

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

The U.S. House of Representatives voted 237-18, with most Republicans abstaining, to pass a \$90.7 billion funding bill requiring the FDA to come up with a plan to revamp the nation's food safety procedures and then implement the plan by July 2009. While the bill goes to the Senate, the President has already said he will veto it.

Dollars & Sense: Food Fares

With some food prices rising 7% to 33% in the last couple of months, including staples such as milk, bread and eggs, some consumers are finding new discounters and rediscovering old outlets.

Call it a food fight, but as prices rise, customers are being forced to find cheaper sources. Foods prices are seeing some of the biggest price hikes since 1990, said Michael Swanson, agricultural economist at Wells Fargo. Seasonally adjusted food prices increased nearly 4% from June 2006 to June 2007. Price jumps included ground chuck (7.7%), eggs (10.5%) and orange juice (33.2%), according to the U.S. Department of Labor.

Families on shoestring budgets can, however, save 20% to 40% at grocery outlet discounters, such as So Low and Mike's Discount Foods in the Minneapolis area. The grocery outlet concept used to be limited, but because most of their goods can be considered "scratch and dent," the customer base was lower-income and thrift-store shoppers.

That's changed. Business at the outlets is up more than 25% in the past few months, with nearly all of that increase generated by middle-income shoppers, since the percentage of customers using food stamps hasn't increased. Scott Godes, President of So Low, said his business is up 30%, with many of the new shoppers being people of all incomes who drive in from the suburbs.

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Sherwin-Williams Company: Retailer of the Week

Last year at this time, the home building industry was in the late stages of a very robust growth cycle. Homeowners who might have been taking advantage of low interest rates were investing heavily in home improvement projects. The commercial and industrial construction and maintenance markets were very healthy and Sherwin-Williams was reporting one of the strongest sales and profit quarter in the company's 104-year history.

While the commercial and industrial markets remain strong for the company, residential construction and sales of existing homes have stalled. The decline in these two important markets have had a meaningful impact on industry, architectural paint volume, particularly among painting contractors who specialize in new residential construction as well as the do it yourself homeowners.

Sherwin-Williams was not immune to these sharp drop-offs in demand as sales for the first quarter declined by \$12.3 million, or 0.7% to \$1.76 billion from \$1.77 billion last year. Net income for the quarter of \$111.8 million represented a decline of \$1.9 million, or 1.6% versus last year. However, the company maintains a diversified portfolio of businesses that allows the company to manage its resources to minimize the negative impact in certain segments of the portfolio. As a result as of the end of the first quarter, we are maintaining our current "C" Credit Rating with a "Negative" Outlook. We are maintaining our Negative Outlook due to the uncertainty surrounding the Rhode Island jury decision, and other pending cases regarding lead in paint. ^

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Dollars & Sense: Food Fares

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So Low and Mike's grocery outlets represent only a fraction of competitors for the Twin Cities food dollar, but they're growing for a good reason. Consumers report that they view grocery store prices as the most inflationary, more so than home furnishings, home electronics and drugstores, according to a national study of 812 consumers conducted in 2007 by ChainStoreAge.com.

With the rising prices, middle-of-the-road stores in the Twin Cities such as Cub's and Rainbow, which have long dominated the market, are expected to lose market share at the expense of discount supermarkets and supercenters. Cub's market share is expected to drop from nearly 42% in 2007 to about 38% in 2008. Rainbow is expected to drop from 16% to 14% in the same period.

With grocery bills expected to remain at loftier levels because of higher demand as well as higher energy and corn prices, lower and middle-income shoppers don't seem to mind migrating to better deals. A larger slice of So Low customers, about 20%, now come from outside the neighborhood.

Mike Abernathy, who owns two Mike's stores always does better in a down economy. His customers save 50% or more than at full-priced stores on products that are near their expiration, like produce such as watermelons or items that have been discontinued or have packaging or label changes. Most, though come for staples: meat, produce, bread and canned goods.

Products near or at their expiration date aren't usually a food safety issue unless the packaging has been compromised, said Heidi Kassenborg, acting director of the Dairy and Food Division at the Minnesota Department of Agriculture. Milk that has curdled might be undrinkable, but it's not unsafe.

Food retailing appears to require a strong stomach.

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Did You Know...?

Businesses hoping to use bankruptcy protection to stay alive could soon face a new hurdle: bigger bills. Under a budget proposal set to take effect next year companies in Chapter 11 could pay significantly more in quarterly fees to the federal government, in some cases triple what they're paying now. The U.S. Trustee Program, a Justice Department office that monitors consumer and business bankruptcy cases, has proposed a 30% increase. Those against the increase cite the fact that debtors are in Chapter 11 because they need an opportunity to reorganize, not have additional burdens placed on them

Bankruptcy Blotter

... **Rag Shops Inc.** reported that sales for the month of May were \$5.6 million, generating a net loss for the period of \$0.9 million, including reorganization items of \$244,000.

... **Pacific Lumber Co.** reported total sales for the month of June of \$10.3 million, while generating a loss of \$9.9 million, including reorganization items of \$1.0 million.

... **Delphi Corp.** reached a tentative deal with the **IUE-CWA**, its second largest union, the **International Association of Machinists**, the **International Brotherhood of Electrical Workers** and the **Inter-**

national Union of Operating Engineers, clearing another hurdle in its bid to exit from Chapter 11.

... Also aiding in the emergence of **Delphi Corp.**, **General Motors Corp.** is assuming an additional \$1.5 billion to \$2.0 billion of net pension obligations of the company.

... In other news, **Delphi Corp.** reported a net loss of \$821 million for the second fiscal quarter, down from a net loss of \$2.0 billion for the comparable period last year. Revenue for the quarter was flat versus a year ago at \$7.0 billion.

Health & Beauty Aids

... **Walgreen** is testing a new format that will not only add in-store medical clinics in select locations, but also cafes that will offer fountain drinks and snacks. The company reportedly is testing the concept in about 100 of its almost 6,000 stores.

... **Rite Aid** will expand the **GNC** store-within-a-store concept from the 1,275 currently operating to more than 2,000 by the end of 2014. The nutrition center boutiques will largely be added to **Brooks** and **Eckerd** stores acquired by Rite Aid.

... As a fall-out of the merger of **CVS** and **Care-**

mark, PharmaCare will close its mail-order facility in Fairfield, Ohio, eliminating 222 positions.

... **Cardinal Health** reported sales for the fiscal year ended June 30, 2007 of \$86.85 billion, up 9.0% versus sales of \$79.67 billion for the prior year. Earnings for the year were \$1.93 billion versus earnings last year of 1.00 billion.

... **GeoPharma, Inc.** will release its first quarter ended June 30, 2007 operating results on Tuesday, August 14th. Be sure to look for those results on **Global's** website shortly thereafter.

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Management on the Move

... **The Kroger Co.** named **Mike Donnelly** President of the company's **Ralphs Food Stores** division. Mr. Donnelly joins Ralphs from his current position as President of Kroger's **Fry's** division. Mr. Donnelly replaces **Dave Hirz**, who is returning to **Food 4 Less** as President of the division.

... **Brookshire Grocery Co.**, named **Rick Rayford**, a 35-year veteran of the company as the company's new CEO, succeeding **Marvin Massey**, who is retiring. Mr. Rayford most recently served as EVP – Corporate Development for the company.

... **The Jean Coutu Group** announced that **Francois Coutu** would succeed his father, **Jean Coutu** as President and CEO of the company, effective the stockholders meeting on October 16th. Jean Coutu will continue as Chairman of the Board.

... **Cardinal Health** elected IBM veteran **Colleen Arnold** to its Board of Directors. Ms. Arnold is General Manager of **IBM's** Applications Services business within IBM Global Business Services.

... **Jim Famalette**, President and CEO of **Gottschalks** was appointed to the additional position of Chairman of the Board of the company. Mr. Famalette succeeds **Joseph Levy** who is retiring as Chairman but will continue to serve as a Director and Chairman emeritus.

... In addition to the above, **Gottschalks** also announced the appointment of **Gregory Ambro** to the position of EVP and COO, having most recently served as Chief Administrative and Financial Officer of the company, and the appointment of **Daniel Warzenski** to the position of VP Finance and CFO, having most recently served as VP Finance of the company.

... **Chico's FAS, Inc.** appointed **Donna Noce Colaco** as its new Brand President – White House/Black Market, succeeding **Patricia Darrow-Smith**. Ms. Colaco most recently served as President of **Ann Taylor LOFT**.

... **Ann Taylor Stores Corporation** reported that **James M. Smith**, EVP and CFO, has decided to resign from the company to pursue other interests. The company is currently undergoing a search for Mr. Smith's replacement.

... **The Bon-Ton Stores, Inc.** increased the size of its Board of Directors from eight to ten members and elected **Thomas K. Hernquist** and **Todd C. McCarty** to fill the two new seats. Mr. Hernquist is SVP and Global Chief Growth Officer of **The Hershey Company** and Mr. McCarty is SVP, Human Resources of **Rite Aid Corporation**.

... **Wilson's The Leather Experts Inc.** elected **Mark**

G. Schoeppner to serve as a member of the Board of Directors. Mr. Schoeppner founded **Quaker Capital Management Corporation** and serves as its President.

... **Wilson's The Leather Experts Inc.** also appointed **Michael T. Sweeney**, Managing Partner of **Goldner Hawn Private Equity**, to the position of non-executive Chairman of the Board of the company. **Mike Searles** will continue to be CEO.

... **Michael Weiss** resigned from the Board of Directors of **Pacific Sunwear of California, Inc.** Mr. Weiss' resignation was due to his recent acceptance of the position as CEO of **Express**.

... **Wal-Mart's** health care initiatives will be under the leadership of a new executive following the appointment of **John Agwunobi** as SVP and President for the company's Professional Services division. Dr. Agwunobi most recently served as Assistant Secretary for Health for the **U.S. Department of Health and Human Services** and an Admiral in the **U.S. Public Health Service Commissioned Corps**.

... **Joe's Sports & Outdoor** hired **Jill R. Inskeep** to fill the position of Human Resources Manager. Ms. Inskeep was formerly Senior HR Manager for **WebMD** in Portland, Oregon.

... **Lowe's Companies, Inc.** named **Don T. Stallings** as President of **Lowe's-Canada** replacing **Doug Robinson** who resigned for personal reasons. Mr. Stallings most recently served as VP of Operations in Lowe's south central division.

... **Pier 1 Imports, Inc.** named **Sharon M. Leite** to the position of EVP – Store Operations. Most recently, Ms. Leite served as the VP of Sales and Associate Marketing at **Bath & Body Works**.

... In other news, **Pier 1 Imports** terminated the employment of **Phil E. Schneider**, who was serving as EVP – Marketing. The company is seeking a replacement to fill the position.

... Among the organizational changes to streamline its operations, **Zale Corporation** named **Steve Lang** to Group SVP and Chief Merchandising Officer as head of a new centralized merchandising organization, reporting directly to CEO **Betsy Burton**.

... In addition to the above, **Zale Corporation** announced that **John Zimmerman**, President of **Zale North America**, has left the company and that beginning with the moderate brands, there will no longer be separate brand Presidents. The company has engaged an executive search firm to

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Heard in the Grocery Aisle

... **The Great Atlantic & Pacific Tea Co.** promised the **Federal Trade Commission** that it will not close on its \$679 million acquisition of **Pathmark Stores** until at least September 25th, as the FTC continues to evaluate the deal on competitive grounds.

... **Whole Foods Market, Inc.** extended the expiration date for its tender offer to purchase the outstanding shares of **Wild Oats Markets, Inc.** to Wednesday, August 15, 2007. As of August 9th, a total of 16.6 million shares had been tendered, representing 55.6% of the outstanding shares.

... **Stater Bros.** posted third quarter sales of \$910.2 million, up 2.7% over the comparable period last year, on comp store sales that were up 1.7%. Third quarter net income was up by a considerably greater percentage – to \$15.6 million compared to \$5.7 million last year.

... **Delhaize-owned Food Lion** will go through market remodeling programs in four markets – Charlottesville, Virginia; Richmond, Virginia; Savannah, Georgia; and Wilmington, North Carolina – that will include the rebranding of some of its units, where appropriate, as Bloom or Bottom Dollar stores.

... **Giant Eagle Inc.** won the bidding for the **LaNature's** plant in Latrobe, Pennsylvania, with a \$20 million offer. The company plans to reopen the idled plant in about eight weeks to initially produce Giant Eagle-labeled bottled water and iced tea.

... **Kroger** plans to expand its Private Selections organic food line by some 60 SKUs this fall, with the new items to include pasta, milk, snacks and

peanut butter. By the end of the year, Kroger expects to double the current Private Selections item count to as much as 600.

... In other news, **Kroger** entered into an agreement with **Murray's Cheese**, based in New York City, to expand Kroger's specialty cheese program. Terms of the agreement were not disclosed.

... **Spartan Stores**, which spent as much as \$20 million to upgrade the 20 **Felpausch** supermarkets it acquired earlier this year, is considering rebranding the units as either **D&W Fresh Markets** or **Family Fare Supermarkets**, two other banners owned by Spartan.

... **Publix** changed its approach to pharmacy discounts – offering seven common antibiotics for free rather than matching **Wal-Mart's** broader program offering more than 140 generic prescription drugs for \$4.00. **Albertsons** in Florida announced that it will match both Publix's new plan and Wal-Mart's existing plan.

... Canadian grocer, **Metro Inc.**, reported sales for the third fiscal quarter ended July 7, 2007 of C\$3.34 billion, virtually flat with the comparable period last year, though comp store sales for the quarter increased by 2.1%. Net income for the period was C\$89.3 million, up 4.9% versus the third quarter last year.

... **Christie Clinic** plans to open **Convenient Care** clinics in **Country Market** stores throughout Champaign-Urbana, Illinois. The first clinic will open this month with three additional clinics shortly thereafter.

Did You Know...?

Food gifts have shot up in popularity in a climate of otherwise reduced gift-giving, according to a new study, which says food gifts are increasingly being chosen because they please everyone as they can be shared

FYI for the DIY

... **The Home Depot®** is in discussion with affiliates of **Bain Capital Partners, The Carlyle Group** and **Clayton, Dubilier & Rice** to restructure the previously announced agreement for the sale of **HD Supply**. The discussions could result, among other things, in material changes to the terms and financing of the transaction, including a reduction in the \$10.235 billion purchase price.

... In addition to the above, **The Home Depot®** modified its "Dutch Auction" tender offer to purchase up to 250 million shares of its common stock, amending the offer to a range of between \$37 and \$42 per share, down from between \$39 and \$42 per share. The company is also extending the expiration date of the tender offer to August 31st, and reiterated the offer was not conditional on the sale of **HD Supply**.

... **Central Garden & Pet Company** reported sales

for the third quarter ended June 20, 2007 of \$466.8 million, a decrease of 7.9% from \$506.7 million in the comparable period last year. Net income for the quarter was \$15.5 million, down 49.5% versus net income of \$30.7 million last year.

... In what is shaping up to be a tough year for vendors, with trouble swirling in credit markets and home sales down sharply, bearish investors fear some home builders won't be able to survive the current downturn. Several mortgage lenders have already gone out of business, while some builder stocks have experienced sell-offs recently just on rumors they could potentially file for bankruptcy. A credit crunch has hit the market on fears that problems in the subprime mortgages, which are loans designed for home buyers with shakier credit histories, may spread.

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Off the Rack

... **Jones Apparel Group Inc.** agreed to sell its Barneys New York chain to **Istithmar** for a sweetened price of \$942.3 million after the Dubai-owned firm raised its offer in the face of a rival bid from Japan's **Fast Retailing Co. Ltd.** Jones paid approximately \$400 million for Barneys in 2004.

... In spite of a 4.1% decrease in comp store sales for the second quarter, **Aeropostale, Inc.** still expects to achieve earnings for the second quarter in the range of 27 cents to 28 cents per share, slightly ahead of previously issued guidance.

... **bebe stores, inc.** will release its fourth quarter and year end financial results on Thursday, August 23, 2007. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **The Gymboree Corporation** opened the first of its new format **Crazy 8** stores in Daly City, California. The company has signed eight additional leases to support the opening of Crazy stores in California (4), New Jersey (2), New York (1), and Texas (1).

... Completing its quarterly financial closing process, **Pacific Sunwear of California, Inc.** has concluded that it must take a \$10 million impairment charge with respect to financial results of its **One Thousand Steps** stores. The charge will be recorded in the company's fiscal second quarter.

... **Gap** is understood to have put about 10% of its roughly 125 United Kingdom store portfolio on the market as the company continues to underperform.

... **Charming Shoppes** revised its net sales estimate for the second quarter ended August 4, 2007 downward to \$765 million from previously revised estimates in the range of \$785 to \$795 million. Net income for the quarter is now projected to be in the range of 12 cents to 13 cents per share, down from revised projections in the range of 18 cents to 20 cents per share.

... **Abercrombie & Fitch** plans to open a Tokyo flagship store in late 2009, the company's first store in Asia. The company signed a lease for

space in Tokyo's Ginza district, one of the most prominent shopping districts in the world.

... **Bebe Stores** reported sales for the fiscal year ended July 7, 2007 of \$665.5 million compared to \$577.9 million last year, an increase of 15.2%. Comp store sales increased 2.9% for the year.

... Gamblers is Nevada will soon find true religion, at least in their apparel. **True Religion Apparel, Inc.** plans to open three new branded stores in Las Vegas, located in the Fashion Show Mall, the Miracle Mile Shops at Planet Hollywood and in the Las Vegas Premium Outlets.

... At the same time, **H&M** is finally bringing its low-priced, high-fashion concept to Atlanta, Georgia. The company plans on opening a 24,000 square foot store next spring in an existing building at Atlantic Station.

... Aiming to modernize the store's image while celebrating its 181-year-old heritage, **Lord and Taylor** announced plans to launch a \$10 million re-branding campaign this fall. The campaign will showcase the results of a four-year repositioning effort.

... As a result of anticipated declines in gross margin for the second quarter, **New York & Company** lowered its earnings estimate for the second quarter to approximately 5 cents per share from previous guidance in the range of 11 cents to 14 cents per share.

... **Tandy Leather Factory, Inc.** purchased a 195,000 square foot facility from **Standard Motor Products, Inc.** for its new corporate headquarters and central warehouse in Fort Worth, Texas for \$4.5 million. The company entered into a credit agreement with **JPMorgan Chase Bank, N.A.** for \$5.5 million to finance the property and anticipated improvements.

... Based on recent trends and the current retail environment, the principal investors of **Harold's Stores, RonHow, LLC**, an entity controlled by **Ronald deWaal** and **W. Howard Lester**, have verbally agreed to provide the company with additional working capital of \$3.8 million through an existing subordinated debt facility.

Did You Know...?

Chain-store sales for the week ended August 4, 2007 rose 3.1% from the year-ago period. On a week-over-week basis sales slipped 0.3%. Despite the slight dip in the final week of the month, the overall pace of July sales was the strongest monthly growth since last March.

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Options and Resources

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Specialty Items

... **Restoration Hardware** now sees the net loss in its second quarter ended August 4, 2007 to be much greater than expected due to continued weakness in the home furnishings and housing markets. The company, which earlier projected a loss of 6 cents to 12 cents per share, now says the loss will be 19 cents to 21 cents per share on sales in the range of \$183 million to \$185 million.

... Separately, **Restoration Hardware** signed a 15-year lease for a new 800,000 square foot distribution center located in West Jefferson, Ohio, allowing the company to phase out of third-party operations at a Nashville, Tennessee site. Construction is expected to begin in the fall with operations commencing in the summer of 2008.

... **Cost Plus, Inc.** raised \$34.3 million through the sale and lease-back of its new distribution facility in Stockton, California to **Inland Western Stockton**

Airport Way II, L.L.C. Proceeds from the transactions were used to pay down debt incurred by Cost Plus in developing the property.

... Entertainer **Hilary Duff** has partnered with **Michaels Stores, Inc.** to introduce a line of stuff by hilary duff "Design It Yourself" fashion crafts in over 900 Michaels North American stores.

... **Tiffany & Co.** won a Final Judgment by Consent against **Starglam Inc.** enjoining them from any further counterfeiting or infringement of the Tiffany name and trademark. The judgment requires the defendants to pay Tiffany \$1.0 million, which has been paid in full.

... In other news, **Tiffany** plans to open a new boutique in Nagoya, Japan. The 2,300 square foot store is Tiffany's third Nagoya location and 54th location in Japan.

The Global World of Sports and Footwear

... **Dick's Sporting Goods Inc.** is planning a new distribution center in East Point, Georgia. The 300 store chain plans to open 90 stores in California, 60 stores in Texas and 40 more stores in Florida, as it implements its strategy to have 800 stores nationwide in the next seven or so years.

... **New Balance Athletic Shoe Inc.** debuted its newest retail concept with the opening of its location in Mashpee, Massachusetts. The environmentally friendly store features footwear testing journals, information on New Balance technology and product organization by athletic activity.

... **Modell's** is teaming with **GE Money** on a "Most

Valuable Player" platinum **Mastercard** and Modell's branded private label credit card for customers at its 130+ stores.

... **Finish Line Inc.** and **Nike Inc.** have teamed up in a new back-to-school marketing campaign designed to sell Nike+ running shoes and boost the soft U.S. retail market for athletic shoes.

... **Vail Resorts, Inc.** began litigation to enjoin **American Skiing** from selling The Canyons resort to **Talisker Canyons Finance Co. LLC** and **Talisker Corp.**, claiming American Skiing agreed to sell the resort to Vail Resorts, Inc. The sale is, at least, temporarily being held up.

Did You Know...?

At airports, supermarkets and big-box retailers, "customer service" in recent years has meant self-service, aided by touch-screen kiosks. An April report estimated 800,000 customers kiosks, not including ATM's, would be installed in North America by the end of 2007 and hit 1.2 million by 2009



Global Credit Services, Inc. Welcomes Our Newest ARMZ Customer:

Microsoft®

We are happy to announce that Microsoft has joined our roster of ARMZ clients. After years of being a Premium client, they have been using ARMZ since earlier this year and have found it to be a very valuable asset to their business. We look forward to a long relationship with our friends in Redmond!

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Mass Merchant Musings

... Talk about cross-merchandising . . . **Wal-Mart** is engaged in a little cross-Atlantic merchandising. Reports are that the company's **Asda** division in the UK has begun exporting premium private label products under the Extra Special name to its **Wal-Mart de Mexico** division. After initial success with 50 Asda products, plans now call for doubling the SKU count.

... Amid howls of protest from leftist politicians and small-scale retailers, **Wal-Mart** announced the establishment of its long-planned joint venture with **Bharti Enterprises** to build wholesale outlets in India and a nationwide supply chain. **Bharti-Wal-Mart's** first wholesale cash-and-carry store is likely to open by the end of the year. Multi-brand retailers like Wal-Mart are barred from opening their own stores in the country.

... Based on 4.4% increase in comp store sales for the second quarter, **Dollar Tree Stores** now anticipates earnings per share to be in the range of 32 cents to 33 cents per share for the quarter, up from previous guidance in the range of 29 cents to 32 cents per share.

... **Family Dollar Stores, Inc.** reported that sales for its fiscal year ended August 4, 2007 were \$6.34 billion, up 4.9% versus prior year, with

comp store sales up 0.9%. The company expects that earnings for the full year will be between \$1.55 and \$1.58 per share, compared with \$1.26 per share for the prior year.

... **99 Cents Only Stores®** reported sales for its first fiscal quarter ended June 30, 2007 of \$293.0 million, up 11.1% over sales of \$263.6 million in the comparable period last year. Net income for the quarter was \$3.0 million, up 59.6% versus net income of \$1.9 million last year.

... **Meijer Inc.** has let go 500 department managers in its 180 stores throughout the Midwest after interviewing 4,200 managers to determine the best use of personnel and to restructure work responsibilities. Hourly employees were not involved in the process.

... **Sears Holdings Corporation** announced that its Board of Directors approved the repurchase of up to an additional \$1.5 billion of the Company's common shares. This authorization when added to the \$19 million remaining under previous authorizations provides the Company with a current aggregate authorization of \$1.519 billion. As of August 10, 2007, Holdings had approximately 143.6 million common shares outstanding.

Hi Tech Entertainment

... **Best Buy** leased a 67,000 square foot distribution facility, half of a distribution center in a new industrial park under development in Shanghai.

... **Best Buy Co. Inc.** reclaimed its leading spot among online sellers of consumer electronics in June, after being bumped out by **Circuit City Stores Inc.** in May. Best Buy experienced no growth year over year in unique visitors, while No. 2 **eBay Electronics** experienced only 2% growth and Circuit City had slight shrinkage in traffic, down 2%.

... **Tweeter Newco**, formerly **Tweeter Home Entertainment Group**, has shut its two Las Vegas showrooms, including the A/V chain's first "CE playground" concept store. The stores were closed following the chain's recent exit from California.

... **hgregg, Inc.** will release results for its fiscal first quarter ended June 30, 2007 on Tuesday, August 14th. Be sure to look for the company's results on **Global's** web site shortly thereafter.

... **Sixth Avenue Electronics**, is preparing to expand its footprint into neighboring Connecticut and Pennsylvania. Scouting has begun for locations in Connecticut and the Philadelphia suburbs in New Jersey and Pennsylvania. The company will open its 12th location, in Central Jersey, later this month.

... **Amazon.com** expanded its Jewelry and Watches store to the United Kingdom, Germany and Japan.

... In other news, **Amazon.com** is leading a first-round investment of **AmieStreet.com**, a startup digital music store and social networking site where users rate songs and help set download prices. The amount of the investment was not disclosed.

... **Blockbuster Inc.** is buying the digital movie download service **Movielink**, giving it the online foothold it has long sought to compete with **Netflix Inc.** Terms of the deal were not disclosed.

... **Tech Data Corporation** will distribute **BakBone's** NetVault®: Backup StoreVault Edition, enabling value-added resellers to deliver a competitively priced data protection, backup and restoration solution for a wide range of midsize businesses.

... **Ingram Micro Inc.** announced a new distribution relationship with **NCR Corporation** in North America. The strategic alliance marks a milestone within NCR's channel growth strategy and notably expands Ingram Micro's hospitality and retail point-of-sale solutions. Last year, the two companies signed a similar agreement covering Australia and New Zealand.

Did You Know...?

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

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Management on the Move

(Continued from page 3)

initiate a search for the newly created position of COO of the company.

... **Best Buy Co., Inc.** promoted **David Hemler** to the newly created position of President, Best Buy for Business, responsible for the development and execution of strategies for delivering technology solutions to business, education and government customers. Mr. Hemler most recently

served as VP of Sales and Operations for the company.

... Former **Blockbuster** Online Marketing VP, **Christopher Allen** joined **Napster** as the company's COO. Mr. Allen will be responsible for product strategy, development and marketing and will report to **Chris Gorog**, Napster's Chairman and

Rating Changes and Outlooks

S&P Rating Changes

Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
KROGER CO,THE	BBB-	BBB-	POS	STA
KRISPY KREME DOUGHNUTS INC	B-	NM	NEG	NM
INN OF THE MOUNTAIN GODS	B	B-	STA	NM
KRISPY KREME DOUGHNUTS INC	B-	NM	NEG	NM
STEWART & STEVENSON HQ	B	NM	STA	NM
STEWART & STEVENSON	B	NM	STA	NM
BARNEYS NEW YORK INC	B	NR	NEG	NR

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Second Quarter Earning Release Dates

Apparel/Department Stores

Eddie Bauer Holdings, Inc.	14-Aug
The TJX Companies, Inc.	14-Aug
Macy's Inc.	15-Aug
J.C. Penney Company, Inc.	16-Aug
Kohl's Corporation	16-Aug
Nordstrom, Inc.	16-Aug
American Eagle Outfitters, Inc.	21-Aug
Wilsons The Leather Experts	21-Aug
Abercrombie & Fitch	22-Aug
Men's Wearhouse	22-Aug
Ross Stores	22-Aug
The Gymboree Corporation	22-Aug
The Talbots, Inc.	22-Aug
Bon-Ton Stores, Inc.	23-Aug
Gap, Inc.	23-Aug
New York & Company, Inc.	23-Aug
Stage Stores, Inc.	23-Aug
Stein Mart	23-Aug
The Buckle, Inc.	23-Aug
The Cato Corporation	23-Aug
The Children's Place Retail Stores	23-Aug
The Wet Seal, Inc.	23-Aug
Citi Trends, Inc.	29-Aug
dELiA*s, Inc.	30-Aug

Home Centers

Home Depot	14-Aug
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Sporting Goods & Footwear

Hibbett Sports, Inc.	23-Aug
Shoe Carnival, Inc.	23-Aug
Payless ShoeSource	29-Aug

Specialty

Linens Holding Co.	14-Aug
PetSmart, Inc.	15-Aug
Tuesday Morning Corporation	28-Aug
Borders Group, Inc.	29-Aug
Finlay enterprises, Inc.	29-Aug
Jo-Ann Stores, Inc.	29-Aug
Cost Plus, Inc.	30-Aug
Kirkland's, Inc.	30-Aug
Restoration Hardware	30-Aug

Mass Merchants

Cost-U-Less, Inc.	14-Aug
BJ's Wholesale Club, Inc.	21-Aug
Big Lots, Inc.	29-Aug
Dollar Tree Stores, Inc.	29-Aug

Consumer Electronics

Tech Data Corporation	22-Aug
GameStop Corp.	23-Aug
Trans World Entertainment Corp.	23-Aug
Conn's, Inc.	30-Aug

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Sherwin-Williams Company: Retailer of the Week

(Continued from page 1)

Operations

(\$ in Millions)	For the First Quarter Ended		Change
	31-Mar-07	31-Mar-06	
Sales	\$1,756.20	\$1,768.50	-0.70%
Gross Margin	\$791.40	\$771.40	2.60%
% of Sales	45.10%	43.60%	+144 BP
Overhead	\$617.7	\$597.6	-3.4%
Operating Income	\$173.6	\$173.8	-0.1%
% of Sales	9.9%	9.8%	+6 BP
Net Income	\$111.8	\$113.7	-1.6%
% of Sales	6.4%	6.4%	-6 BP

Consolidated net sales decreased in the first quarter primarily due to softness in the domestic architectural pay Do-It-Yourself customer and new residential markets. In spite of the sales decline, management was able to increase gross margin over prior year by \$20.0 million or 2.6% primarily as a result of better factory utilization, product sales mix and foreign selling price increases. The margin improvement was offset by increases in Overhead, though the increase was mitigated by a reduction in the estimated incentive compensation expense accrued at December 31, 2006.

During the first quarter, the paint stores group opened 17 net new stores, while the global group opened 10. At this pace, the company remains on track to open approximately 100 net new store in the paint stores group for the year. In addition to the store openings the company announced definitive agreements to purchase M.A. Bruder, a Philadelphia-based company with 132 paint stores serving the Eastern seaboard and select markets in the Midwest.

Over the balance of the year, the company anticipates a long, slow recovery in the new residential and DIY markets that will continue to restrain sales growth. For the second quarter, management expects sales to be up in the low single digits over last year's second quarter (last week the company reported actual sales for the second quarter of \$2.20 billion, up 3.2%). With sales at that level, management expects net income in the range of \$1.37 to \$1.45 per share (actual income reported last week was \$1.52 per share).

Preliminary results for the second quarter justify the maintaining of our current "C" Credit Rating. We will be competing a detailed review of second quarter and first half results as soon as the company files its Form 10Q for the second quarter with the SEC.

For the full year, the company is now forecasting net earnings in the range of \$4.55 to \$4.65 per share, well above prior year's actual earnings.

Cash Flow and Liquidity

Total debt on March 31, 2007 was \$1.03 billion, including total short-term borrowings of \$726.8 million. This was down from \$1.21 billion at first quarter end last year. The cash balance was \$299.8 million compared to \$494.3 million in 2006. The decline in cash can partially be attributed to the fact that the company purchased \$232.0 million of Treasury stock after purchasing \$311.1 million last year. While we would have rather seen the company keep its cash, we do believe vendors should have any concerns at this time.

Did You Know...?

The average American ate 208 meals prepared outside the home last year, and Americans spend 48% of their food dollars on restaurant food, up from 25% 50 years ago.

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Second Quarter Sales and Earnings

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
Apparel							
Aeropostale, Inc.	\$274.6	\$311.2	13.3%	-4.1%			
American Eagle Outfitters	\$602.3	\$703.2	16.8%	2.0%			
Bon Ton Stores, Inc.	\$746.8	\$708.6	-5.1%	-5.0%			
Buckle, Inc.	\$102.4	\$124.3	21.4%	10.1%			
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%
Cato Corporation	\$214.6	\$219.0	2.1%	-1.0%			
Chico's FAS, Inc.	\$403.0	\$436.0	8.2%	-5.6%			
Children's Place	\$395.6	\$424.3	7.3%	-1.0%			
Citi Trends, Inc.	\$76.3	\$96.8	26.9%	3.4%			
Deb Shops, Inc.	\$75.3	\$77.4	2.8%	0.1%			
Dillard's, Inc.	\$1,683.9	\$1,649.0	-2.1%	-3.0%			
GAP	\$3,720.0	\$3,690.0	-0.8%	-5.0%			
Gottschalks	\$153.4	\$145.0	-5.5%	-4.0%			
Gymboree Corporation	\$149.6	\$179.9	20.3%	5.0%			
Harold's Stores, Inc.	\$19.3	\$17.5	-9.3%	-12.8%			
Hot Topic, Inc.	\$160.1	\$161.7	1.0%	-5.8%			
JoS. A. Bank Clothiers	\$119.1	\$134.3	12.8%	2.5%			
Kohl's Corporation	\$3,301.5	\$3,589.2	8.7%	1.3%			
Limited Brands	\$2,453.9	\$2,624.1	6.9%	2.0%			
Macy's, Inc.	\$5,995.0	\$5,894.0	-1.7%	-2.6%			
New York & Company, Inc.	\$264.9	\$294.4	11.1%	4.7%			
Nordstrom, Inc.	\$2,270.5	\$2,389.5	5.2%	5.9%			
Pacific Sunwear of California, Inc.	\$324.5	\$342.2	5.5%	1.8%			
Retail Ventures, Inc.	\$694.5	\$732.7	5.5%	0.3%			
Ross Stores, Inc.	\$1,317.0	\$1,445.0	9.7%	2.0%			
Saks Incorporated	\$598.2	\$687.9	15.0%	13.2%			
Stage Stores, Inc.	\$329.7	\$359.2	8.9%	0.5%			
Stein Mart, Inc.	\$336.3	\$330.7	-1.7%	-1.2%			
Talbots, Inc.	\$571.0	\$572.0	0.2%	-4.8%			
Tandy Leather Factory	\$13.4	\$13.4	-0.1%	-0.8%	\$1.1	\$0.4	-65.0%
True Religion Apparel, Inc.	\$30.7	\$35.7	16.3%		\$4.9	\$5.1	3.7%
United Retail Group	\$120.9	\$122.3	1.2%	-1.0%			
Urban Outfitters, Inc.	\$285.6	\$348.4	22.0%	5.0%	\$25.7	\$31.9	24.2%
Wet Seal, Inc.	\$129.5	\$143.6	10.9%	-1.7%			
Mass Merchants							
Big Lots, Inc.	\$1,046.5	\$1,075.4	2.8%	5.2%			
BJ's Wholesale Club, Inc.	\$2,080.0	\$2,250.0	8.2%	3.8%			
Canadian Tire	C\$2,247.6	C\$2,316.7	3.1%	1.7%	C\$103.3	C\$122.3	18.4%
Dollar Tree Stores, Inc.	\$883.6	\$971.2	9.9%	4.4%			
Fred's, Inc.	\$406.9	\$424.6	4.3%	0.8%			
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%
Target Corporation	\$12,962.0	\$14,167.0	9.3%	4.9%			
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%
Interline Brands, Inc.	\$235.4	\$313.2	33.1%		(\$2.9)	\$12.0	N/A
Rona, Inc.	C\$1,346.0	C\$1,469.1	9.1%	1.4%	C\$80.0	C\$86.2	7.7%
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%
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							
Bakers Footwear Group, Inc.	\$47.2	\$42.0	-11.0%	-18.3%			
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%
DSW Inc.	\$301.3	\$348.7	15.7%	5.9%			
Footstar, Inc.	\$190.6	\$173.4	-9.0%		\$21.4	\$21.5	3.9%
Golfsmith International Holdings, Inc.	\$114.1	\$125.0	9.5%	-4.7%	(\$7.9)	\$6.8	N/A
GSI Commerce	\$119.6	\$131.3	9.7%		(\$3.6)	(\$5.0)	-40.5%
NexCen Brands, Inc. (The Athlete's Foot)		\$8.9			(\$1.5)	(\$0.2)	83.9%
Shoe Carnival, Inc.	\$146.9	\$154.8	5.4%	-7.1%			
Shoe Pavilion, Inc.	\$31.4	\$37.5	19.5%	-1.0%	\$1.0	(\$1.1)	N/A
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%

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Second Quarter Sales and Earnings

(Continued from page 10)

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
Specialty							
A.C. Moore Arts & Crafts	\$129.8	\$124.4	-4.1%	-10.0%	(\$1.8)	(\$0.3)	80.6%
Advance Auto Parts, Inc.	\$1,107.9	\$1,169.9	5.6%	1.3%	\$62.9	\$68.4	8.7%
Brookstone, Inc.	\$91.3	\$99.9	9.4%	2.1%	(\$11.0)	(\$6.5)	41.1%
Finlay Enterprises, Inc.	\$149.3	\$148.0	-0.9%	-3.6%			N/A
Guitar Center, Inc.	\$458.0	\$518.9	13.3%	-0.1%	\$13.4	\$9.6	-28.8%
Haverty Furniture	\$211.0	\$187.1	-11.3%	-12.7%	\$3.6	(\$1.4)	N/A
Jo-Ann Stores, Inc.	\$363.2	\$388.5	7.0%	7.0%			
Kirkland's, Inc.	\$91.0	\$87.4	-4.0%	-10.5%			
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%
Pet Valu	\$35.5	\$38.6	8.9%	6.1%	\$1.2	\$2.8	127.6%
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%			
Yankee Candle Company	\$116.3	\$133.4	14.8%	3.0%	\$4.8	(\$16.7)	N/A
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
BMTC Group Inc.	C\$216.0	C\$216.1	0.0%		C\$12.1	C\$14.9	22.5%
CDW Corporation	\$1,633.5	\$2,032.8	24.4%	5.0%	\$73.1	\$80.1	9.5%
Conn's, Inc.	\$163.6	\$179.0	9.4%				
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%
Sharper Image	\$104.1	\$77.6	-25.5%	-10.0%			
Systemax Inc.	\$547.2	\$647.1	18.2%		\$7.1	\$13.8	93.7%
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							
Arden Group	\$119.1	\$119.8	0.6%	0.6%	\$4.7	\$6.5	39.6%
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%
Wild Oats Markets	\$296.6	\$311.8	5.1%	3.1%	\$4.9	\$0.1	-97.4%
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%
Tenet Healthcare Corp.	\$2,195.0	\$2,228.0	1.5%		(\$398.0)	(\$30.0)	92.5%

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