

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Did You Know...?

The sub-prime mortgage crisis is spreading to a somewhat unexpected place: home costing more than \$500,000. To some degree the change is due to difficulty getting financing, as borrowers are finding fewer lenders willing or able to fund "jumbo" mortgages, loans for amounts greater than \$420,000.

## Credit Crunch Spurs Uncertainty Over Exit Financing

According to an article in the Daily Bankruptcy Review last week, companies trying to emerge from Chapter 11 protection by the end of this year may have trouble securing financing for their exit, as credit-market woes extend into the niche arena of bankruptcy lending.

A credit crunch spurred by the collapse of the sub-prime mortgage industry is causing lenders to re-tool the pricing and terms of the financing they provide to companies leaving bankruptcy. The pull-back, experts say, may send big Chapter 11 companies back to the table to negotiate with creditors and investors who were banking on cheaper financing with more generous terms.

"The expectations will need to be re-evaluated, not only by the company, but by the various constituents," said Rob McMahon, managing director of restructuring finance for GE Corporate Lending. "For the larger-cap companies that have complex, complicated capital structures and constituencies, that will be a more laborious task."

Mr. McMahon said there's a tremendous amount of dialogue about the status of pending exit-loan deals and a lot of discussion about structure and pricing." General Electric Co.'s GE Corporate Lending underwrites \$15 billion to \$20 billion in loans per year, and its restructuring group provides between \$2 billion and \$3 billion in financing to troubled companies annually.

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## Supervalu Inc: Retailer of the Week

Supervalu remains a moderately high-risk, 'D' credit with a stable outlook. Despite a few strong quarters of post-merger operations, the firm remains highly leveraged with plenty of integration headaches remaining. The firm is now primarily a retail operation; during Q1 2007, the wholesale business accounted for less than 25% of overall sales. Thus far, the firm has recognized a significant number of synergies and therefore, has begun to deleverage modestly. Supervalu is not a significant vendor worry in the short-term, given its strong liquidity and ample ability to generate cash flow.<sup>^</sup>

### OPERATING PERFORMANCE: 3 MONTHS ENDED JUNE 16, 2007

\$ in millions, 16 weeks ended	6/16/2007	YOY Var.	6/17/2006
Retail Food Sales	\$10,423	255.70%	\$2,930
Supply Chain Services	\$2,869	0.60%	\$2,853
Total Revenue	\$13,292	129.80%	\$5,783
Adjusted Operating Profit*	\$483	172.90%	\$177
Gross Margin	23.20%	910 bps	14.10%
SG&A Burden	19.70%	850 bps	11.20%
Net Interest Expense as a % of Sales	1.70%	130 bps	0.40%
EBITDAR / (Interest + Rent)	2.88x	(30 bps)	3.18x
Store Count	2,464	78.00%	1,392
Total Debt	\$8,936	-2.80%	\$9,192

\*-adds back one-time items in fiscal 2008: acquisition-related pre-tax costs of \$17 million and in fiscal 2007: acquisition-related pre-tax costs of \$9 million.

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## Credit Crunch Spurs Uncertainty Over Exit Financing

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The difficulties could be especially acute for companies about to enter bankruptcy. Fewer companies are likely to emerge from Chapter 11 as stand-alone entities. Costlier exit financing could force more companies to liquidate, said James McTevia, managing member of McTevia & Associates, a restructuring consultant in suburban Detroit.

Several big companies are preparing to exit bankruptcy protection within the next six months. They include auto-parts suppliers Delphi Corp., Dana Corp., Dura Automotive Systems Inc. and Federal-Mogul Corp.; chemical company Solutia Inc.; power company Calpine Corp.; and fitness club operator Bally Total Fitness Holding Corp.

Banks stuck with debt they can't sell in a "very questionable" market are demanding higher interest rates and fees, more-restrictive covenants and greater flexibility to ensure they can sell the loans. The shift could unsettle companies still trying to line up financing before leaving bankruptcy this year.

James Mesterharm, a managing director at AlixPartners, said most companies trying to exit bankruptcy protection in 2007 will be able to obtain financing. But they'll probably have to take loans on far less generous terms than those offered a few months ago, when "cheap" financing and "covenant-lite" loans were commonplace.

Companies' creditors will also have to adjust their expectations. Creditors hoping for cash payments financed by large exit loans may be forced to accept more of a company's new stock in repayment for their claims.

Somebody who is going into a Chapter 11 now that needs time to fix the company will probably get the time it needs. However, whether or not they will be able to arrange exit financing or at a price they can afford, is going to be a difficult thing over the next few years.

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## Bankruptcy Blotter

... **Hancock Fabrics Inc.** was granted to February 28, 2008 to file its Plan of Reorganization due to the size and complexity of the case. For the month of July ended August 4<sup>th</sup>, the company reported sales of \$17.7 million and a net loss of \$1.5 million, including \$0.9 million in reorganization expenses.

... The court ruled in favor of **Musicland Holding Corp.'s** banks and against big suppliers of the retailer, ending a \$25 million dispute. The dismissal of the lawsuit sets the stage for continued hearings in September of the company's Chapter 11 plan.

... Liquidating **Rockaway Bedding** has won an extension of the exclusivity period in which management can file a Plan of Reorganization until December 5, 2007. The company exclusivity right had expired on August 7<sup>th</sup>.

... **Interstate Bakeries Corp.** will no longer make or sell bread in Southern California, closing its bakeries in San Diego, Los Angeles, Pomona and Glendale. The company will also close 17 distribution centers and 19 outlet stores. The closings will cost approximately \$29.2 million, including a \$12.8 million employee related cash charge.

... **Pacific Lumber Co.** is seeking an extension to its exclusivity period to file a Plan of Reorganization to December 17, 2007, as it juggles a group of lawsuits and works on determining the value of its timberland. The company claims to have developed a 10-year business plan and secured \$75 million in financing.

... For the month ended July 29, 2007, **Dura Automotive System Inc.** reported a loss of \$21.3 million on sales of \$54.0 million. The loss included \$4.2 million in reorganization costs and \$6.0 million in gross margin losses.

... The court approved two settlements between **Delphi Corp.** and the United Steelworkers union, a move that resolved the last remaining labor disputes in the company's Plan of Reorganization.

... **Solar Stamping and Manufacturing LLC** became the latest automotive supplier to seek shelter under Chapter 11. The company decided to pursue an organized sale of its assets on a going-concern basis or wind-down while assets are still available for unsecured creditors. The case was filed in Michigan and assigned case number 07-57127.

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## Management on the Move

... **Food Lion**, a unit of **Delhaize**, promoted **Maria Lowder** to the position of VP of Financial Planning and Investment Analysis. Ms. Lowder most recently served as Director of Financial Planning and Analysis.

... **BJ's Wholesale Club** promoted **Edward Gillooly** to the new position of EVP, Chief Marketing Officer. Mr. Gillooly retired from the company in September 2002, returning in January 2007 to head its marketing department.

... **Bruce A. Efird** was named President of **Fred's Inc.**, replacing **John D. Reier**, who now becomes Vice Chairman of the Board of Directors. Most recently, Mr. Efird was EVP of Merchandising for **Meijer Inc.**

... **Christopher & Banks Corp.**, which has seen its profit fall in the last two quarters, announced the appointment of **Lorna Nagler** to replace **Matthew Dillon**, who resigned as CEO and President of the company. The reason for Mr. Dillon's departure was not revealed. Ms. Nagler most recently served as President of **Lane Bryant**, an operating division of **Charming Shoppes**.

... **Gap Inc.** appointed **Sabrina Simmons**, currently SVP of Corporate Finance and a six-year Gap finance veteran to the newly created position of EVP of Gap Inc. Finance. **Ms. Simmons** will also serve as acting CFO, following the unexpected departure of current CFO **Byron Pollitt**.

... **Stein Mart** appointed **Linda McFarland Farthing** as President and CEO of the company, following the resignation of **Michael D. Fisher**, who held that position since 2003. Ms. Farthing has been a member of the company's Board of Directors since 1999 and Chair of the company's audit committee since 2003. Ms. Farthing previously served as President, COO and Director of **The Cato Corporation** until 1997.

... **New York & Company, Inc.** appointed **Celia Rao Visconti** to the position of Chief Marketing Officer. Ms. Visconti joins the company from **Andrew Marc, Inc.** where she was SVP, Marketing and Communications.

... **Robert Johnston**, chief architect of the hostile takeover of Canada's **Hudson's Bay Co.** by U.S. investment fund manager **Jerry Zucker**, was named President of the troubled retailer. He succeeds **Michael Rousseau**, HBC's President for the past five years. Mr. Zucker has made it clear he wants to sell each of the company's banners, particularly **The Bay**, which at one time was Canada's dominant department store chain.

... **Bradley S. Jacobs** stepped down as Chairman and Director of **United Rentals, Inc.**, a position he held since he founded the company in 1997. Plans for a successor were not released.

... **Five Star Products, Inc.** elected **Carl Tucker** to the company's Board of Directors and named him to serve as the sole member of a Special Committee. Mr. Tucker previously served as a Director of the company from 2002 until March 2007. Mr. Tucker will receive a one-time payment of \$50,000 as compensation for his service on the Special Committee.

... **Cost Plus Inc.** reported that CFO **Thomas Willardson** had left the company and was replaced by **Jane Baughman**, currently SVP of Financial Operations. No reason was given for the departure of Mr. Willardson.

... **RadioShack** hired **Bob Donohoo**, who previously served as General Counsel to **EFJ Inc.**, a wireless-communications technologies marketing firm, as VP and General Counsel, and **Michael Carter**, who most recently served as divisional VP at the **Great Atlantic & Pacific Tea Co.**, as VP of Operations.

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## Heard in the Grocery Aisle

... **Whole Foods Market** entered into a five-year \$700 million Senior Term Loan agreement to fund the \$565 million acquisition of **Wild Oats** and has signed a new five-year \$250 million revolving credit agreement, which will replace its existing \$200 million revolver. Whole Foods has also assumed existing Wild Oats debt, net of cash, of around \$137 million.

... The bankruptcy court vetoed the \$20 million sale of fraud-riddled **Le-Nature's** Latrobe plant to **Giant Eagle**, ruling the region's largest supermarket intimidated **Cadbury Schweppes Bottling Group** into dropping out of the bidding. The court awarded the plant to Cadbury, which previously agreed to pay \$19 million if something happened to Giant Eagle's bid.

... In a bizarre twist to the **Giant Eagle/Cadbury** fiasco, Cadbury now claims it never wanted the plant and that it will sell the idled plant if it is ordered to follow through on its bid to purchase it. Want to take a guess as to whom they will probably sell it to? The whole mess is being investigated by the Feds.

... After five months of intense negotiations, grocery workers from units of **Albertsons, Kroger** and **Safeway** in the Seattle area approved a new three-year labor agreement covering more than 20,000 employees.

... For its fiscal year ended June 27, 2007, **Winn-Dixie** reported net income of \$300.6 million compared to a loss of \$361.3 million in the prior fiscal year. However the results for the fiscal year were impacted significantly by non-cash items, the largest of which were a \$188.2 million gain in connection with the discharge of its pre-petition debt and a \$144.8 million gain related to the revaluation of the balance sheet as part of fresh start reporting.

... Because of the one-time nature of much of its reported net income for its fiscal year ended June 27, 2007 and its expansion and renovation plans, **Winn-Dixie** warned that it expects to post a loss during the next 12 months.

... **The Great Atlantic & Pacific Tea Company, Inc. (A&P)** signed a licensing agreement to operate **Starbucks** stores in select A&P locations in the Northeast. Under the agreement Starbucks stores will be established in select **A&P Fresh** and

**Gourmet/Fine Foods** stores. Initial locations are scheduled to open in New Jersey this November.

... The last of the **Delhaize**-owned **Kash n' Karry** stores has been phased out and will now operate under the **Sweetbay** banner. The conversion marks the end of a three-year transformation of about 100 former Kash n' Karry stores.

At **Stop & Shop/Giant-Landover**, a unit of **Royal Ahold**, second quarter net sales were \$3.9 billion, a 1.9% increase versus the comparable period last year, with comp store sales up 1.1% at Stop & Shop and down 1.0% at Giant Landover. Operating income was \$161 million, a \$62 million decline from last year.

... At **Giant-Carlisle**, also a unit of **Royal Ahold**, second quarter sales were \$1 billion, a 13.7% increase from the comparable period last year, with comp store sales up 2.7%. Operating income grew \$7 million to \$56 million, partly attributable to the acquisition of **Clemens Markets** in the fourth quarter last year.

... In other news, **Royal Ahold** will delist its shares from the NYSE and remove its registration from the SEC, significantly paring down its relationship with the American regulatory market. Ahold will continue to make financial disclosures to Dutch regulators, and its shares will trade on the **Euronext Amsterdam** exchange.

... **Fresh Market** is still in expansion mode, and one market it is particularly keen on is its Baltimore, Maryland. The company, which opened its first Baltimore location last month, reports that it would like to add more stores in Annapolis and the Baltimore suburbs. Fresh Market now has more than 70 stores in 16 states, mainly in the Southeast and Midwest.

... **Alimentation Couche-Tard Inc.** extended its strong performance into the new fiscal year with revenues of C\$3.6 billion in the first quarter, an increase of C\$716.4 million or 25.1%. Net earnings for the quarter grew 54.9% to C\$69.1 million.

... **Empire Company Limited**, the parent **Sobey's**, will release its first quarter ended August 4, 2007 results on Wednesday, September 12, 2007. Be sure to visit **Global's** web site to view those results.

### Did You Know...?

*Inflation remained cool while household incomes and spending strengthened in July. Total inflation rose 0.1% in July, matching the 0.1% gain for core inflation excluding food and energy costs.*

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## Off the Rack

... **Macy's** priced the public offering of \$350 million of Senior Notes due 2013 at a rate of 5.875%. The proceeds will be used to repay borrowings outstanding under its commercial paper facility.

... In light of the disappointing financial performance at **Dillard's Inc.**, the **Barington Capital Group** sent a letter to members of the Board of Directors questioning the commitment of Dillard's to the company's public stockholders under the stewardship of **William T. Dillard, II**. The letter calls upon the Directors to force the company to make the changes necessary to improve the company's financial performance and corporate governance.

... After unsuccessfully completing the search for a suitable suitor, **Gottschalks** is embarking on a revised business plan developed as part of its strategic review process to increase sales, improve operating performance and position the company for long-term growth through its new **Value Improvement Program**. To support this program, the company signed a commitment letter for an amended 5-year \$200 million financing agreement with **GE Commercial Finance Corporate Lending**.

... In other news, **Gottschalks** signed a lease to open a new 58,000 square foot store prototype store in Elk Grove, California. The company expects to open the store in early November of 2007.

... Hit with lower sales, and burdened by significantly higher interest expense in connection the financing of the Merger Transaction, **Burlington Coat Factory** reported a net loss for the fiscal year ended June 2, 2007 of \$47.2 million versus net income of \$67.2 million for the prior year.

... At least five lawsuits have been filed against **Tween Brands** since the company reported unexpectedly low second quarter earnings. The lawsuits allege that the company violated federal securities laws and made misleading statements to investors after its first quarter.

... **The Children's Place Retail Stores** has agreed to a refurbishment amendment to a licensing

deal it made with **The Walt Disney Co.** The amendment addresses claims by Disney that The Children's Place had committed numerous material breaches of the license agreement with respect to the remodeling and refreshing of numerous stores in the Disney Store chain between fiscal 2007 and fiscal 2011 and, for the stores to be remodeled in fiscal 2007 and fiscal 2008.

... In other news, **The Children's Place** is delaying the filing of its annual report pending the outcome of the investigation of company policy violations by two executives. The nature of the investigations, first announced last week, were not disclosed.

... **Limited Brands Inc.** is testing sports apparel at 30 of its **Victoria's Secret** stores, while quietly opening a shop for the line, dubbed **VSX**, at Easton Town Center in Columbus, Ohio.

... **Citi Trends** lowered its estimate for fiscal year end earnings to a range of \$1.40 to \$1.44 per share based on the anticipation that comp store sales will be flat. For the year, the company still expects to increase selling square footage by at least 20%.

... **VF Corp.** secured a \$400 million line of credit to finance the acquisition of denim maker **Seven for All Mankind** and **lucy activewear**.

... The online shopping site for **Kohl's Department Stores** was closed for two days last week while the company upgraded the site. The company had previously stated that it planned to increase its emphasis in online sales.

... **Abercrombie & Fitch**, **Hollister** and others are about to find new competition in the form of **Who.A.U.**, a South Korean fashion retailer catering to teens and young adults. The chain plans to have 50 stores operating in the U.S. over the next five years.

... Meanwhile, **Abercrombie & Fitch** will open its first **Hollister Co.** flagship store in New York City at 600 Broadway, in New York's fashionable SoHo area. The store is scheduled to open in the Spring of 2009.

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## Options and Resources

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## Specialty Items

... Anticipating continued pressure on sales due to the challenging economic environment, **Cost Plus** is projecting a net loss in the range of \$16 million to \$18 million for the third quarter, as comp store sales are expected to decline in the range of 3% to 6%.

... For the full year, **Restoration Hardware** expects sales to be in the range of \$754 million to \$764 million, up 6% to 7% versus prior year, and a net loss for the year in the range of 21 cents to 14 cents per share.

... Encouraged by its sales momentum through the second quarter, **Jo-Ann Stores** raised its earnings guidance to a range of 60 cents to 70 cents per share for the fiscal year. Comp store sales are expected to be positive for the year.

... **Pottery Barn**, which accounts for approximately half of the revenue at **Williams-Sonoma Inc.**, reported a comp store sales increase of 1.8%, the first comp store sales increase in five quarters. Pottery Barn has reduced shipping charges on orders greater than \$3,000 and is offering delivery discounts on purchases of multiple items and promoting free shipping for 100 products.

... Troubled **Bombay Company** increased the base salaries of three of its top executives because of the additional responsibilities they have assumed

during the company's restructuring efforts. The increases for the company's CFO, SVP of Operations, and SVP and General Counsel were between 13% and 17%.

... **Pet Valu, Inc.** and **Pet Valu Canada Inc.** were added as defendants, along with other pet food retailers, in a potential class action suit brought in the Supreme Court of British Columbia regarding allegations concerning the manufacture and sale of pet food products alleged to contain tainted ingredients.

... For its fiscal year ended July 31, 2007, **Zale Corporation** reported sales of \$2.44 billion, virtually flat versus sales of \$2.44 billion in the prior year. However, net earnings for the year were \$59.3 million, up 10.5% versus prior year net income of \$53.6 million.

... Based on higher sales and favorable retail conditions, **Tiffany & Co.** raised its full year earnings guidance to a range of \$2.64 to \$2.69 per share from previous guidance in the range of \$2.10 to \$2.15 per share.

... In other news, **Tiffany** sold its flagship Tokyo property for \$318 million in a sale/leaseback transaction to **Goldman Sachs Group Inc.** Tiffany paid \$142 million for the property in 2003.

### Did You Know...?

*Softening economic conditions and volatility in financial markets led to a sharp decline in U.S. consumer confidence in August as the index fell to 105.0 from a revised 111.9 in July, the lowest level of confidence since August 2006.*

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## Health & Beauty Aids

... Responding to a report by a **Credit Suisse** analyst that it could be forced to seek bankruptcy protection in the next three years, **Tenet Healthcare Corp.** issued a statement affirming its belief that it had the financial resources to execute its turnaround. As of June 30, 2007, the company had \$675 million in cash and no outstanding borrowings on its \$500 million line of credit. In addition, the company has no long-term debt maturing until December 2011.

... **Corner Care Clinic** signed an agreement with **Aetna** to become a national provider. Corner Care Clinic has opened 22 locations in Indiana, Ohio, Connecticut, Pennsylvania, North Carolina, South Carolina, Illinois and New York, with plans to open several more clinics by the end of 2007.

... **Minute Clinic**, a unit of **CVS/Caremark**, has opened nine new health care centers at CVS/pharmacy stores throughout Dallas-Fort Worth with up to 11 additional locations planned by the end of the year. In addition there are six Minute-Clinic centers in CVS/pharmacy stores in Austin.

... **Familymeds, Inc.** completed the sale of five Mississippi pharmacies and one Alabama pharmacy to **Pharmacy Management Group LLC** for

approximately \$2.6 million. The company received approximately \$1.95 million in cash at closing and approximately \$0.7 million in a secured promissory note payable over 24 months with a balloon payment in the 24<sup>th</sup> month.

... A U.S. District judge certified a class-action lawsuit brought on behalf of consumers and third-party payers alleging that **McKesson Corporation** entered into a secret agreement to artificially inflate the reported average wholesale price of thousands of drugs, a benchmark used by Medicaid and insurance plans to determine payment to pharmacies. If found guilty, McKesson could be forced to pay treble damages under the RICO statute.

... The Drug Enforcement Administration reinstated **AmerisourceBergen's** license for its Orlando Distribution Center to distribute controlled substances. As part of the agreement leading to the reinstatement, AmerisourceBergen implemented an enhanced and more sophisticated order monitoring program in all AmerisourceBergen Drug Corporation distribution centers starting July 1, 2007, after which the company passed several DEA inspections.

## The Global World of Sports and Footwear

... Will **Genesco** make it to **The Finish Line**? With Genesco reporting a net loss of \$4.2 million for the second quarter, The Finish Line issued a terse statement, expressing their responsibility to evaluate options in accordance with the terms of their merger agreement with Genesco.

... After 18 months of testing, **The Finish Line** determined their new concept store for women, **Paiva**, had not demonstrated the potential necessary to deliver an acceptable long-term return on investment and will close all 15 Paiva stores and its online business by the end of the third quarter at a cost of \$21 million.

... **Joe's Sports & Outdoor** will break ground this fall on a 127,000 square foot expansion of their distribution center in Wilsonville, Oregon providing additional capacity to meet its schedule of new store openings.

... **Eastern Mountain Sports** will open a new location, its 22nd in the Boston Market, in Newton, Massachusetts this month, which will serve as the Boston headquarters for the Climbing and Kayak Schools.

... **Recreational Equipment, Inc.** plans to double its presence in the Chicago metropolitan area, opening new stores in Schaumburg, Illinois and Lincoln Park, Illinois. The renovated former **Tower Records** site in Schaumburg is expected to open in November 2007, while the Lincoln Park store is expected to open in the fall of 2008.

... **Hibbett Sports Inc.** increased its existing unsecured line of credit with **Regions Bank** to \$30 million. The facility expires on August 28, 2008. ... **The Sport Chalet, Inc.** entered a Loan Agreement with **Bank of America, N.A.** providing for

advances of up to \$30 million, increasing to \$40 million for the three-month period from October 1<sup>st</sup> through December 31<sup>st</sup> each year, including up to \$10 million in letters of credit. The facility expires on September 30, 2012.

... **The Walking Company** plans to open six new locations during September in Richmond, Virginia; Manchester, New Hampshire; Skokie, Illinois; Buffalo, New York; Highland Village, Texas; and Tucson, Arizona.

... A federal court judge upheld New York City's ban on non-wood and non-wood composite bats in high school, meaning the ban will take effect as scheduled on September 1<sup>st</sup>. Under the ordinance, the only types of bats that can be used are those approved by Major League Baseball.

... For its fiscal third quarter, **Brown Shoe** now expects sales to be in the range of \$674 million to \$684 million, compared to \$676.8 million for the comparable period last year, with net earnings in the range of 62 cents to 67 cents per share, versus earnings of 62 cents last year.

... **Brown Shoe** is closing its Los Angeles office and relocating its Shoes.com business to St. Louis incurring after tax charges of \$11 million in 2007 and an additional \$8 million in 2008.

... With the acquisition of **Stride Rite, Collective Brands** now expects to expand the age range to up to 10 years in the Stride Rite Children's group, and introduce a limited edition collection of its Airwalk product there. For Sperry, it envisions making the women's business larger than the men's business, and for Keds the expansion of the target age range to 18-40 and broadening the product line beyond canvas and vulcanized.

### Did You Know...?

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

## Hi Tech Entertainment

... The senior lenders of **Movie Gallery Inc.** agreed not to exercise their rights and remedies arising from defaults on the company's credit facility through September 30<sup>th</sup>, provided there are no new ones. While buying time for the company, deteriorating finances have increased the likelihood the company may be forced into Chapter 11.

... A San Francisco Federal Court Judge ruled that over 16,000 **Best Buy Co.** California retail workers may join a lawsuit alleging that the company refused to pay employees for time spent undergoing security checks. The lawsuit claims that Best Buy's state-wide practices are unlawful in that they fail to compensate workers for security check "waiting time" and deny them the full meal and rest breaks that California demands.

... **Gateway Inc.** earned the top spot in **Technology**

**Business Research's** Corporate IT Buying Behavior and Customer Satisfaction Study for Corporate Notebooks in the second quarter of 2007. This is the third consecutive quarter that Gateway has occupied TBR's top spot for notebooks.

... **Dell Inc.** posted profit and sales that beat analysts' estimates after getting a boost in PC orders from retailers including **Wal-Mart Stores**, as the company moved into the retail arena for the first time. Sales for the second quarter were \$14.8 billion, with net income for the quarter of \$733 million.

... **REX Stores** will release its financial results for its second quarter ended July 31, 2007 on Wednesday, September 5<sup>th</sup>. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

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## Supervalu Inc: Retailer of the Week

(Continued from page 1)

During the first quarter of fiscal 2008, revenues grew 129.8% to 13.3 billion; approximately \$7.5 billion of the revenues came from the new retail operation. Without this contribution, overall sales would have remained flat. Retail sales increased 255.7% to \$10.4 billion. Supervalu's wholesale business grew 0.6% to \$2.9 billion.

The firm's legacy business' comparable store sales fell 0.4%. However, CEO Jeff Noddle appears to be doing a decent job at running the acquired stores as those location's same store sales increased by 1.7%. The decent performance of the added Albertsons stores boosted Q1 2008 comps (as if newly acquired operations were included the store base for over a year) to 1.2% (see Comparable Store Sales). Backed by solid acquired-store performance, the firm's operating margin has only fallen slightly and still remains a very respectable 4.5%.

Supervalu's supply chain services grew by 0.6%. Management believes that the stagnation is due to existing customers canceling contracts because of the firm's expanded retail operation. Customers are understandably unwilling to buy wholesale product from a retail competitor. The company has made an effort to grow its new business portfolio. The segment's operating margin declined by 36 basis points to 2.34%. CFO Pam Knous mentioned that this segment was also adversely impacted by a shift in product mix.

Corporate overhead rose 39.9%; as a percentage of sales, corporate expenses equaled 0.48%, during Q1 2007. This amount includes the cost of running the Albertsons Boise headquarters; the firm has extended this agreement until July 2009. Acquisition-related costs, which surged from \$13 million to \$28 million, were the primary drivers of the rise in corporate overhead.

The firm's net interest expense predictably rose 758% to \$223 million because of the additional debt related to the Albertsons buyout. That said, EBITDAR covers interest and rent expense by a reasonable 2.9 times. Net earnings grew 70% year-over-year to \$148 million during the first three months of fiscal 2007.

### LIQUIDITY & FINANCIAL STRUCTURE

\$ in millions, 16 weeks ended	Operating Profits		Segment Margin (%)	
	6/16/2007	6/17/2006	6/16/2007	6/17/2006
Retail (Albertson's, Save-A-Lot, etc.)*	\$466	\$137	4.47%	4.68%
Supply Chain Services	\$67	\$76	2.34%	2.60%
Corporate O/H	(\$50)	(\$36)	N/A	N/A
Total Operating Profits*	\$483	\$177	3.63%	3.06%

\*-adds back one-time items in fiscal 2008: acquisition-related pre-tax costs of \$17 million and in fiscal 2007: acquisition-related pre-tax costs of \$9 million.

After the first three months of fiscal 2008, availability on the firm's \$2 billion secured revolver totaled \$1.3 billion. Direct borrowings comprised \$395 million worth of facility usage while \$344 million of outstanding letters of credit made up the balance. Supervalu also had \$693 million outstanding against its \$750 million term loan. In addition, the firm has a \$1.2 billion balance on its \$1.25 billion term loan (see Bank Reference). Supervalu increased revolver availability by \$262 million during the past three months. This reduced need for bank borrowings is a positive sign for the firm's outlook. Lastly, Supervalu retained \$21 million in availability on its \$300 million A/R securitization facility as of mid-June 2007.

Of Supervalu's \$8.1 billion debt capital base: \$4.9 billion of it is of low quality, \$880 million of it is of medium quality and the remaining \$2.3 billion of the debt is of high quality. The firm is likely to face a major cash crunch between 2010-2012. The firm has a tangible net deficit of \$3.2 billion; however, on a year-over-year basis, this amount shrank by approximately \$230 million. The tangible net deficit is a direct result of the Albertsons buyout.

**GCS-Score Note:** The acquisition of 1,100 Albertsons stores in June 2006 was first reflected in the financial statements for the second quarter of fiscal 2007; thus, the threshold score reflects added leverage but still misses one quarter of added income. The peer score, by contrast, gives top marks to growth by acquisition (which actually added huge risk) while organic growth was essentially flat. Our overall analyst rating is indicative of CEO Noddle's ego trip, but also his disciplined management in the past. We performed a manual computation of ratios using Supervalu's performance since the acquisition to derive a forward looking GCS financial score and found the ratio distortions noted above were offsetting.

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### Did You Know...?

U.S. home prices fell at a faster rate in the second quarter, down 3.2% compared with the same period in 2006. It marked the largest year-over-year decline ever recorded in the 20-year history of the Case-Shiller home price index. A year ago, home prices were rising at a 7.5% pace nationally.

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## Second Quarter Earnings

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
<b>Apparel</b>							
Abercrombie & Fitch	\$658.7	\$804.5	22.1%	-2.0%	\$65.7	\$81.3	23.7%
Aeropostale, Inc.	\$274.6	\$311.2	13.3%	-4.1%	\$8.4	\$14.7	74.5%
American Eagle Outfitters	\$602.3	\$703.2	16.7%	2.0%	\$72.1	\$81.3	12.8%
AnnTaylor Stores Corporation	\$610.0	\$614.5	0.7%	-6.2%	\$43.2	\$31.7	-26.6%
Big Dog Holdings, Inc.	\$53.2	\$55.9	5.0%		\$0.6	(\$0.2)	N/A
Bon Ton Stores, Inc.	\$746.8	\$708.6	-5.1%	-5.0%	(\$19.8)	(\$15.0)	24.3%
Buckle, Inc.	\$102.4	\$124.3	21.3%	10.1%	\$6.6	\$11.8	77.6%
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%
Casual Male Retail Group	\$111.8	\$114.2	2.2%	3.9%	\$3.4	\$2.5	-27.3%
Cato Corporation	\$214.6	\$219.0	2.0%	-1.0%	\$12.1	\$12.5	3.4%
Charming Shoppes, Inc.	\$763.4	\$770.9	1.0%	-3.0%	\$32.6	\$18.3	-43.9%
Chico's FAS, Inc.	\$403.4	\$436.0	8.1%	-5.6%	\$53.8	\$38.7	-28.2%
Children's Place	\$395.6	\$424.3	7.3%	-1.0%	(\$15.2)	(\$27.1)	-78.0%
Citi Trends, Inc.	\$76.3	\$96.8	26.9%	3.4%	\$1.3	\$0.6	-50.9%
Coldwater Creek Inc.	\$216.4	\$253.5	17.1%	-6.0%	\$12.0	\$8.7	-27.6%
Deb Shops, Inc.	\$75.7	\$77.7	2.8%	0.1%	\$5.9	\$6.2	5.1%
dELIA's, Inc.	\$48.9	\$52.4	7.3%	4.6%	(\$3.1)	(\$5.1)	-62.6%
Dillard's, Inc.	\$1,733.4	\$1,689.1	-2.6%	-3.0%	\$15.1	(\$25.2)	N/A
Eddie Bauer Holdings	\$225.7	\$227.0	0.6%	0.9%	(\$42.0)	(\$22.2)	47.0%
GAP	\$3,714.0	\$3,685.0	-0.8%	-5.0%	\$128.0	\$152.0	18.8%
Gottschalks	\$154.2	\$146.7	-4.8%	-4.0%	\$0.5	(\$4.8)	N/A
Gymboree Corporation	\$152.1	\$182.4	19.9%	5.0%	\$0.5	\$5.8	966.5%
Harold's Stores, Inc.	\$19.3	\$17.5	-9.3%	-12.8%			
Hot Topic, Inc.	\$160.3	\$161.7	0.8%	-5.8%	(\$0.9)	(\$1.7)	-91.0%
J.C. Penney Company	\$4,238.0	\$4,391.0	3.6%	1.9%	\$179.0	\$182.0	1.7%
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%	\$232.4	\$269.2	15.8%
Limited Brands	\$2,453.9	\$2,624.1	6.9%	2.0%	\$113.1	\$264.4	133.8%
Macy's, Inc.	\$5,995.0	\$5,894.0	-1.7%	-2.6%	\$317.0	\$74.0	-76.7%
Men's Wearhouse	\$460.6	\$569.3	23.6%	1.1%	\$35.6	\$54.2	52.2%
New York & Company, Inc.	\$264.9	\$294.4	11.2%	4.7%	\$6.5	\$3.5	-46.2%
Nordstrom, Inc.	\$2,270.5	\$2,389.5	5.2%	5.9%	\$178.8	\$180.4	0.9%
Pacific Sunwear of California, Inc.	\$313.7	\$344.2	9.7%	1.8%	\$9.7	(\$10.5)	N/A
Retail Ventures, Inc.	\$694.5	\$732.7	5.5%	0.3%			
Ross Stores, Inc.	\$1,308.1	\$1,444.6	10.4%	2.0%	\$45.4	\$50.9	12.1%
Saks Incorporated	\$603.8	\$694.1	14.9%	13.2%	(\$51.9)	(\$24.6)	52.5%
Stage Stores, Inc.	\$362.1	\$359.2	-0.8%	0.5%	\$3.9	\$9.9	156.3%
Stein Mart, Inc.	\$336.3	\$330.7	-1.7%	-1.2%	\$8.3	\$2.2	-73.6%
Talbots, Inc.	\$571.4	\$572.3	0.2%	-4.8%	(\$3.9)	(\$13.3)	-245.2%
Tandy Leather Factory	\$13.4	\$13.4	-0.1%	-0.8%	\$1.1	\$0.4	-65.0%
TJX Companies	\$3,963.7	\$4,313.3	8.8%	5.0%	\$138.2	\$59.0	-57.3%
True Religion Apparel, Inc.	\$30.7	\$35.7	16.3%		\$4.9	\$5.1	3.7%
Tween Brands, Inc.	\$185.8	\$213.7	15.0%	-2.0%	\$5.9	\$2.1	-64.4%
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	\$143.3	10.7%	-1.7%	\$4.4	\$6.8	52.9%
Wilson's The Leather Expert	\$49.2	\$43.6	-11.3%	-11.9%	(\$24.5)	(\$29.4)	-19.9%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,056.5	\$1,084.9	2.7%	5.2%	\$4.3	\$23.4	35.5%
BJ's Wholesale Club, Inc.	\$2,124.5	\$2,295.0	8.0%	3.7%	\$26.4	\$36.3	37.4%
Canadian Tire	C\$2,247.6	C\$2,316.7	3.1%	1.7%	C\$103.3	C\$122.3	18.4%
Cost U Less, Inc.	\$53.6	\$55.3	3.3%	3.3%	\$0.5	\$0.7	43.8%
Dollar Tree Stores, Inc.	\$883.6	\$971.2	9.9%	4.4%	\$29.0	\$32.6	12.4%
Fred's, Inc.	\$406.9	\$424.6	4.4%	0.8%	\$4.3	\$3.1	-29.3%
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%
Sears Holdings Corporation	\$12,785.0	\$12,239.0	-4.3%	-4.1%	\$294.0	\$176.0	-40.1%
Target Corporation	\$13,347.0	\$14,620.0	9.5%	4.9%	\$609.0	\$686.0	12.6%
Wal-Mart Stores, Inc.	\$85,430.0	\$93,012.0	8.9%	2.0%	\$2,083.0	\$3,105.0	49.1%
<b>Food</b>							
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%

### Did You Know...?

In 2006 American consumers spent \$3.2 billion buying Halloween decorations, which was more than 21% over 2005, making Halloween second only to Christmas in decorations sales.

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## Second Quarter Earnings

(Continued from page 9)

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
<b>Home Centers</b>							
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%
Calloway's Nursery, Inc.	\$28.6	\$28.4	-0.9%	-9.1%	\$3.1	\$1.2	-59.3%
Fastenal Company	\$458.8	\$519.7	13.3%		\$51.5	\$60.3	17.0%
Five Star Products, Inc.	\$29.9	\$35.9	20.0%		\$0.1	\$0.6	350.0%
Griffin Land & Nurseries	\$24.6	\$31.9	29.7%		(\$0.3)	\$6.0	N/A
Home Depot, Inc.	\$22,592.0	\$22,184.0	-1.8%	-5.2%	\$1,862.0	\$1,587.0	-14.8%
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
Lowe's Companies	\$13,389.0	\$14,167.0	5.8%	-2.6%	\$935.0	\$1,019.0	9.0%
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%
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc.	\$47.2	\$42.0	-11.0%	-18.3%			
Big 5 Sporting Goods Corp.	\$211.8	\$217.8	2.9%		\$7.4	\$5.9	-20.0%
Big Dog Holdings, Inc.	\$53.2	\$55.9	5.0%	2.3%	\$0.6	(\$0.2)	N/A
Broder Bros., Co.	\$259.5	\$249.4	-3.9%		(\$0.2)	(\$4.4)	-1988.5%
Brown Shoe Company, Inc.	\$579.3	\$576.6	-0.5%	3.6%	\$15.2	\$9.8	-35.3%
Cabela's	\$346.5	\$403.4	16.4%	-0.8%	\$8.4	\$11.3	34.8%
Collective Brands (Payless ShoeSource)	\$706.1	\$699.3	-1.0%	-1.4%	\$32.5	\$24.9	-23.4%
Dick's Sporting Goods, Inc.	\$734.0	\$1,013.4	38.1%	7.2%	\$25.7	\$47.9	86.6%
DSW Inc.	\$301.3	\$348.7	15.7%	5.9%			
Foot Locker	\$1,303.0	\$1,283.0	-1.5%	-7.3%	\$14.0	(\$18.0)	-228.6%
Footstar, Inc.	\$190.6	\$173.4	-9.0%	-14.5%	\$21.4	\$21.5	0.5%
Gander Mountain	\$182.5	\$216.5	18.6%	4.2%	(\$7.6)	(\$9.7)	-27.8%
Genesco Inc.	\$304.3	\$328.0	7.8%		\$5.9	(\$4.2)	N/A
Golfsmith International Holdings, Inc.	\$114.1	\$125.0	9.5%	-4.7%	(\$7.9)	\$6.8	N/A
Golf Town	C\$82.1	C\$94.3	14.8%		C\$10.1	C\$10.9	8.0%
GSI Commerce	\$119.6	\$131.3	9.7%		(\$3.6)	(\$5.0)	-40.5%
Hibbett Sporting Goods, Inc.	\$104.4	\$114.4	9.6%	2.6%	\$4.0	\$4.7	16.4%
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%	\$2.9	\$0.2	-94.2%
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%
Zumiez Inc.	\$55.8	\$82.0	47.0%	11.6%	\$1.6	\$3.1	89.9%
<b>Specialty</b>							
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%
Barnes & Noble, Inc.	\$1,156.2	\$1,244.2	7.6%	4.4%	\$16.6	\$18.1	8.9%
Borders Group, Inc.	\$856.0	\$945.1	10.4%	4.6%	(\$14.8)	(\$25.1)	-69.6%
Brookstone, Inc.	\$91.3	\$99.9	9.4%	2.1%	(\$11.0)	(\$6.5)	41.1%
Cost Plus, Inc.	\$215.3	\$215.2	0.0%	-7.6%	(\$14.2)	(\$18.0)	-26.6%
Finlay Enterprises, Inc.	\$149.3	\$148.0	-0.8%	-3.6%	(\$4.0)	(\$8.4)	-110.1%
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%	(\$21.2)	(\$18.4)	13.2%
Kirkland's, Inc.	\$91.0	\$87.4	-4.0%	-10.5%	(\$5.6)	(\$9.2)	-65.9%
Leon's Furniture Limited	C\$134.0	C\$147.0	9.7%	3.5%	C\$8.3	C\$9.9	20.2%
Linens N Things	\$611.6	\$593.6	-2.9%	-7.3%	(\$39.1)	(\$42.0)	-7.3%
Michaels Stores, Inc.	\$768.3	\$792.9	3.2%	0.8%	\$21.6	(\$43.9)	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%
Pep Boys -Manny, Moe & Jack	\$578.6	\$558.9	-3.4%	-3.6%	\$1.5	\$4.2	185.4%
PetSmart, Inc.	\$1,020.6	\$1,116.7	9.4%	4.0%	\$34.6	\$47.1	36.1%
Pet Valu	\$35.5	\$38.6	8.9%	6.1%	\$1.2	\$2.8	127.6%
Restoration Hardware, Inc.	\$179.3	\$183.8	2.5%		\$0.2	(\$7.9)	N/A
Richelieu Hardware Ltd.	C\$102.6	C\$116.3	13.4%		C\$8.6	C\$8.7	0.3%
Tiffany & Co.	\$554.7	\$662.6	19.5%	13.0%	\$41.1	\$37.0	-10.1%
Tuesday Morning Corp.	\$207.7	\$219.4	5.6%	0.1%	\$2.9	\$2.0	-29.8%
Yankee Candle Company	\$116.3	\$133.4	14.8%	3.0%	\$4.8	(\$16.7)	N/A
Williams-Sonoma, Inc.	\$825.5	\$859.4	4.1%	1.2%	\$35.6	\$26.0	-27.0%

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### Did You Know...?

Inventories of unsold single-family homes increased by 2.2% to 3.85 million in July, sending the inventory in relation to sales to the highest level in 16 years.

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## Second Quarter Earnings

(Continued from page 10)

\$ in Millions	Sales			2nd Qtr Comps	Net Income		
	2006	2007	Change		2006	2007	Change
<b>Consumer Electronics</b>							
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\$200.8	C\$200.9	0.1%		C\$11.3	C\$13.8	22.5%
CDW Corporation	\$1,633.5	\$2,032.8	24.4%		\$73.1	\$80.1	9.5%
Conn's, Inc.	\$182.2	\$203.5	11.7%	5.0%	\$8.5	\$9.7	13.0%
GameStop Corp.	\$963.3	\$1,338.2	38.9%	29.1%	\$3.2	\$21.8	586.5%
Gateway, Inc.	\$909.3	\$840.6	-7.6%		(\$7.7)	\$1.9	N/A
Hastings Entertainment	\$123.1	\$125.9	2.3%		\$0.2	\$1.9	850.0%
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%
Movie Gallery	\$601.3	\$561.2	-6.7%	-4.7%	(\$14.9)	(\$309.9)	-1980.4%
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%			
Staples, Inc.	\$3,873.9	\$4,300.0	11.0%	-2.0%	\$161.3	\$179.0	11.0%
Systemax Inc.	\$547.2	\$647.1	18.2%		\$7.1	\$13.8	93.7%
Tech Data Corporation	\$4,943.3	\$5,613.3	13.6%		(\$155.5)	\$7.2	N/A
Trans World Entertainment Corporation	\$298.3	\$267.3	-10.4%	-6.0%	(\$7.7)	(\$10.1)	-31.2%
United Stationers Inc.	\$1,111.1	\$1,141.2	2.7%		\$41.4	\$24.1	-41.7%
ValueVision Media, Inc.	\$187.0	\$190.6	1.9%		(\$0.7)	(\$5.4)	-677.2%
Zones, Inc.	\$145.2	\$192.2	32.4%		\$2.9	\$4.4	51.1%
<b>Drug</b>							
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%
Duane Reade Holdings	\$398.8	\$431.9	8.3%	7.9%	(\$21.1)	(\$21.1)	-0.3%
Express Scripts, Inc.	\$4,421.1	\$4,600.4	4.1%		\$107.8	\$152.7	41.7%
Longs Drug Stores	\$1,237.2	\$1,274.5	3.0%	1.0%	\$19.0	\$26.6	39.8%
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%

### Did You Know...?

The global market grew 4% to \$256 billion at retail in 2006, according to a study conducted for the World Federation of the Sporting Goods Industry by NPD Group. The retail value of footwear rose 3% to \$49 billion, the retail value of equipment rose 4% to \$67 billion, the retail value of athletic apparel increased 6% to \$111.3 billion and the bicycle market was flat to plus 1% at \$27 billion.

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## Mass Merchant Musings

... **Iconix Brand Group** signed an exclusive direct-to-retail license agreement with **Wal-Mart** for its **Ocean Pacific** and **OP** brands for distribution of a broad range of apparel and accessories in the U.S. The agreement also grants Wal-Mart rights to use the brands in Brazil, China and India, and provides for the possible addition of license rights for other international territories.

... If the Indian government allows it, **Bharti Enterprises** plans to establish an equal stakes joint venture with **Wal-Mart Stores** for its front-end retail operations. Last month, Bharti and Wal-Mart entered into a joint venture for wholesale cash-and-carry and back-end supply chain management operations in India.

... Facing slowing sales growth and new competition in the U.S., think **Tesco**, **Wal-Mart** is seeking an executive to evaluate possible acquisitions and new store formats. Wal-Mart has historically preferred to expand in the U.S. through opening stores rather than acquiring other retailers.

... **Target Corp.** is understood to be in talks with up-market U.K. department store **Selfridges** to

open its first non-U.S. outlet. It is believed to be planning to open a "pop up" temporary store in Selfridges to coincide with London Fashion Week next month. A big-name fashion designer is said to have developed a clothing line for launch with Target's other "exclusive" clothing names also to be offered.

... **Sears Holdings Corp.** opened its new 782,000 square foot direct deliver center in Pendergrass, Georgia. The facility will distribute home appliances, tractors, TV's and other large ticket items to over 232 Sears and Kmart stores in Alabama, Florida, Georgia, North Carolina, Tennessee and Kentucky.

... **Cost U Less** entered into a definitive agreement to be acquired by North West Company Fund for \$11.75 per share or approximately \$52.2 million. North West is a Canadian food and consumer products retailer to rural communities and urban neighborhoods in Canada and Alaska. North West, with 206 stores and annual sales of \$949 million, will fund the deal with cash on hand and its current credit lines.

## Rating Changes and Outlooks

S&P Rating Changes				
Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
LANDRYS RESTAURANTS INC	B	CCC	STA	NM
MOTHERS WORK INC / MOTHERHOOD MATER-	B	B	STA	POS
WHOLE FOODS MARKET INC	BB+	BBB-	NEG	NM
MOTOR COACH INDUSTRIES	CCC	CCC	NM	NM
ARAMARK CORP/DE	NR	B+	NR	NEG
LESLIES POOLMART INC	B	B+	NEG	STA
LESLIES POOLMART INC	B	B+	NEG	STA
MCDONALDS CORP	A	A	STA	NEG
WYNDHAM WORLDWIDE CORP	BBB	BBB	NEG	STA
LESLIES POOLMART INC	B	B+	NEG	STA
LESLIES POOLMART INC	B	B+	NEG	STA
SEMINOLE TRIBE OF FLORIDA INC	BBB	BBB-	STA	STA
FIDELITY NATIONAL TITLE CO	A	A	STA	POS
STARBUCKS CORP	BBB+	NM	STA	NM
155 EAST TROPICANA LLC	CCC+	B-	NM	NM
OFFICEMAX INC	B+	B+	POS	STA
STARBUCKS CORP	BBB+	NM	STA	NM

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### FYI for the DIY

... **Home Depot** completed the sale of **HD Supply** to **Bain Capital Partners, The Carlyle Group** and **Clayton, Dubilier & Rice** for a reduced price of \$8.5 billion, down from the original price of \$10.3 billion. In addition, Home Depot invested \$325 million for a 12.5% interest in HD Supply, and guaranteed a \$1 billion Senior Secured Loan of HD Supply.

... In connection with **The Home Depot's** pending offer to purchase up to 250 million shares of its common stock, the company entered into a Credit Agreement establishing a \$10.0 billion Revolving Credit Facility. The facility will terminate when all amounts payable under the company's tender offer to repurchase the shares have been paid, but no later than November 21, 2007.

... Meanwhile, **Home Depot** opened its first 12 stores in China. The twelve stores are part of the Chinese home improvement chain, **Home Way** that Home Depot bought last December. Home Depot is reported to have paid approximately \$92.6 million for Home Way.

... **Ace Hardware Corp.** intends to convert from a cooperative to a for profit corporation by the beginning of next year as a way to compete better against industry behemoths, **Home Depot** and **Lowe's**. The move is contingent upon approval by a majority of its members. A vote is tentatively scheduled for the end of December.

... **The Sherwin-Williams Company** entered into a definitive merger agreement with **Columbia Paint & Coating Co.**, following which Columbia will become a subsidiary of Sherwin-Williams. Financial details were not provided.

... **Central Garden & Pet Company** amended its Credit Agreement allowing for an increased interest rate when the Leverage Ratio exceeds a certain ratio, making changes to the calculation of consolidated EBITDA, reducing the amount of any Restricted Payments, increasing the Maximum Capital Expenditures for the fiscal year ending September 30, 2007, reducing the Minimum Interest Coverage Ratio, and increasing the Maximum Leverage Ratio.