

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Five Year Freeze on Some Mortgage Rates

Hoping to keep as many as 1.2 million financially struggling Americans from losing their homes, President Bush unveiled a mortgage bailout plan that would let some borrowers freeze their interest rates for five years.

Foreclosure "is a terrible burden for hard-working families, and a source of concern for entire communities and neighborhoods across our country," Bush said. In addition, "the rise in foreclosures would have negative consequences for our economy. Lenders and investors would face enormous losses."

Bush said his administration hammered out a voluntary agreement among federal regulators, lenders and investors because "some lenders made loans that borrowers did not understand, especially in the subprime sector."

"We should not bail out lenders, real estate speculators or those who made the reckless decision to buy a home they knew they could never afford," Bush said after meeting with industry leaders at the White House. "But there are some responsible homeowners who could avoid foreclosure with some assistance."

Treasury Secretary Henry Paulson said the plan involves no government money. The voluntary frame-  
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### Global Credit Services 6th Annual Symposium Sanibel Harbour Resort, Fort Myers, Florida April 1st-4th, 2008



Global Credit Services is pleased to announce that it will be hosting its **6th Annual Credit Symposium** from **April 1st - 4th, 2008** at the **Sanibel Harbour Resort** in Fort Myers, Florida. Don't miss the opportunity to meet credit, financial, and legal professionals alike to exchange information and ideas regarding risk management.

Based upon the availability of annual-year information, clients and attendees have asked that we hold our symposium in the 2nd quarter of 2008 in

order to provide more detailed information and discussion regarding retailers and other companies that we monitor. We are happy to comply with those requests.

Likewise, this time of year gives us and our esteemed group of Panelists and Speakers a chance to offer a "year in review" perspective and to better comment on economic and credit related trends for the upcoming fiscal 2008.

And like every year, we will be offering Sponsors and Exhibitors unique networking opportunities to reach their target audience in both a professional and personal format. Detailed sponsorship information regarding this event will be available soon.

To learn more about last year's successful **5th Annual Credit Symposium**, please click into the Symposium Info tab on the Global Credit Services website below, or contact Amelia Labriola at 212.308.6060 ext104.

[WWW.GCSZONE.COM](http://www.gcszone.com)

### Remember...?

*If A is success in life, then A equals X plus Y plus Z. Work is X; Y is play; and Z is keeping your mouth shut.*

## Five Year Freeze on Some Mortgage Rates

*(Continued from page 1)*

work was issued by the American Securitization Forum, whose members package mortgage loans and sell them as securities.

The goal is to freeze mortgage rates on subprime adjustable rate mortgages for five years for people who have been making their payments on time, but who will fall behind when their interest rate rise in coming years. The White House plan also would help people who don't have enough home equity or cash to refinance.

To qualify for the freeze, people must live in their homes, face a payment hike of more than 10%, and have a credit score too low to qualify for traditional fixed mortgages. Other subprime borrowers whose payments are up to date would be guided into refinancing.

Borrowers who are already delinquent on their mortgages would not qualify for the rate freeze. Also, the deal does not apply to subprime ARM borrowers whose rates already have reset.

Ben Bernanke, Chairman of the Federal Reserve Board, which sets short-term interest rates, declared the White House plan "a welcome step in helping Americans protect their homes and communities from the consequences of unnecessary foreclosures.

However, some critics said the plan doesn't go far enough. "This plan covers too few borrowers and places the profits of investors and lenders above the basic economic security of working families and neighborhoods," Dan Immergluck, an associate professor of city planning at Georgia Tech said.

Rep. Barney Frank, who chairs the House Financial Services Committee, said the plan is skewed too much toward helping people who allowed their credit scores to fall. People whose credit scores are below 660 out of a possible 850 would get priority for an interest rate freeze.

While the deal does not have the force of law, it does have the support of major mortgage investors who can grant loan servicers the flexibility to rework mortgage terms to keep people out of foreclosure.

The deal covers loans originated between January 1, 2005, and July 31, 2007, and which will reset between January 1, 2008, and July 31, 2010.

The Mortgage Bankers Association said the percentage of subprime adjustable-rate mortgages that entered the foreclosure process jumped to a record 4.72% in the third quarter, up from 3.84% in the second quarter. And in an ominous sign, late payments on subprime mortgages shot to a record high of 18.81% in the third quarter, up from 16.95% in the second quarter.

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### Did You Know...?

*The proportion of U.S. companies in serious financial trouble increased at the fastest monthly rate in five years in November, nearly doubling.*

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## Health & Beauty Aids

... The DEA has ordered **Cardinal Health** to stop distributing controlled substances from its Lakeland, Florida facility by December 10, 2007.

... **Longs Drug Stores** announced plans to open two in-store clinics in Hawaii by the close of calendar 2007. The two locations will be in Mililani Town Center and Ewa Beach.

... Non-profit organization Prescription Hope has begun offering low-income families with an opportunity to get prescription drugs directly from the pharmaceutical companies for \$7 a month.

... During November, **Walgreen** generated comps of 4.4%. During the past 12 months, generic drug introductions adversely impacted comps by 4.3%. Front-end comps grew by 2.6% as a result of the aggressive pricing of digital photo prints and the

reduced use of children's OTC medications.

... **AmerisourceBergen** has signed a letter of intent with **Medco Health Solutions** to remain the firm's primary vendor. The deal represented 8% of AmerisourceBergen's revenue during fiscal 2007.

... **Continuicare Corp** has opened its first in store clinic inside of a Navarro Discount Pharmacy in Hollywood, Florida. **Continuicare** operates its facilities under **ValuClinic** banner. By the close of 2008, **Navarro** plans to have 15 **ValuClinic** facilities inside of its stores.

... **Walgreens' Take Care Health Systems** has announced plans to open seven in-store clinics in the Pittsburgh area.

## Bankruptcy Blotter

... **Movie Gallery Inc.** won court approval to pay pre-bankruptcy claims held by smaller movie studios and video game vendors to make sure they'll continue to supply the rental chain. The company owes dozens of B suppliers about \$4 million.

... **Bombay Company** reported sales for the period September 20<sup>th</sup> (the date of its filing) through the end of October of \$57.1 million and a net loss of \$11.6 million. The net loss included \$8.1 million of reorganization expenses.

... **Hancock Fabrics** is seeking court approval to close seven stores and conduct GOB sales in those locations. A hearing is scheduled for December 20<sup>th</sup>.

... Going out of business sales kicked off at all 76 **Levitz Furniture Inc.** stores. Over \$165 million of furniture and accessory inventory is being liquidated.

... The court approved **Jones Day** as **Levitz Furniture's** lead counsel overruling the objection of the Trustee who claimed the firm's clients posed conflicts of interest.

... **Interstate Bakeries Corp.** reported a net loss of \$18.1 million on sales of \$217 million during the four-week period ending October 20<sup>th</sup>.

... **Sofa Express Inc.** filed for bankruptcy protec-

tion in the Middle District of Tennessee in Nashville. **Klaussner**, which owns Sofa Express, and is owed \$18.05 million declined to say whether it would also file Chapter 11.

... **Dana Corp.** cleared a key hurdle to its bid to exit bankruptcy before the end of January when the court authorized the company to borrow up to \$2 billion to finance its post bankruptcy operations.

... In other news, **Dana Corp.** reported sales for the month of October of \$799 million with net income for the period of \$18.0 million.

... **Dura Automotive Systems Inc.**, which is hunting for lenders to help it emerge from bankruptcy, is seeking a two month extension to its exclusivity period for filing a plan of reorganization. The company exclusivity period ends this week.

... **Delphi Corp.** won court approval to send its exit plan to creditors for voting, a key step in the company's struggle to get out of Chapter 11 protection in early 2008. Confirmation hearings are scheduled for January 17<sup>th</sup> and 18<sup>th</sup>.

... In other news, Delphi Corp. won court approval to sell its chassis business to a division of **TRW Automotive Holdings Corp.**

Feedback?

Questions?

Suggestions?

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## Rating Changes and Outlooks

### Global Credit Rating Changes

Company	Credit Rating		GCS Outlook	
	Current	Prior	Current	Prior
WALGREEN COMPANY INC	B	NM	STA	NM

### S&P Rating Changes

Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
AUTONATION INC	BBB-	BBB-	NEGATIVE	STABLE
CHARMING SHOPPES INC	BB-	BB-	NEGATIVE	STABLE
CDW CORP / FKA CDW COMPUTER CENTERS INC	B	NM	NEGATIVE	NM
TARGET CORP	A+	A+	STABLE	NM
OFFICE DEPOT INC	BBB-	BBB-	NEGATIVE	STABLE
MRS FIELDS FAMOUS BRANDS	NR	CCC+	NR	NEGATIVE
MOTHERS WORK INC / MOTHERHOOD MATER-	B	B	NEGATIVE	STABLE
MRS FIELDS FAMOUS BRANDS	NR	CCC+	NR	NEGATIVE

## Heard in the Grocery Aisle

... **Safeway** has reached a tentative agreement with 25,000 unionized employees in Northern California. The specifics of the four-year arrangement were not made public.

... **Tesco** has announced plans to open a warehouse in Stockton, CA. This facility will be capable of servicing 500 stores.

... A California court stated that **Tesco's** main warehouse in Los Angeles is not in compliance with environmental laws. The judge's ruling may slow the firm's proposed new store openings.

... **PCC Natural Markets** announced that it has removed all products that contain high-fructose corn syrup (HFCS).

... **Winn-Dixie** has announced plans to consolidate its 58 private label lines into three brands while re-launching its 3,000 private label products. The three labels will be: Winn & Lovett for high-end products, general merchandise under the Winn-Dixie label and Thrifty Maid for budget products.

... **Ahold** has finalized the sale of **Tops Markets** to **Morgan Stanley's** private equity group for \$310 million. In addition, former CEO Frank Curci has reclaimed his former job.

... New **Tops** CEO Frank Curci has announced plans to add approximately 100 corporate staffers. The increased payroll is part of a strategy to better compete with **Wegmans**, **Wal-Mart**, **Sav-A-Lot** and **Aldi**.

... The **Great Atlantic & Pacific Tea Co.** has completed its \$665 million buyout of **Pathmark Stores**.

... **Village Super Markets** announced that Q1

sales increased 5% to \$263.6 million, while same-stores sales expanded 3.6%. Management credited the one store that was converted from the **Stop & Shop** banner to the **ShopRite** brand as a factor moving sales.

... **Lowes Foods** announced plans to begin food delivery to customers in Charlotte and Hickory, North Carolina.

... During the remainder of the holiday season, **Loblaw** will keep 19 of its Superstores open 24 hours a day. The company announced this move as a way to better compete with **Wal-Mart**.

... **Wegmans** has unveiled an increased array of private label products that include frozen cod fillets, cranberry juice and roasted red peppers.

... **Sprouts Farmers Market**, an organic grocer, has announced plans to expand into Colorado with 6 stores during 2008.

... **United Natural Foods** has come to an agreement with its banks to increase its credit facility to \$400 million. The new revolver replaces the original \$250 million agreement.

... **Winn-Dixie** will begin offering gift cards that can be used to purchase products at an array of stores including **Blockbuster**, **Applebee's** and **Starbucks**. The cards range in value from \$10 to \$100.

... **Kroger** has announced plans to allow three **Little Clinic** facilities to open in its locations. **Little Clinic's** staff can diagnose medical conditions and write prescriptions for common ailments.

... **Kroger** has added over 300 other retailers to its reward card program.

*Register a Colleague  
Today to insure they  
receive their own copy of  
"Retail Sector Weekly"  
and  
Monthly Comps Analysis  
Report*

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## Specialty Items

... **Rent-A-Center** plans to close 280 stores within the next 90 days, or about 8% of its total units, in a move that is expected to boost operating income. The company will take pre-tax restructuring charges of \$36 million to \$45 million in the current quarter, for costs related to the closings, including lease terminations and fixed asset disposal.

... Reflecting the increasing traction of its turnaround effort, **Cost Plus, Inc.** reported sales of the third quarter of \$220.6 million, compared to \$215.4 million for the comparable period last year, a 2.4% increase. However, the company's net loss for the quarter was \$13.9 million, up 13.9% versus last year.

... **AutoZone Inc.** posted a better than expected increase of 7% in its first quarter earnings to \$132.5 million, helped by the sale of higher profit products. Sales for the quarter were up 4.5% to \$1.46 billion.

... **Advance Auto Parts, Inc.** closed on a new \$200 million unsecured four-year term loan. The company plans to use the proceeds of the loan to repurchase shares of its stock.

... **Movado Group, Inc.** reported sales for the third quarter of \$180.2 million, up 8.4% versus sales of \$166.3 million for the comparable period last year. Net income for the quarter was \$26.5 million, up 21.2% versus last year.

## Off the Rack

...**Gottschalk's** caught investors ear this week as it issued strong guidance for the fourth quarter. Wall Street praised the department stores plan to improve performance despite a difficult retail environment. Management says that it expects fourth quarter earnings to fall in the \$0.40 to \$0.50 per share range, more then the \$0.25 per share that analysts were forecasting. The company has begun a new marketing campaign, repositioned it merchandise to focus more on apparel, implemented a stock repurchase program, and is evaluation its real estate portfolio and expanding its credit facility.

...Despite the aforementioned, **Gottschalk's** closed another weak quarter. The company lost \$0.30 per share for the quarter, but the dismal results actually beat the estimates. Third quarter comps fell 5.1%.

...**Bon Ton Stores** same store sales rose 8.6% for the month of November, as the company benefited from the colder weather. Analysts estimated that comps would rise 9.7% for the period. On a segment basis, comps were up 7.9% at Bon Ton and up 9.9% at Carson's.

...**TJX Companies** continue to move past the computer intrusion fiasco from last year. Comps for the company were up 7%. Revenues of \$1.8 billion were up 10% from the same month last year. Analysts were looking for a 4.3% increase

to comps.

...**Kohl's** had no problems in the months of November, as a comp store increase of 10.2% beat the 6% increase that analysts were looking for. Total sales for the month were up 20% to \$2 billion. The company expects comps to close the quarter flat to down 2%.

...**PacSun** November sales were up 3.6%, as the namesake banner continues to carry the chain. Revenues at PacSun were up 7.6%, while demo saw revenues fall 27.3%. Comps were up 2.3%. PacSun is actively seeking a buyer for its demo banner.

...**Fred's** lowered its fourth quarter guidance this week. Weaker then expected sales in November have the company now expecting profits of between \$0.23 and \$0.28 per share, down from previous guidance of \$0.29 to \$0.32 per share. The company also cut its same store sales forecast for the month to flat to down 2% from previous guidance of 1%-3%.

...**Casual Male** is going to Europe. The company has announced that it will be opening an online store for both Casual Male XL and Rochester Big & Tall brands in six European countries. The web stores are expected to launch in the fourth quarter of fiscal 2008 in the UK, Germany, France, Italy, Spain and the Netherlands.

### Did You Know...?

*The ISM factory index, a key gauge of strength for the U.S. factory sector slipped in November for the fifth straight month to 50.8 in November from 50.9 in October, the lowest level since January.*

## Management on the Move

... **The Kroger Co.** elected **Susan J. Kropf** to its Board of Directors. Until her retirement this year, Ms. Kropf served as President and COO of **Avon Products**. Ms. Kropf also serves on the boards of **Coach, Inc., MeadWestvaco Corp., Sherwin Williams Co.** and the **Wallace Foundation**.

... **Hart Stores** appointed **Jacques Plante, CA**, as VP Finance & CFO of Hart Stores Inc. Mr. Plante joins the company from a large international sportswear manufacturer where he served as VP - Financial Reporting and Budgeting.

... **Elizabeth Schroeder**, EVP and CFO of **Tuesday Morning** gave her notice of resignation effective

January 15<sup>th</sup>. A replacement has not yet been named.

... **Borders Group** appointed **Dick Lynch** to the new position of President, Paperchase U.S., reporting to **Timothy Melgund**, CEO of **Paperchase Products Limited**, a subsidiary of Borders. Prior to joining Borders, Mr. Lynch served since 2002 as EVP for **Karabus Management**.

... **Aaron Rents, Inc.** promoted **John T. Trainor** to the position of VP, Information Technology for Aaron's Sales and Lease Ownership Division. Mr. Trainor previously was IT Director of Application Development.

## FYI for the DIY

... **Home Depot** is closing three call enters under a continuing move to shift customer service responsibilities to the company's warehouse stores. The company plans to lay off about 950 employees, including 750 at a large center in Tampa and 200 at smaller sites in Chicago and Dallas.

... In other news, it is being reported that **Home Depot** could be interested in buying **B&Q** - the Home Depot of Great Britain, from its parent **Kingfisher**.

... **RONA Inc.** is continuing its expansion in Ontario and officially unveiled its new RONA London store last week. The opening of the 100,000 square foot big box store represents a \$20 million investment.

... **WESCO International, Inc.** acquired the assets of **Monti Electric Supply, Inc.** headquartered in Waveland, Mississippi. Monti, with three branch locations and annual sales of approximately \$20 million, is a well-established, construction oriented electrical distributor.

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## The Global World of Sports and Footwear

... More than half of the **Finish Line's** projected earnings per share loss of 34 cents to 36 cents per share for the third quarter ended December 1<sup>st</sup> will be related to the company's ongoing acquisition/litigation with **Genesco**, and completed exit from 15 Paiva banners. Sales for the third quarter were down 4.0% to \$268.7 from sales of \$280.0 million for the comparable period last year.

... **Fleet Feet, Incorporated**, opened its 80<sup>th</sup> location with the opening of Fleet Feet Sports Edmond, Oklahoma. The store is the company's second franchise in the state of Oklahoma, joining the four-year-old Tulsa operation.

... **Dick's Sporting Goods Inc.** filed a preliminary land development application for a new, larger headquarters on Pittsburgh International Airport property. Plans call for an expanded, million-square-foot facility. The company's current headquarters is approximately 200,000 square feet.

... **Dick's Sporting Goods** is doubling the size of its **Nautilus** fitness equipment assortment to 8-10 for fall 2008. The company, which typically carries 3-4 Nautilus pieces per store currently, has tested larger store-within-a-store assortments from the company.

... For its third quarter ended November 3, 2007, **Gander Mountain** reported sales of \$259.5 million, up approximately 5.3% versus sales of \$246.5 million for the comparable period last year. The company reported a net loss for the period of \$5.1 million, well below the net income of \$2.0 million reported for the third quarter last year.

... In other news, **Gander Mountain** acquired **Overton's, Inc.** an Internet and catalog marketing company for approximately \$70 million. Financing for the acquisition was done through a \$40 million Term Loan, the sale of \$24 million in company stock, and through an existing credit facility.

... For its third quarter ended October 28, 2007, **Forzani Group Ltd.** reported total revenue of \$333.5 million, down 3.7% versus revenue of \$346.3 million for the comparable period last year. Net income for the quarter was \$7.4 million, up 6.0% versus last year.

... In addition to the above, **Forzani Group** an-

nounced plans to shut 37 outlets of the just-acquired **Athletes World** chain, about one-quarter of the locations. Forzani said its deal for Athletes World is valued at \$21.5 million with Forzani paying \$1.5 million in cash and the assumption of \$20 million in debt.

... **Sport Chalet, Inc.** opened its new 42,000 square foot store in Las Vegas, Nevada last week featuring an on-site SCUBA training pool. This is the company's 52nd store.

... **GSI Commerce Inc.** announced a new partnership with the **Casual Male Retail Group Inc.** to design, develop and operate the online stores for both the Casual Male XL and Rochester Big & Tall brands in six European countries.

... **DSW** reported that net income for the third quarter ended November 3, 2007 was \$22.4 million versus net income of \$16.0 million in the third quarter last year. Sales for the quarter were \$367.4 million, up 10.6% versus prior year.

... **Collective Brands** reported sales for the third quarter ended November 3, 2007 of \$830.7 million, an increase of 18.1% driven by the acquisition of Stride Rite. Net income for the quarter was \$25.5 million, down 11.8% versus prior year.

... The Stride Rite Children's Group of **Collective Brands Inc.** and the **Camuto Group** entered into an exclusive multi-year global licensing agreement in which Stride Rite will design, develop, manufacture and distribute a line of footwear for the tween market for the Jessica Simpson Brand.

... **Skechers USA Inc.** is expanding its sales and distribution in China through a joint venture with **Luen Thai Enterprises**, called **Skechers China**. The company expects to open more than 1,200 points of sale for the brand across China over the next three years.

... **Deloitte & Touche LLP** declined to stand for reappointment as the independent registered public accountants for **Shoe Pavilion**, citing material weaknesses related to the control environment in the company.

... **Quiksilver, Inc.** will release its fourth quarter and year-end results on Thursday, December 13, 2007. Be sure to look for the updated results on **Global's** Web site shortly thereafter.

### Did You Know...?

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

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## Hi Tech Entertainment

...**Office Depot** has decided to do its part to help the environment. The company is now offering its fourth Green Book, which is designed to provide businesses with some guidance on creating an environmentally friendly workplace. The book will show buyers which products are made from recyclables and which are proved to reduce energy, are nontoxic, and can be refilled or recharged.

...**Netflix** received some possible bad news this week. The US Postal Service Office of the Inspector General is proposing adding a 17-cent surcharge on DVD mailers, which could deal a tremendous blow to the company's economic model. A postal service study found that 70% of DVD mailers are manually processed because they "sustain damage, jam equipment and cause mis-sorts during automated processing."

...**Borders Group** received a much needed shot of good news. The company was ranked #1 out of a list of 112 companies nationwide for providing shoppers with an enjoyable experience. The company also was tied at #1 in the "Easy to Work With" category. Overall, Borders ranked #2 on the index, which included such categories as "Enjoyable," "Easy to Work With," and "Useful."

...**Gamestop** is teaming up with the Make-A-Wish Foundation. The company has donated 200 shopping spree wishes for wish kids across the

country. The charitable services will run throughout the holiday season. Those willing to make a donation can visit [www.gamestop.com/makeawish](http://www.gamestop.com/makeawish) and can donate anything from \$5 to \$100.

...**Gamestop** has also been selected to join the Standard & Poors 500. The company will take the spot currently held by Dow Jones & Co., which is being purchased by Rupert Murdoch's News Corp. A date is yet to be announced.

...**Sharper Image** continues to see its revenues fall off the table. Sales for the month of November fell 9% to \$44.7 million, and comps for the month fell 8%. Total store sales were \$27.1 million for the month, down from \$30.2 for the month last year.

...Carlos Slim is thought to be looking to unload more of his stake in **CompUSA**. According to a report, he has approached **Circuit City**, **Micro Electronics** and **Systemax** in attempts to spark some interest in the beleaguered chain. Apparently, Circuit City abandoned the talks sometime this fall and the others seem to have done the same.

...Dell has struck a deal with **Best Buy** that will get the company's computers squarely into the retail world. The move is further from what Dell has been in the past, as a direct-to-consumer seller.

### Did You Know...?

*The number of laid off workers filing claims for unemployment benefits fell last week by the largest amount in three months. Applications for jobless benefits dipped by 15,000 last week to a total of 339,000.*

## Mass Merchant Musings

... **Wal-Mart** completed its \$849 million buy out of almost all the minority shareholders in Japanese retailer **Seiyu**, leaving it with 95% ownership in the company. Some feel that this leaves Wal-Mart with more than 95% of an incipient disaster.

... Taking their cue from the Canadians, protesters picketed a **Wal-Mart** store in Mexico City to show support for employees who are trying to form a union at the company, the nation's largest employer.

... **Costco Wholesale Corporation** reported sales for its first fiscal quarter ended December 2, 2007 of \$16.98 billion, an increase of 12% versus sales of \$15.20 billion for the comparable period last year. The company plans to release its operating results for the quarter ended November 25, 2007, on December 13<sup>th</sup>.

... **Family Dollar Stores, Inc.** reported that sales for its first quarter ended December 1, 2007 were \$1.68 billion, approximately 5.2% above sales of \$1.60 billion for the comparable period last year. Comp store sales for the quarter were down 1.0%.

... **Duckwall-ALCO Stores, Inc.** reported sales for its third quarter ended October 28, 2007 of \$114.3 million, up approximately 5.0% versus sales of \$108.8 million for the comparable period last year. The company reported a net loss for the quarter of \$1.6 million, a little more than 2.5 times the net loss of \$0.6 million in the prior year.

... For the three months ended November 30, 2007, **PriceSmart, Inc.** reported sales of 245.2 million, an increase of 23.8% over sales of \$198.1 million for the first quarter last year.

## Options and Resources

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

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