

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

The U.S. labor market softened slightly in July as non farm payrolls grew by a lower-than-expected 92,000, the least seen since February, and the nation's unemployment rate rose to 4.6%, up from 4.5% in June and the highest reading since January.

Drug Stores Winning Over Consumers

For years, drug stores have struggled to protect and grow front-end sales in the face of intense price competition from supercenters. Those years of struggle may be over according to the just published Times & Trends report by Information Resources, Inc. (IRI).

The new report reveals a significant transformation in the competitive landscape that is opening new doors for retailers previously stifled by supercenter competition and new growth opportunities for consumer packaged goods (CPG) and healthcare manufacturers.

"As the supercenter format matures, competing retailer differentiation strategies have taken hold," said IRI Chief Marketing Officer Andrew Salzman. "We're seeing remarkable gains within the drug store channel, as drug store retailers leverage core strengths in health and beauty to bring consumers into their stores and drive incremental purchases. The battle for consumer trips is in full swing as time constrained shoppers look to accomplish more in less time, and drug stores are clearly stepping up to the challenge."

The IRI study found that while consumers have steadily decreased their total number of shopping trips during the past five years – consolidating trips in response to high gas prices and a greater ability to get more of what they need in a single stop – drug stores have managed to increase trips. Fur-

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Radioshack: Retailer of the Week

We are reaffirming Radioshack as a "C" moderate risk credit with a "stable" outlook. The turnaround strategy that has been progressing over the past year has been largely effective. Julian Day has gotten Radioshack to turn around its slumping bottom line and has turned this retailer into a money-maker. While profitability has rebounded, Radioshack whiffed big time on the revenue line for the second quarter. Comps continued to fall rapidly, and while much of this is related to the changes that were made to the wireless sector, the company's other sectors have not been performing up to expectations as well. Revenues fell sharply again this quarter and while much of this is a result of the massive store closing plan, the comps have weighed the top line down as well. However, we are not Wall Street and as long as Radioshack continues to turn a profit and improve its balance sheet, then things will continue to look better from a credit perspective.

Radioshack has done a very nice job returning its balance sheet to solid ground. The retailer's liquidity has surged from the same point last year, and in a world where cash is king, Radioshack may have claim to that throne. The company has plenty of funds at its disposal and there is very strong short-term liquidity on the books. The retailer has drastically reduced its debt load and restored comfort to the vendor community for the time being.

It will now be interesting to see what Radioshack does in efforts to spawn some top line growth. While the bottom line has turned around quickly, past performance tells us that slumping top lines will eventually catch up to retailers. While the profits keep us from beating up too badly on Radioshack, the drooping revenue line keeps us from giving too many kudos.^

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Drug Stores Winning Over Consumers

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ther, consumers are not only visiting drug stores more often, they are spending more when they are there. The average drug store basket significantly increased by 6.9% versus last year, which is nearly three times the total industry increase across all CPG outlets.

What are drug stores doing right? The report highlights a number of factors driving drug store success. For instance, healthcare-based trip-building strategies appear to be working. Drug stores are implementing programs, such as Medicare Part D educational outreach to seniors and expansion of in-store health clinic availability, that are driving store traffic. These programs offer distinct new growth opportunities for manufacturers of products with disease management benefits, including food and beverages as well as prescription and over-the-counter remedies, through tie-in promotions and cross marketing.

Leading drug store retailers have also invested in marketing, merchandising and private label development to establish stores as beauty care destinations.

The study shows that drug stores captured a half-point share gain in total CPG spending this past year – a sizable increase considering the fact that drug store total share is only 5.6%. This was the largest increase of any channel, including supercenters.

According to the report, the channel either maintained or increased share across all CPG departments, with a full two-point share gain in health and beauty care products, largely at the expense of the mass merchandise and grocery channels. However, drug stores also pulled share from supercenters in select categories, such as internal analgesics and razor blades.

While total CPG share shifts were modest compared to historical averages, there were large shifts at the category level, where the new cross-channel battles are played out; major swings in channel share occurred in ready-to-drink tea/coffee, hot cereal, shampoo, hair conditioner and toothpaste for instance.

“Drug stores’ ability to strengthen their position in health and beauty within this incredibly competitive marketplace illustrates the power of the right assortments and targeted marketing,” added Mr. Salzman. “Supercenters remain formidable competitors, but many retailers have now developed effective positioning strategies vis-à-vis supercenters that are enabling them to thrive.”

Drug stores’ success can also be attributed to growing appeal across consumer segments. The report reflects that the channel increased share of CPG spending across all major consumer lifestage segments, with the largest gain among young singles and young couples – segments in which the channel has historically been less developed.

Look for small-format, express stores to be the “movers and shakers” of the future, filling a market gap that exists today in addressing consumer needs on quick trips for fresh foods and prepared meals.

First Page

Did You Know...?

Florida, Oklahoma and Louisiana are conducting their first sales tax holidays for consumers this month, joining 13 other states and the District of Columbia in the practice of suspending sales taxes on purchases of certain items for a period of time.

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Health & Beauty Aids

... For its fiscal year ended June 4, 2007, **Jean Coutu** reported sales of \$11,143.1 million, down 4.6% versus sales of \$11,675.6 million for the prior year. Earnings for the year were \$140.8 million, up 35.7% versus earnings of \$103.8 million for the prior year.

... **Longs Drug Stores** reported preliminary retail drug store sales for the second quarter of \$1,196 million, up 2.9% versus the second quarter last year. Comp store sales for the period were up 1.0%.

... **AmerisourceBergen Corporation** and **Kindred**

Healthcare, Inc. completed the transaction that combined their respective institutional pharmacy businesses to create **PharMerica Corporation**, a new, independent, publicly traded company. The new company began trading on the NYSE under the symbol **PMC** last week.

... For those of you who are parents of recent college grads, and working feverishly to get them out of the house (I know because I own not one but two), **Abbott** was named one of the best companies for college graduates to launch their careers by The Princeton Review in its 2008 edition.

Bankruptcy Blotter

... **Rag Shops** is seeking court approval to extend the time in which to reject or accept leases from August 30, 2007 until November 28, 2007, with the additional three months needed to market store leases to potential bidders.

... In addition to the above, **Rag Shops** is seeking an extension to file its Plan of Reorganization from September 2, 2007 to December 28, 2007, setting the deadline for acceptance of the plan to February 28, 2008.

... For the month ended July 7, 2007, **Hancock Fabrics** reported a net loss of \$10.1 million on sales of \$23.9 million. The net loss included \$3.0 million in reorganization expenses.

... Creditors of **M. Fabrikant & Sons Inc.** are seeking court approval to investigate the \$10.25 million purchase of a deceased shareholder's stake in the company, claiming the company may have been insolvent at the time of the purchase.

... It is being reported that bankrupt supermarket chain **Brown & Cole**, may be able to emerge from Chapter 11 later this year, having filed a Reorganization Plan and being in negotiations with a California company that could invest up to \$40 million in the company.

... **Tower Records** won confirmation of its Plan of Reorganization over protests from creditors' lawyers who said the liquidation proposal was meant to freeze them out. A lawsuit that will continue once the Chapter 11 plan is in place will ultimately determine who gets most or all of the \$31 million in cash left in Tower's coffers.

... **Bally Total Fitness Holding Corp.** filed for court protection under a prepackaged bankruptcy reorganization plan that would reduce its debt by \$150 million and transform Bally into a private company. The plan would also trim about \$29.6 million from interest expense and provide a capital infusion of about \$90 million.

... **Sportsmen's Paradise LLC**, of Mequon, Wisconsin, filed for Chapter 7 protection in Milwaukee. The incomplete petition lists estimated liabilities in the \$100,000 to \$1 million range.

... **Plymouth Golf Professionals**, doing business as a **Golf Etc.** franchise in Plymouth, Massachusetts, filed for Chapter 7 protection. The business closed on January 31, 2007.

... The court approved a financing deal between **Delphi Corp.** and **Appaloosa Management** that would pump up to \$2.55 billion into the company to help it exit bankruptcy. The company now expects to file its Plan of Reorganization by the end of the third quarter and emerge by year-end. According to Delphi the Appaloosa deal will provide full recovery to unsecured creditors.

... **Tower Automotive** completed the \$1 billion sale of its assets to **Cerberus Capital Management LP** and exited Chapter 11. Unsecured creditors will recover less than 0.1% of their claims.

... **Pacific Lumber Co.** won court approval to borrow up to \$75 million from **Marathon Structured Finance** as it prepares to cut jobs amid dramatically adverse conditions in the lumber market.

Feedback?

Questions?

Suggestions?

[Click Here](#)

Mass Merchant Musings

... **Meijer** and **Wal-Mart** are going head-to-head in Grand Haven, Michigan. They are going literally head-to-head as the two stores share a traffic light and sit across the street from each other. The Wal-Mart has been specifically designed for the area's more affluent demographics, featuring larger electronics and sports departments and a more extensive wine selection in the food center.

... Meanwhile, **Wal-Mart** is forging into the Southeast Michigan grocery market with 17 supercenters it is building or plans to build by the end of 2009. The company plans to convert up to six existing retail-only stores, while the rest are new developments throughout metro Detroit.

... Internationally, **Wal-Mart** is exploring the possibility of setting up a dairy processing unit in India. Under current laws up to 100% of foreign development investment is allowed in food processing, which should not create any regulatory problems.

... In California, giant British retailer **Tesco** is carefully cultivating an image as a socially responsible grocer with good paying jobs, fresh organic foods

and the latest in environmentally friendly technology. However, this is a far cry from the Tesco flagship stores in Britain, where the vast supermarkets are more like **Wal-Mart** in size, selection and controversy.

... Major retailers are targeting the teacher population with discounts and promotions, focusing on the fact that teachers often end up paying out of pocket for some, if not many, of their classroom supplies. According to a study, the average teacher spends \$552 of his or her own money on school supplies. I can speak from experience (my wife is a teacher), this is a good idea and I for one appreciate it.

... **J.B. Hunt Transport Services, Inc.** was recognized by **Target Corporation** as the recipient of its 2006 Domestic Carrier of the Year award. Hunt currently provides transportation solutions for Target within the company's Dedicated Contract Services, Intermodal and Truckload Services operating segments to multiple shipping points throughout North America.

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Management on the Move

... **Nash Finch Company** elected two new Directors to its Board of Directors. **Sam K. Duncan** who serves as Chairman, President and CEO of **OfficeMax Incorporated**, and U.S. Army Major General (Ret.) **Hawthorne L. ("Peet") Proctor**, who is Managing partner of **Proctor & Boone LLC Consulting** and Senior Logistics Consultant in the **Department of Defense Business Group of Intelligent Decision, Inc.**

... **Familymeds Group, Inc.** announced the resignation of **Peter Grua** from the Board of Directors of the company. No reason was given for the departure.

... **Richard A. Gonzalez**, President and COO of **Abbott**, and a member of the Board of Directors, plans to retire after a 30-year career with the company. Upon his retirement in September of this year, the heads of the company's four operating businesses – medical devices, pharmaceuticals, nutritional and diagnostics, will report directly to **Miles D. White**, Chairman and CEO.

... Another senior executive has left **Limited Brands** as the retailer shifts from apparel to lingerie and personal care. **Leonard A. Schlesinger**, Vice Chairman and COO resigned. Chairman and CEO **Leslie H. Wexner** and Chief Administrative Officer **Martyn Redgrave** will assume Mr. Schlesinger's responsibilities.

... With the completion of the acquisition of **Limited Stores** from **Limited Brands** by **Sun Capital Partners, Inc.**, **Linda Heasley** was appointed CEO and Chairman and **Avra Myers** was appointed President and General Merchandise Manager of Limited Stores.

... **Tween Brands, Inc.** announced the appointment of **Michael Keane** as SVP of Human Resources. Mr. Keane joins the company from **Limited Brands, Inc.** where he was most recently EVP of Human Resources for **Victoria's Secret**.

... **Urban Brands Incorporated** named **Steve Newman** to the position of President. Prior to joining Urban Brands, Mr. Newman served as EVP, Merchandising, Design, and Store Presentation for **New York & Company**; Mr. Newman also served as President of both **Eddie Bauer Corporation** and **Brooks Brothers**.

... **JoS. A. Bank Clothiers, Inc.** promoted SVP for Operations **Gary Merry** to the position of EVP, heading the company's store and catalog operations. Mr. Merry's promotion will allow EVP **Robert B. Hensley** to concentrate his efforts in leading the company's store expansion program, while continuing to head up the company's human resources department.

... **David Mangini**, EVP of Merchandising of **Mothers Work, Inc.** resigned his position to pursue other opportunities. The company has begun a search for Chief Merchandising Officer.

... **Joe's Sports & Outdoor** hired **Kelly C. Jett** to fill the position of E-Commerce Manager, responsible for working with the **JoesSports.com** site host, **GSI Commerce**. Mr. Jett was formerly web business development manager for **Salomon North America**.

... **Recreational Equipment, Inc. (REI)** appointed **Jesse King** to a one-year term to the company's Board of Directors. Mr. King is a founding partner and Managing Director of **Fulcrum Advisors**, a privately held consulting firm supporting philanthropic activity and leadership development.

... **Mark Malcolm** takes over as President and CEO at **Tower Automotive Inc.** for the departing **Kathleen Ligocki**, as **Cerberus Capital Management LP** completed its acquisition of Tower. Mr. Malcolm previously served as a lead automotive consultant for Cerberus. Ms. Ligocki plans to serve as a consultant with Cerberus.

... **Best Buy Company** promoted **Bill Thompson** from Territory Customer Experience Director to VP and Territory General Manager for the mid-Atlantic region. Mr. Thompson replaces **Neil McPhail**, who was promoted to SVP of Growth Operations.

... **Tech Data Corporation** appointed **Greg Parsonson** as VP, Corporate Development, responsible for exploring, developing and executing worldwide corporate growth initiatives. Prior to joining the company, Mr. Parsonson was an executive responsible for merchandising and vendor relations with Best Buy for Business, a division of **Best Buy Co. Inc.**

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Monthly Comps Analysis

Report

Tom Gray Declines To Retire!

We are happy to announce that Tom Gray will be staying on with GCS for the future. Since most of you know Tom, suffice it to say that having him as part of the ongoing GCS team makes us a stronger and better company going forward.

Tom will be handling the Home Centers and Sporting Goods industries. We want to thank Tom's wife for allowing Tom to keep going at what he does best.

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Heard in the Grocery Aisle

... **Amazon.com** has begun testing a pilot program in Seattle, Washington, called **Amazon Fresh** that will deliver perishable groceries to consumers including organic and non-organic fruits and vegetables, dairy products, ice cream, meat and seafood.

... **Unified Grocers** and **Associated Grocers, Inc.** announced the signing of an Asset Purchase Agreement in which Unified agreed to purchase certain assets and assume certain liabilities of Associated Grocers. Terms of the agreement were not disclosed.

... **Ahold** reported that its second quarter sales increased 2% to the equivalent of \$9.0 billion. Comp store sales at **Stop & Shop** were up 1.1%, and down 1% at **Giant-Landover**, while comp stores sales at **Giant-Carlisle** were up 2.7%.

... **Ruddick Corp.**, holding company for **Harris Teeter**, reported sales for the third quarter of \$923.0 million, up 11% from \$830.2 million in the comparable period last year, based on a 13% increase at Harris Teeter. Net income for the quarter grew to \$21.2 million, from \$17.8 million in the prior year period.

... **Ingles Markets** reported that third quarter earnings rose 43% to \$19.7 million, from \$13.8 million a year ago. Net sales for the quarter rose to \$738.7 million from \$659.2 million, on comp store sales increases of 11.9%.

... Published reports say that **Kroger** is looking to add car washes wherever possible to the gas stations it has been opening in front of its stores. The program is a partnership with **Skilken Co.**

... **Whole Foods Market Inc.** and rival **Wild Oats Markets Inc.** headed to court last week, hoping to convince a federal judge to allow their proposed merger to proceed over the objections of U.S. antitrust authorities. A decision in the case is expected in a couple of weeks.

... **Whole Foods** reported sales for the third quarter ended July 2, 2007 of \$1,514.4 million, a 13.2% increase over sales of \$1,337.9 million for the comparable period last year. However, net income for the period of \$49.1 million was down 9.0% versus income of \$53.9 million in the prior year.

... In other news, **Whole Foods** plans to open two

stores in the Hawaiian Islands, one in Lailua on Oahu and one in Kahului on Maui. The stores are expected to open in the next two years.

... **Marsh Supermarkets** sold its central kitchen facility, **Butterfield Foods, LLC** to **Violi Foods, LLC**. As part of the deal, Butterfield will continue to supply Marsh with some products and remain in its current location. The terms of the sale were not disclosed.

... **Spartan Stores, Inc.** reported sales for its first quarter ended June 23, 2007 of \$556.7 million, up 5.4% versus sales of \$528.0 million for the comparable period last year. Net earnings for the quarter increased 142.3% to \$6.5 million from \$2.7 million in the same period last year.

... **H.E. Butt** replaced its original 69,000 square foot store in Flour Bluff, Texas, with a new 142,410 square foot H-E-B plus! store. With its proximity to Padre Island, the store has a fishing and beach section with more than 2,200 products.

... Nine Oklahoma supermarkets and three fuel centers opened under a new flag, **Food Pyramid**, following a change in ownership from **Albertsons LLC** to **RPCS, Inc.**, which also operates under the **Ramey, Price Cutter Plus**, and **Smitty's** nameplates.

... **Publix Supermarkets** plans to open its first Make-Ahead Meals operation in Jacksonville, Florida, later this year, offering customers the ability to assemble prepared ingredients into entrees that can be taken home, frozen and then cooked at the customer's convenience.

... **Metro Inc.** will release its third quarter results on August 9, 2007. Be sure to check **Global's** Website for those results shortly thereafter.

... The **Arizona Daily Star** reported that **Circle K** is in the midst of overhauling most of its 550 Arizona stores. Guess the impending invasion of **Tesco** is really having an impact.

... **The Pantry, Inc.** reported sales for its third quarter ended June 28, 2007 of \$2,053.8 million, up 24.8% versus sales of \$1,645.1 million for the comparable period last year. However, net income for the quarter was \$12.6 million, compared with \$20.3 million for the same period last year.

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GCS Welcome's Michael Nahoum

We want to welcome Mike as the newest employee in the GCS family. He holds a B.S. in finance from the Alfred Lerner College of Business and Economics at the University of Delaware. Mike is entering as a Junior Analyst specializing in

the apparel and mass merchant industries. He will be working mainly with Senior Analyst Mike Sabella. We are excited to have Mike join our team!

Off the Rack

... **Jones Apparel** accepted **Fast Retailing Company's** offer to acquire **Barneys New York** for \$900 million, determining that the Fast offer was superior to the offer it had originally agreed to with **Isthithmar**. Isthithmar has three days to match the offer or receive a \$22.7 million termination fee.

... Becoming a thorn in the side, **Barington Capital Group, L.P.** sent a letter to **William T. Dillard**, Chairman and CEO of **Dillard's, Inc.** repeating its request to meet with Mr. Dillard and members of his management team to discuss a variety of measures, which Barington believes will maximize shareholder value. Mr. Dillard had declined Barington's initial request for a meeting.

... According to media reports, **Macy's** plans to eliminate 165 jobs within the next six months. These cuts are after another 650 people were laid off in Macy's North division, which has 64 stores. The report also said that employees who stay will be earning less, as the company adjusts the pay scales of about 1,600 store employees.

... **Sun Capital Partners, Inc.** completed the acquisition of **Limited Stores**, a division of **Limited Brands**. Terms of the acquisition were not disclosed.

... Continuing to see the benefit of its strategic merchandising, sourcing, marketing and expense control initiatives, **The Gymboree Corporation** now expects earnings per share for the second fiscal quarter ended August 4th to be in the range of 13 cents to 15 cents per share with comp store sales increasing in the low- to mid-single digits.

... **The Talbots, Inc.** and **The J. Jill Group, Inc.** entered into a renewal of its banking facility that provides for the issuance of letters of credit for periods up to six months with validity period for up to one year, to finance the import of general merchandise.

... **Brooks Brothers** is set to open four shops across the UK and Ireland, adding to its two London stores. Brooks will open in Edinburgh, Manchester, Dublin and Oxford, with the Edinburgh store the first to open in October.

... **Stage Stores, Inc.** selected Jeffersonville, Ohio as the site for its third distribution center. The

200,000 square foot leased facility will be capable of supporting approximately 300 stores in its Midwestern and Eastern locations, and cost approximately \$12 million for machinery and equipment and site preparation.

... **Kohl's** marked its first big push into the high-fashion arena by unveiling an advertising campaign for its new "Simply Vera, Vera Wang" line of clothing, accessories and home products designed by **Vera Wang**, which will hit stores next month.

... **Dress Barn, Inc.** reported that sales for its fiscal year ended July 28, 2007 increased 9% to \$1,422.9 million, compared to \$1,300.3 million for the prior year. Comp store sales increased 5% of last year.

... **Pacific Sunwear of California, Inc.** amended its unsecured \$200 million Credit Agreement with **JPMorgan Chase Bank, N.A.** as Administrative Agent, reducing the Minimum Fixed Charge Coverage Ratio.

... **L.L. Bean** will open its first store in Connecticut at The Promenade Shops at Evergreen Walk on Friday, August 10th. The store is the company's eighth location.

... For the fiscal year ended June 30, 2007, **Coach, Inc.** reported sales of \$2,612.5 million, an increase of 28.4% over the prior year, generating net income of \$663.7 million, a 34.3% increase over net income of \$494.3 million in the prior year.

... **True Religion Apparel, Inc.** signed a licensing agreement with **Selective Fragrances** dba **New Wave Fragrances**, a manufacturer and distributor of fine fragrances and beauty-related products. The True Religion brand fragrances for women and men will launch in the fall of 2008.

... The unofficial creditors committee regarding the liquidation of **The Dunlap Company** reached an out of court settlement providing for a minimum cash distribution of 12% for those who assign their claims to **Gordon Brothers**. Assignment of claims forms must be completed and sent to **Cooley Godward Kronish LLP** to be received no later than August 17th.

Did You Know...?

Residential furniture factory orders fell back to earth in May after a rise in April. U.S. factories and distributors showed that May order were down 13% from the same month a year earlier, reversing the year-over-year 12% increase in April. For the two months combined, orders were down about 2%.

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Specialty Items

... **Tiffany & Co.** entered into an agreement with **NXP Corporation** for NXP to purchase 100% of the stock of **Little Switzerland, Inc.** NXP operates retail stores under the brands **Jewels** and **Azura by Jewels** in the Caribbean offering branded jewelry and watches.

... **Pet Valu Canada Inc.** was advised that a mo-

tion is being pursued in the Court of Queen's Bench in the Province of Saskatchewan to include **Pet Valu Canada, Inc.** and **Pet Valu, Inc.** among other defendants in a class action lawsuit involving allegations concerning the manufacture and sale of pet food products alleged to contain tainted ingredients.

The Global World of Sports and Footwear

... **Sport Chalet, Inc.** reported sales of \$91.6 million for the first quarter ended July 1, 2007, an 8.5% increase over sales of \$84.4 million for the first quarter last year. For the quarter the company reported a net loss of \$664,000 compared to net income of \$530,000 for the same period last year.

... In other news, **Sport Chalet, Inc.** celebrated the opening of its new 42,000 square foot store in Tempe, Arizona. This is the company's 48th location.

... **American Skiing Co.** has adopted a plan of complete dissolution and liquidation of the company. Holders of the company's common stock, and Class A common stock are not expected to receive any payment or distribution with respect to their shares after payments to creditors and the holders of Series C Preferred Stock. Series C Preferred stockholders are not expected to receive full payment.

... **Dick's Sporting Goods** is building a 657,000 square foot distribution center in East Point, Georgia, at a cost of \$23 million, to service its store base in the southeastern U.S.

... **Dick's Sporting Goods** amended its Revolving Credit Agreement, extending the maturity of the Agreement from July 2008 to July 2012, increasing the potential Aggregate Revolving Credit Commitment from \$350 million to a potential of \$450 million and reducing certain applicable interest rates and fees.

... Due to the impact of its merchandise inventory clearance activity, **Foot Locker Inc.** now is expecting a net loss for the second quarter to be in the range of 17 cents to 20 cents per share versus a prior estimate for net income in the range of 15 cents to 20 cents per share.

... **The Finish Line** launched a marketing campaign in conjunction with **Nike**, to promote the

chain as a destination for Nike+ running shoes.

... In other news, **Nike** opened a 13,000 square foot flagship store in Beijing, China, the largest of 3,000 current Nike retail locations in the country. The 2008 Olympics open in Beijing approximately one year from today.

... **Sport Supply Group, Inc.** closed on its previously announced private sale of 1.8 million shares of common stock at \$10.00 per share to an affiliate of **Andell Holdings**.

... **The Walking Company** has taken to the shores of the Pacific once again and is opening three more locations in Hawaii; two on Maui and one on Oahu. The company already has one location on each island.

... **NexCen Brands, The Athlete's Foot** parent, struck a 20-year agreement with franchisee **TAF Mid-America Enterprises, Inc.**, which currently owns 31 TAF stores in the U.S. and the banner's master franchise in South Korea, to open an additional 100 TAF stores in the U.S., mostly in urban areas, by 2021.

... **Shoe Pavilion, Inc.** reported that sales for the second quarter ended June 30, 2007 were \$37.5 million with a comp store sales decrease of 1.0%. The company now expects to report a net loss for the second quarter of approximately \$1.0 million to \$1.2 million. Previous guidance for the quarter was for sales to range between \$37.0 and \$39.0 million and for net income in the range of 1 cent to 2 cents per share.

... With customer traffic down and the shifting of back-to-school dates and tax-free days later in August in certain markets, **Shoe Carnival, Inc.** revised its earnings guidance for the second quarter ending August 4th. Earnings are now expected to range from break-even to 5 cents per share, assuming a comp store sales decline ranging from 6% to 7%.

Did You Know...?

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

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Hi Tech Entertainment

... **Amazon.com** has begun testing a pilot program in Seattle, Washington, called **Amazon Fresh** that will deliver perishable groceries to consumers, including organic and non-organic fruits and vegetables, dairy products, ice cream, meat and seafood.

... In a major shift in strategy, **Sharper Image** will now be offering a wider range of price points from various vendors. Previously, the company would carry the same products in the same price point range from various vendors.

... In other news, **Sharper Image Corporation** signed a multiyear licensing agreement with **The EnE group, LLC**, a leading developer, manufacturer and marketer of luggage, computer cases and related travel accessories. The products will be specially designed to sell under the Sharper Image brand name.

... **Best Buy** is addressing the increasing demand for home entertainment design options by offering lifestyle design company **Maria Yee's California** contemporary home media furniture. An exclusive three-piece collection of the furniture is now available at approximately 70 **Best Buy Magnolia Home Theater** stores in the New York and Los Angeles areas.

... **Rex Stores Corporation** funded an additional

\$10 million in **Big River Resources, LLC**, completing its \$20 million subscription agreement in exchange for a minority equity interest in the entity. Big River operates a 52 million gallon dry-mill ethanol manufacturing facility in West Burlington, Iowa.

... **Theater Xtreme**, a retailer and installer that specialized in front-projection "movie theaters for the home," announced plans to launch an online retail store. The company is currently in the final stages of preparing the site for launch and expects it to be open for business early in the fourth quarter.

... **HSN**, an operating business of **IAC**, launched its completely redesigned e-commerce site. Utilizing green screen video technology and original content, along with original and re-purposed television programming, the new **HSN.com** tears down the wall between online and television retail.

... Continuing to leverage the strength of its retail model in international markets, **Gateway** announced the availability of its products for the first time in Eastern Europe. Gateway's product line is now available at **Tesco** stores in Czech Republic, Hungary and Slovakia.

Did You Know...?

Core consumer inflation increased 0.1% for the fourth consecutive month in June, pushing the yearly gain in core inflation down to the lowest level in three years. Overall inflation also increased 0.1% in June, the lowest monthly inflation since November. Overall inflation is up 2.3% in the past year.

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Rating Changes and Outlooks

S&P Rating Changes				
Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
KRISPY KREME DOUGHNUTS INC	B-	NM	NEG	NM
STEWART & STEVENSON	B	NM	STA	NM
STEWART & STEVENSON HQ	B	NM	STA	NM
BARNEYS NEW YORK INC	B	NR	NEG	NR
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

Radioshack: Retailer of the Week

(Continued from page 1)

\$ figures in millions, 6-Months ended	6/30/2007 (Q2 YTD FY07)	6/30/2006 (Q2 YTD FY06)	Year-over-Year Change
Liquidity Ratios			
Cash and A/R % Current Liabilities	114.47%	64.35%	+5,012 bps
Working Capital	\$838	\$687	+21.98%
Current Ratio	2.2x	2.08x	+12 bps
Leverage Ratios			
EBITDA / Interest Expense	9.29x	4.14x	+515 bps
Total Debt / Total Equity	65.68%	97.01%	+3,133 bps
Total Liabilities / Total Assets	59.17%	67.05%	+788 bps

OPERATING PERFORMANCE

Revenues for the second quarter ended June 30, 2007 were \$934.8 million, down 15% from the same quarter last year. Granted much of the fall in revenues was a result of the closing of 481 stores since last year, but the company also did not help itself with what it has left. Comparable store sales fell an abysmal 8.9% for the second quarter, with much of the declines as a result of a drop in its wireless and personal electronics platforms. For the quarter, Radioshack saw its company-operated wireless sales fall 20%, as a challenging wireless environment and a shift to prepaid handsets and plans hurt company sales. In total, Radioshack saw revenues at its company-operated stores fall 14.9%, while kiosk revenues fell 14.4%. Other revenue, which includes the website and service segments, was down 17.4% for the quarter, primarily from a decline in service revenues from the closing of five service centers.

Despite the drop in revenues, the company made some serious noise on the gross margin line, a very promising change as we move forward. Gross margin for the quarter was 50.5%, up nicely from 47.2% for the same quarter last year. Nice cost cutting methods, largely in part due to the store closings, have also helped this company get back on track. SG&A as a percentage of sales dropped like a rock for the quarter, as Radioshack seems to have its costs under control. More than half of the savings have come from decreased compensation expense, while rent expense has also fallen drastically. Both of the factors can be directly attributed to the store closing initiatives. We also must remember that the same quarter last year had a \$14.1 million bill associated with the restructuring efforts.

The final result for the quarter was a swing from a \$3.2 million loss for the quarter last year to a \$4 million profit for the same quarter this year. While revenues disappointed, the bottom line definitely was a very pleasant surprise.

Revenues for the six months ended June 30, 2007 were \$1.93 billion, down 14.7% from the same period last year. Again, as was the case for the quarter, much of the fall in revenues was a result of the closing of 481 stores since last year, but the company also experienced miserable comps for the first half. Comparable store sales have fallen a painful 9.1% so far this year, with much of the declines again coming as a result of a drop in its wireless and personal electronics platforms. For the six months, Radioshack saw its company-operated wireless sales fall 24.4%. In total, Radioshack saw revenues at its company-operated stores fall 14.8%, while kiosk revenues fell 7.7%. Other revenue, which includes the website and service segments, was down 20% year-to-date, primarily from a decline in service revenues from the closing of five service centers.

Just as was relevant for the second quarter, the company made nice progress on the gross margin line, which continues to be where we should focus from a credit perspective. Gross margin for the six months was 51.3%, up from 47.8% for the same period last year. Gross margin so far this year has been positively skewed by a \$14 million refund of federal telecommunications excise taxes during the first quarter. Again, though, the cost cutting methods seem to have worked wonders, as Radioshack saw its SG&A as a percentage of sales drop.

Year-to-date, Radioshack has seen a healthy \$85.9 million profit, a nice change from the measly \$5.2 million the company had made at the same point last year.

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Radioshack: Retailer of the Week

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CAPITAL STRUCTURE

It is hard to imagine that the balance sheet last year is the same company as the balance sheet this year. Liquidity has surged, even as the company's debt load has plummeted.

Radioshack closed the quarter with \$630.4 million in cash on the books, up sharply from the just \$170.3 million the company had last year. While the company was blasted in the past for repurchasing too much stock, so far this year, the activity here has been quiet. There has been just \$46.5 million used for this so far this year, as the company has so far instead chosen to leave the money in the business. There is some very valuable ways that Radioshack could use its funds going forward, and getting its name back into the minds of the consumer should be use number one.

In addition to the liquidity Radioshack already has, the company also has access to a \$650 million credit facility that is used as a backstop to its commercial paper program. There was nothing outstanding the end of the second quarter.

The company has been able to make these huge strides, all the while reducing its debt load. Total debt was \$532.8 million at the end of the second quarter, down sharply from the same point last year, when there was \$596 million outstanding. There is \$192.7 million in current debt on the books, but with the funds Radioshack has, this is nothing it cannot take care of internally.

First Page

FYI for the DIY

... **Home Depot** confirmed the firing of purchasing managers who allegedly accepted large cash kickbacks from suppliers. In conjunction with the firings, the company tightened its ethics code to ban merchandising employees from accepting any gifts or entertainment from vendors, long a standard practice in the retail industry.

... **Builders FirstSource, Inc.** acquired **Bama Truss and Components, Inc.** Based in Shelby, Alabama, Bama is a leader in multifamily and light commer-

cial manufactured structural components with annual sales of approximately \$25 million.

... **Griffin Land & Nurseries, Inc.** settled a lawsuit filed against it and its subsidiary **Imperial Nurseries, Inc.** with the U.S. Department of Labor regarding back wages of approximately \$40,000 on behalf of 27 migrant workers who worked at Imperial's Connecticut farm in 2006. Imperial paid the \$40,000.

Did You Know...?

Consumer confidence hit a six-year high in July at 112.6, its highest level since August 2001, as Americans shrugged off falling home prices to focus on a to date healthy jobs market, instead.

Options and Resources

Feedback and Questions: Should you have any feedback to provide us or questions to ask, please email us at inbox@globalcreditservices.com

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Earning Release Dates

Apparel/Department Stores

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

Mass Merchants

Canadian Tire Corporation	9-Aug
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Home Centers

Home Depot	14-Aug
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Drug

Tenet Healthcare Corporation	7-Aug
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Sporting Goods & Footwear

Golfsmith International Holdings	7-Aug
Shoe Carnival, Inc.	9-Aug
Foot Locker, Inc.	22-Aug
Hibbett Sports, Inc.	23-Aug
Payless ShoeSource	29-Aug

Specialty

A.C. Moore Arts & Crafts, Inc.	6-Aug
Guitar Center, Inc.	7-Aug
Pet Valu, Inc.	7-Aug
Advance Auto Parts	8-Aug
PetSmart, Inc.	15-Aug
Tuesday Morning Corporation	28-Aug

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Second Quarter Earnings

\$ in Millions	Sales		Change	2nd Qtr Comps	Net Income		Change
	2006	2007			2006	2007	
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)	N/A
Deb Shops, Inc.	\$75.3	\$77.4	2.8%	0.1%			
Mass Merchants							
Overstock.com	\$159.2	\$149.0	-6.4%		(\$15.7)	(\$13.8)	12.5%
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%
Huttig Building Products	\$296.3	\$239.5	-19.2%		\$3.3	\$1.1	-66.7%
Interline Brands, Inc.	\$235.4	\$313.2	33.1%		(\$2.9)	\$12.0	N/A
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%
True Value Company	\$597.0	\$594.4	-0.4%	1.5%	\$24.0	\$27.0	12.5%
United Rentals, Inc.	\$919.0	\$966.0	5.1%		\$56.0	\$67.0	19.6%
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							
Big 5 Sporting Goods Corp.	\$211.8	\$217.8	2.9%	-0.2%	\$7.4	\$5.9	-20.0%
Cabela's	\$387.3	\$451.2	16.5%	-0.8%	\$8.4	\$11.3	34.8%
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%
Haverty Furniture	\$211.0	\$187.1	-11.3%	-12.7%	\$3.6	(\$1.4)	N/A
Midas, Inc.	\$45.1	\$45.3	0.4%	2.2%	\$2.6	\$3.0	15.4%
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%
Gateway, Inc.	\$909.3	\$840.6	-7.6%		(\$7.7)	\$1.9	N/A
IAC/InterActiveCorp	\$1,431.6	\$1,512.4	5.6%		\$53.8	\$96.0	78.4%
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%
OfficeMax Incorporated	\$2,041.0	\$2,132.4	4.5%	1.6%	\$27.4	\$27.4	0.1%
PC Connection, Inc.	\$408.1	\$441.1	8.1%		\$3.1	\$5.8	84.9%
PC Mall, Inc.	\$234.1	\$263.0	12.3%		\$0.4	\$3.0	659.2%
RadioShack Corporation	\$1,099.9	\$934.8	-15.0%	-8.9%	(\$3.2)	\$47.0	N/A
Rent-A-Center, Inc.	\$583.6	\$724.2	24.1%	2.7%	\$39.8	\$41.3	3.5%
United Stationers Inc.	\$1,111.1	\$1,141.2	2.7%		\$41.4	\$24.1	-41.7%
Zones, Inc.	\$145.2	\$192.2	32.4%		\$2.9	\$4.4	51.1%
Food							
George Weston Ltd.	C\$7,507.0	C\$7,739.0	3.1%		C\$184.0	C\$129.0	-30.0%
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%
Publix Super Markets	\$5,349.0	\$5,665.0	5.9%	4.0%	\$264.0	\$306.4	16.1%
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%
CVS Caremark Corporation	\$10,564.4	\$20,703.3	96.0%	5.7%	\$337.9	\$723.6	114.1%
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%
Omnicare, Inc.	\$1,641.1	\$1,549.2	-5.6%		\$8.4	\$49.2	487.7%
Shoppers Drug Mart	C\$1,768.2	C\$1,928.1	9.0%	5.3%	C\$94.4	C\$112.3	18.9%

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