an updated decline of sales and earnings by 15% to 18%. The statement points to a sharper than expected decline in earnings per share, lower than the previously forecasted 9% decrease that the company anticipated in May.

... Entry of **Lowe's Cos. Inc.** into Canada, a territory previously dominated by **Home Depot** and **Rona**, started speculation concerning the purchase of Rona by Lowe's. Lowe's plans to open 10 big-box locations in Ontario, and roughly 100 stores throughout Canada.

The Global World of Sports and Footwear

... **The Finish Line** was hit with a class action suit in California on behalf of assistant managers, sales assistants, sales clerks, stock personnel and cashiers, claiming they were not paid the mandated minimum wage for all hours worked, paid overtime for weekly hours over 40 or daily time beyond eight hours and not provided all required meal and rest breaks. The company has 50 stores in California.

... **Genesco Inc.** will hold a special meeting of its shareholders on September 17, 2007 to vote on the merger agreement with **The Finish Line, Inc.** The Finish Line is offering \$54.50 per share in cash.

... **Foot Locker** is expected to enter India through a franchisee arrangement. Industry sources say that the group is in talks with **Shoppers' Stop**, but the company's PR official denied the news.

... **Dick's Sporting Goods** is opening in Murfreesboro, Tennessee, 35 miles from Nashville, on August 3rd.

... **Cabela's®** will open its newest destination store in Hoffman Estates, Illinois, a suburb of Chicago, on September 21st. The store is Cabela's first in Illinois and the company's 20th retail location.

... **Sport Supply Group, Inc.** executed a definitive agreement with an affiliate of **Andell Holdings, LLC** to sell 1.83 million original issue share of the company's common stock for \$10 per share, representing approximately 17.9% of the company's outstanding shares. Proceeds from the sale will be used to repay outstanding bank debt.

... **GSI Commerce Inc.** and **Linens 'n Things, Inc.** signed a multi-year extension to their existing long-term e-commerce agreement. GSI will continue to provide Linens online business by delivering full-service, direct-to-consumer e-commerce solutions, including Web technologies, fulfillment, customer care operations, and comprehensive design and interactive marketing services.

... Just a couple of weeks after slimming the size of its IPO from 18.2 million shares to \$16.4 million shares, **Lululemon Athletica Inc.** now intends to sell its shares for \$15 to \$17 per share, up from earlier plans of \$10 to \$12 per share.

... **Brown Shoe Company, Inc.** entered into an agreement with **Sam Edelman** and his wife **Libby** to make an investment in **Edelman Shoe, Inc.** While Sam Edelman and Libby Edelman maintain a majority interest in the company, Brown Shoe also has acquired an option to buy the remaining interest in the future. The dollar amount of the investment was not disclosed.

Did You Know...?

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

Health & Beauty Aids

... **Walgreen Co.** was granted early termination of the waiting period under **Hart-Scott-Rodino** for the acquisition of **Option Care Inc.** Walgreen is offering roughly \$850 million in cash and assumed debt for the company, or \$19.50 per share in cash.

... On the heels of the opening of its 200th location in Hartford, Connecticut, **MinuteClinic**, a subsidiary of **CVS/Caremark**, opened 10 in-store health clinics throughout the Chattanooga and Knoxville metro areas and added 14 more locations in the Atlanta area.

... The **California Healthcare Foundation** estimates that there will be as many as 5,000 in-store health clinics operating in the U.S. by 2012. This would represent significant growth from the fewer than 300 that were open in the U.S. at the beginning of 2007, and the more than 700 expected to be open by the end of the year.

... **AmerisourceBergen Corporation** reported revenue for the third fiscal quarter ended June 30, 2007 of \$15.39 billion, up 6.5% versus revenue

of \$14.45 billion for the comparable period last year. Net income for the quarter was \$129.9 million, up 8.7% versus the prior year.

... **Cardinal Health** reached a final settlement with the SEC, paying a civil penalty of \$35 million, relating to an investigation regarding its historical financial reporting from 2000 to 2004. In addition, a related inquiry being conducted by the U.S. Attorney's Office for the Southern District of New York has been closed.

... **McKesson Corporation** reported revenues for the first fiscal quarter ended June 30, 2007 of \$24.53 billion, up 5.2% versus the comparable period last year. Net income for the quarter was \$235 million, up 27.8% versus the prior year.

... Three of **Tenet Healthcare Corporation's** hospitals, including Hahnemann University in Philadelphia, Saint Louis University in St. Louis and USC University in Los Angeles, were named to the list of "America's Best Hospitals" by **U.S. News & World Report**.

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Second Quarter Earnings

| \$ in Millions | Sales | | | 2nd Qtr Comps | Net Income | | |
|--|------------|------------|--------|------------------|------------|-----------|----------|
| | 2006 | 2007 | Change | | 2006 | 2007 | Change |
| Apparel | | | | | | | |
| Cache, Inc. | \$71.7 | \$71.0 | -0.9% | 1.0% | \$2.1 | \$1.3 | -37.1% |
| Carter's, Inc. | \$277.6 | \$287.8 | 3.7% | -0.9% | \$9.0 | (\$143.4) | -1690.7% |
| Mass Merchants | | | | | | | |
| Sears Canada Inc. | C\$1,428.4 | \$1,443.9 | 1.1% | 2.2% | C\$18.1 | C\$47.6 | 263.0% |
| Home Centers | | | | | | | |
| Builders FirstSource, Inc. | \$642.4 | \$465.1 | -27.6% | | \$28.4 | \$8.4 | -70.4% |
| Building Materials Holding Corporation | \$922.0 | \$697.0 | -24.4% | | \$34.2 | \$19.4 | -43.2% |
| Fastenal Company | \$458.8 | \$519.7 | 13.3% | | \$51.5 | \$60.3 | 17.0% |
| Griffin Land & Nurseries | \$24.6 | \$31.9 | 29.7% | | (\$0.3) | \$6.0 | N/A |
| Huttig Building Products | \$296.3 | \$239.5 | -19.2% | | \$3.3 | \$1.1 | -66.7% |
| Sherwin-Williams Company | \$2,130.0 | \$2,198.2 | 3.2% | 0.0% | \$184.6 | \$202.6 | 9.8% |
| Tractor Supply Company | \$714.9 | \$790.9 | 10.6% | 1.0% | \$42.9 | \$43.8 | 1.9% |
| Wesco International | \$1,336.0 | \$1,518.1 | 13.6% | | \$55.2 | \$57.1 | 3.4% |
| W. W. Grainger | \$1,482.9 | \$1,601.0 | 8.0% | 8.0% | \$93.7 | \$104.8 | 11.8% |
| Sports & Footwear | | | | | | | |
| GSI Commerce | \$119.6 | \$131.3 | 9.7% | | (\$3.6) | (\$5.0) | -40.5% |
| Skechers USA, Inc. | \$292.2 | \$352.2 | 20.5% | | \$17.6 | \$14.9 | -15.1% |
| West Marine, Inc. | \$264.5 | \$247.8 | -6.3% | -2.9% | \$14.2 | \$20.1 | 41.8% |
| WinMark Corporation | \$6.3 | \$7.6 | 20.6% | | \$0.7 | \$0.5 | -15.9% |
| Specialty | | | | | | | |
| Brookstone, Inc. | \$91.3 | \$99.9 | 9.4% | 2.1% | (\$11.0) | (\$6.5) | 41.1% |
| O'Reilly Automotive, Inc. | \$591.2 | \$643.1 | 8.8% | 2.0% | \$49.3 | \$51.9 | 5.2% |
| Richelieu Hardware Ltd. | C\$102.6 | C\$116.3 | 13.4% | | C\$8.6 | C\$8.7 | 0.3% |
| Tuesday Morning Corp. | \$207.7 | \$219.4 | 5.6% | 0.1% | | | |
| Consumer Electronics | | | | | | | |
| Aaron Rents, Inc. | \$321.7 | \$359.0 | 11.6% | 5.0% | \$20.7 | \$19.7 | -4.8% |
| Amazon.com, Inc. | \$2,139.0 | \$2,886.0 | 34.9% | | \$22.0 | \$78.0 | 254.5% |
| Blockbuster Inc. | \$1,299.9 | \$1,263.2 | -2.8% | | \$68.4 | (\$35.3) | N/A |
| CDW Corporation | \$1,633.5 | \$2,032.8 | 24.4% | | \$73.1 | \$80.1 | 9.5% |
| Ingram Micro Inc. | \$7,395.6 | \$8,186.1 | 10.7% | | \$53.8 | \$52.4 | -2.6% |
| Office Depot, Inc. | \$3,494.9 | \$3,631.6 | 3.9% | -5.0% | \$118.3 | \$109.1 | -7.8% |
| PC Connection, Inc. | \$408.1 | \$441.1 | 8.1% | | \$3.1 | \$5.8 | 84.9% |
| Zones, Inc. | \$145.2 | \$192.2 | 32.4% | | \$2.9 | \$4.4 | 51.1% |
| Food | | | | | | | |
| Loblaw Companies Limited | C\$6,699.0 | C\$6,933.0 | 3.5% | | C\$194.0 | C\$119.0 | -38.7% |
| Nash Finch Company | \$1,070.8 | \$1,064.0 | -0.6% | 0.3% | \$4.1 | \$9.6 | 132.6% |
| Safeway, Inc. | \$9,367.1 | \$9,823.3 | 4.9% | 4.5% | \$246.2 | \$218.2 | -11.4% |
| Weis Markets, Inc. | \$561.9 | \$578.8 | 3.0% | 3.2% | \$15.5 | \$18.2 | 17.2% |
| Drug | | | | | | | |
| Abbott | \$5,501.1 | \$6,370.6 | 15.8% | | \$612.2 | \$988.7 | 61.5% |
| Drugstore.com, Inc. | \$102.4 | \$110.4 | 7.8% | | (\$2.2) | (\$3.0) | -37.5% |
| Express Scripts, Inc. | \$4,421.1 | \$4,600.4 | 4.1% | | \$107.8 | \$152.7 | 41.7% |
| Shoppers Drug Mart | C\$1,768.2 | C\$1,928.1 | 9.0% | 5.3% | C\$94.4 | C\$112.3 | 18.9% |

Did You Know...?

The United States athletic apparel market is the world's largest Sportswear market, accounting for 41% of total sales, followed by the European Union, which accounts for about 38% of total sportswear apparel turnover.

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Winn Dixie Stores Inc.: Retailer of the Week

(Continued from page 1)

In the table above, we have displayed selected financial data from both Winn Dixie's twenty weeks since emerging from bankruptcy and its first forty weeks of fiscal 2007. Winn Dixie was ringing in weekly sales of \$273,300 per store during the twenty weeks ended April 4th, up nicely relative to year-ago results of \$260,300. Identical store sales increased 1.7% during the forty weeks ended April 4, 2007; during Q3 2007, Winn Dixie posted 1.6% identical store sales growth as a 3.6% rise in average basket size overcame a 2.0% decline in transaction count (see Comparable Store Sales). Reiterating a thought from our May 15th Special Alert, we believe that a key growth opportunity going forward for Winn Dixie is the secondary shopper (one who does his/her fill-in shopping at Winn Dixie stores); with traffic being down, it is this customer who may be taking notice of improvements in re-modeled stores and thus spending incremental dollars at the supermarket.

With three quarters of fiscal 2007 in the books, the firm posted adjusted EBITDA of \$36.3 million (Q3 2007 adjusted EBITDA was a strong \$46.0 million) on year-to-date sales of \$5.5 billion (third quarter sales were \$1.6 billion). The third quarter adjusted EBITDA margin was a very encouraging 2.7%, but was greatly assisted by the seasonality of Winn Dixie's business (think snowbirds & spring-breakers). Margins were likely helped by refined marketing and pricing, as the firm only discounted on products that it deemed critical to do so.

The remarkable third quarter performance has taken Winn Dixie's adjusted operating margin into positive territory...for the twenty-week period since emerging from bankruptcy (not for the full fiscal year). With the seasonally strong fiscal second and third quarters now in its rearview mirror, it will be interesting to see how Winn Dixie performs during the off-season. Despite minimal interest expense and improving adjusted EBITDA, renting essentially its entire store base leaves Winn Dixie with skimpy 40-week EBITDAR coverage of approximately 1.19 times. Global Credit does, however, acknowledge that this figure represents a marked improvement from 0.91 times seen through three quarters of fiscal 2006.

LIQUIDITY & FINANCIAL STRUCTURE

Liquidity improved this spring as Winn Dixie had \$180 million of cash on its April 4, 2007 balance sheet, supplemented by \$391.7 million of borrowing availability remaining on its \$725 million revolving credit facility. With \$20-30 million of remaining bankruptcy payments, the retailer's net cash position was approximately \$150 million. Revolver availability in April reflected an improvement of nearly \$25 million, as total borrowings were comprised almost entirely of L/C usage (totaling \$227.4 million) and a nominal amount of direct borrowings (see Bank Reference). Global Credit estimates the gross borrowing base as of this spring to have been \$687.1 million, with a usable borrowing base of \$669.1 million. We view the grocer's liquidity situation to be healthy for now but will watch with great interest how it is impacted by its seasonally slow period.

Management has advised that it will spend down liquidity by approximately \$80 million by June's end to fund its capital spending needs. Tangible net worth benefited incrementally from the third quarter's upbeat profit numbers, amounting to \$414.4 million as of the end of Q3 2007. Liabilities-to-assets as of April 4th totaled 0.53, with long-term liabilities primarily comprised of reserves for self-insurance liabilities and unfavorable leases. Despite the lack of debt, Winn Dixie has little assets to speak of other than its inventory and equipment, which are pledged to the banks.

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Did You Know...?

Chain store sales for the week ended July 21st rose 3% over the year ago period. On a seek-over-week basis, sales slipped 0.2%.

Specialty Items

... **A.C. Moore** estimates that a confidential settlement with a former employee entered into this month will decrease earnings per share for the quarter ended June 30th by 3 cents per share. The company will release its second quarter earnings on August 6th.

... **Raymour & Flanigan** opened its first Manhattan store as it continues to penetrate the metro New York market. The 15,000 square foot store is one of two former **Moda Furniture** leases recently acquired. The second store will open in the New York borough of Queens.

... **The RoomPlace** will enter Indianapolis next year with two stores as it continues to branch out from its Chicago home market. The 30,000 square foot showrooms, the retailer's 20th and 21st, are slated to open in Greenwood in January and Castleton in March.

... **Ashley Furniture Industries**, a major domestic producer of wood bedroom furniture, is seeking a share of antidumping duties collected by the government on Chinese-made product in that category.

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Rating Changes and Outlooks

| S&P Rating Changes | | | | |
|--|---------------|-------|----------------|-------|
| Company | Credit Rating | | Credit Outlook | |
| | Current | Prior | Current | Prior |
| CLAIRES STORES INC | B | NM | NEG | NM |
| HOME DEPOT INC, THE | BBB+ | A+ | STA | NM |
| PAYLESS SHOESOURCE INC | B+ | BB- | STA | NM |
| BARNEYS NEW YORK INC | B | NR | NEG | NR |
| NATIONAL HEALTHCARE ALLIANCE INC | NR | R | NR | NM |
| LANDRYS RESTAURANTS INC | CCC | B+ | NM | NM |
| PAYLESS SHOESOURCE INC | B+ | BB- | STA | NM |
| DRIVETIME AUTOMOTIVE GROUP INC | B+ | B | STA | STA |
| SAFEWAY INC | BBB- | BBB- | POS | STA |
| BUILDING MATERIALS HOLDINGS INC/BMC WEST | BB | BB | NEG | STA |
| PETRO STOPPING CENTERS LP | NR | B | NR | STA |
| DRIVETIME AUTOMOTIVE GROUP INC | B+ | B | STA | STA |
| TARGET CORP | A+ | NM | STA | NM |
| KROGER CO,THE | BBB- | BBB- | POS | STA |
| SAFEWAY INC | BBB- | BBB- | POS | STA |
| SUPERVALU INC | BB- | BBB | STA | NM |
| YUM! BRANDS INC | BBB | BBB- | STA | POS |

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