

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

### Inside this issue:

Bankruptcy Blotter	2
Options & Resources	2
Management on the Move	3
FYI for the DIY	3
Heard in the Grocery Aisle	4
Rating Changes & Outlooks	4
Health & Beauty Aids	6
Off the Rack	6
Hi Tech Entertainment	6
The Global World of Sports	7
Mass Merchant Musings	7
Specialty Items	7

### Recession Ahead?

No one knows for a certainty that 2008 will be a year of recession. Gurus are all over the map with their crystal balls, some wishfully calling for a "growth recession," while others see a very rotten time ahead indeed.

But better pay close attention - because a great deal is riding on the recession odds. There's the value of your portfolio, the cost of money, your job, the price of oil, inflation and very likely the identity of the next inhabitant of the White House. The worse the recession, the better the chances of the Democrat candidate.

According to the Economic Cycle Research Institute, seven out of 10 citizens now believe we are or will soon be in a recession. Certainly the credit crisis reflects that we have been in a serious slow-down for some time now. The leading home price index is at a six-year low, financial services are at a 13-year low, while non-financial services are at a 56-month low.

Time to carefully follow the major drivers of the economy.

Most crucial are the job figures, which are holding up, but have softened to under 100,000 new jobs last month. Any two months in a row of negative job growth - meaning there were job losses - is

*(Continued on page 2)*



### KEYNOTE SPEAKER GENE SPERLING TO OPEN GCS SYMPOSIUM

Senior Fellow for Economic Policy & Director of the Center for Universal Education



#### GLOBAL CREDIT SERVICES 6TH ANNUAL SYMPOSIUM

APRIL 1ST - 4TH

SANIBEL HARBOUR RESORT & SPA

Early Registration Deadline: February 15th

[CLICK HERE TO REGISTER](#)

Gene B. Sperling is Senior Fellow for economic studies and Director of the Center for Universal Education at the Council on Foreign Relations. From 1997 to 2001, Mr. Sperling served as national economic advisor to President Clinton and as deputy national economic advisor from 1993 to 1996. He was the third director of the National Economic Council, following Robert Rubin and Laura Tyson.

Mr. Sperling currently serves as U.S. chair of the Global Campaign for Education, a coalition of non-governmental organizations focused on universal basic education. Mr. Sperling is also a Senior Fellow of Economic Policy at the Center for American Progress, a contributing editor and columnist for Bloomberg News, a governor on the Philadelphia Stock Exchange Board, a former consultant and contributing writer to NBC's *The West Wing*. He has done economic commentary on such programs as: *Meet the Press*, *Face the Nation*, *This Week*, CNN's *Late Edition*, *Good Morning America*, and *Nightline*. He is the author of *The Pro-Growth Progressive: An Economic Strategy for Shared Prosperity* (Simon & Schuster).

#### Remember...

*It is our responsibilities, not ourselves, that we should take seriously.*

## Recession Ahead?

usually the key indicator that a recession is round the corner, asserts Lakshman Achuthan, of the ECRI, a private organization that keeps the most intensive watch over all statistical indicators of the economy.

Second, the industrial manufacturing figures, which are holding up due to exports based on the weakening dollar, are the next best barometer of the U.S. economy. Still, manufacturing is well below the June high, suggesting that this sector is "subdued".

Third, housing is down and expected to fall lower. Merrill Lynch economist David A. Rosenberg says in a report that the roof is caving in on housing starts with a 43% plunge in new single-family homes.

Consumer expectations are falling as confidence lags due to the inability to borrow vast amounts of money on rising home values. Interest rates, of course, are headed lower, due to the credit crunch, and may also be a sign of the recession coming.

Corporate earnings are holding up for now, but are expected to slow significantly, perhaps by 16% – which represents the median decline in corporate earnings during recessions over the past 50 years, according to Morgan Stanley. Earnings are now 62% above trend. If history repeats – and I see no reason why it shouldn't – there is a huge earnings shock coming.

Even the Economic Cycle Research Institute believes, based on today's figures – which are a mix of positive and negative – that a recession isn't inevitable. Yet its Weekly Leading Index has fallen to its lowest point since November 2002, suggesting that U.S. economic growth prospects continue to worsen.

We are in the sixth year of an expansion, which is longer than the average post-World War II growth cycle. When an expansion gets this long in the tooth, it's time to heed the warning signs. [First Page](#)

## Bankruptcy Blotter

... **Yucaipa Cos.** opted not to submit a bid to finance **Interstate Bakeries Corp.**'s plan of reorganization, but rather is objecting to Interstate's Disclosure Statement" as being "patently unconfirmable". Yucaipa can still file a competing reorganization plan with the bankruptcy court.

... Three weeks after the founders of the **Gap** said they would invest \$200 million in a plan to buy the **Pacific Lumber Co.** out of bankruptcy, a coalition of environmental groups led by the **Nature Conservancy** announced a rival plan to take the logging firm away from its current owner, **Charles Hurwitz**.

... **Bank of New York Trust Company**, a big creditor of a subsidiary of **Pacific Lumber Co.** wants an independent administrator to be put in charge, saying the subsidiary's assets are being improperly transferred to Pacific Lumber and its parent, **Maxxam Inc.**

... **Domain Home**, an upscale 27-store furniture

retailer, filed for Chapter 11 bankruptcy protection aiming to reorganize as a going concern but also noting the possibility of liquidation.

... **Dura Automotive Systems Inc.**, which scrapped its bankruptcy-reorganization plan last month because of financing difficulties, is seeking a three-month extension of its exclusive right to file a plan to April 30<sup>th</sup>.

... **Delphi Corp.** cleared several obstacles to its bid to exit bankruptcy before April, winning the endorsement of an "overwhelming majority" of its credits and laying the groundwork for a \$6.1 billion exit financing package it expects to secure early next month.

... **ND Acquisition Corp.**, a subsidiary of **Resilience Capital Partners LLC**, offered a bid of \$44.2 million for **Delphi's** global bearings business. However, the price could drop to \$18.2 million if the company is not able to reach labor agreements with the UAW by the closing date of the sale.

## 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)

**How to Advertise in this Publication:** If you wish to advertise in our weekly newsletter please contact us via email at [delisle@gcszone.com](mailto:delisle@gcszone.com)

**Subscribe to our Newsletter:** Click [here to subscribe](#) to Retail Sector Weekly

Feedback?

Questions?

Suggestions?

[Click Here](#)

[RETURN TO FIRST PAGE](#)

## Management on the Move

... **The Kroger Co.** appointed **David Brislin**, its VP of Human Resources at its corporate headquarters, to the position of VP of Operations. In addition, the company named **Joe Fey**, its VP of Merchandising for its Dillon Division, to the position of VP of Merchandising for the company.

... **Walgreens** announced the promotion of **Stanley B. Blaylock** to the position of corporate SVP and President of **Walgreens Health Services** replacing **Trent E. Taylor** who left the company.

... **Gap Inc.** appointed **Sabrina Simmons**, the company's EVP of Corporate Finance and acting CFO, to the position of CFO. Ms. Simmons joined the company seven years ago as VP and Treasurer.

... **Kathryn Bufano** resigned from her post as President and COO of **Vanity Shops**. The company is actively seeking a replacement.

... **Le Chateau Inc.** announced the resignation of **Betty Berliner**, SVP, Buying and Merchandising. A replacement was not announced.

... **Wal-Mart Stores, Inc.** appointed **Vicente Trius** as EVP, President and CEO of Wal-Mart Asia, International. Mr. Trius joined the company in 1996 as VP, Operations in the International Division and most recently served as President and CEO, Wal-Mart Brazil.

... **Wal-Mart** announced the retirement of **John Menzer**, its Vice Chairman, effective March 1, 2008. Mr. Menzer's current responsibilities will be spread among other executives in the company.

... **BJ's Wholesale Club, Inc.** named **Laura Sen** as its new President and COO and a Director on the company's Board of Directors. Ms. Sen is a 15-year company veteran who is currently EVP of Merchandising and Logistics.

... **William J. Colombo**, currently President and COO of **Dick's Sporting Goods, Inc.**, will step down from that role and assume the role of Vice Chairman. **Joseph M. Schmidt**, EVP Operations, **Timothy E. Kullman**, EVP, Finance, Administration and CFO, and **Edward W. Stack**, Chairman and CEO will assume Mr. Colombo's responsibilities.

... **Crocs, Inc.** appointed its CFO **Peter Case** to the newly created position of SVP, Retail Division and named a **Motorola** executive, Russ Hammer as

his replacement.

... **United Rentals, Inc.** appointed **John J. Fahey** as VP – Controller, serving as the company's principal accounting officer. Mr. Fahey joined the company in 2005 as VP – Assistant Corporate Controller.

... **The Home Depot®** appointed **Brian C. Cornell** to its Board of Directors. Mr. Cornell is the CEO of **Michaels Stores, Inc.**

... **Tractor Supply Company** appointed **William Bass** to its Board of Directors. Mr. Bass currently serves as CEO for **Fair Indigo**, a direct response men's and women's apparel retailer.

... **Tuesday Morning** named **Michael J. Marchetti**, currently EVP and COO, as the company's acting CFO, Secretary and Treasurer following the resignation of **Elizabeth A. Schroeder**.

... **Zale Corporation** appointed **Richard C. Breeden** and **James M. Cotter** to its Board of Directors. Mr. Breeden is CEO and Chief Investment Officer of **Breeden Partners** and its manager **Breeden Capital Management**, which owns more than 18% of Zale. Mr. Cotter is a founding partner of Breeden Capital Management.

... **Borders Group, Inc.** appointed **Richard "Mick" McGuire** to the company's Board of Directors. Mr. McGuire is a partner of **Pershing Square Capital Management, L.P.**

... **The Pep Boys – Manny, Moe & Jack** announced the planned departure of CFO **Harry Yanowitz** in order to pursue other business interests. Mr. Yanowitz will continue in his duties until such time as the company's financial statements for fiscal 2007 are completed.

... **Overstock.com, Inc.** appointed **James V. Joyce** to serve on its Board of Directors. Mr. Joyce is the CEO of **Icent LLC** and has provided organizational consulting services to the company since 2005.

... **John T. Harlow** joined **Circuit City Stores Inc.** as EVP and COO, overseeing the company's more than 665 U.S. retail stores, real estate, information technology and supply chain. Mr. Harlow most recently served as Retail Director with **Deloitte Consulting** and has been involved with Circuit City over the past year.

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

[RETURN TO FIRST PAGE](#)

## FYI for the DIY

... **Global Credit Services** signed a non-disclosure agreement with **HD Supply** and will begin monitoring the company immediately. Look for **Global's** initial credit rating and outlook for the company this week.

... **Fastenal Company** will release its fourth quarter and full year results on Tuesday, January 22, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

## Heard in the Grocery Aisle

...**Hy-Vee** has announced plans to offer generics drugs for \$4 a month.

...**Safeway** has announced that it has completed the conversion of all its trucks to biodiesel fuel.

...**Associated Grocers of New England** has won the primary supply contract all six of **Crosby's Markets**, based out of Salem, MA. **C&S Wholesale Grocers** was the former supplier.

...**Tesco** has reported that the response from its first Fresh & Easy stores in the U.S. "has been very encouraging".

...Published reports indicate that **Kroger** plans to expand the number of its Marketplace stores. These facilities sell electronics, furniture and groceries. The company currently runs 30 of these locations.

...**Hannaford Bros.** is acquiring the only store of **Mister Market**, which is located in Winthrop, Maine.

...**Performance Food Group** has agreed to a \$34.50 a share bid from **The Blackstone Group** and **Wellspring Capital Management**. The entire transaction is valued at \$1.3 billion. The deal is subject to regulatory and shareholder approval.

...**Delhaize Group** announced plans to increase U.S. growth during fiscal 2008. The firm plans to build 45 new **Food Lion** stores. In addition, Delhaize plans to build 5 to 10 locations flying other banners. The company has committed \$750 mil-

lion to fund these plans.

...**Giant Eagle** has purchased a beverage plant from the bankrupt **LeNature** for \$22.3 million. Giant Eagle has announced plans to use this facility to produce flavored waters and iced tea.

...**Wegmans** has announced plans to begin experimenting with a Radio Frequency Identification (RFID) based tracking system. The company will try to determine whether the system allows workers to located and ring up orders faster.

...An equity analyst suggested that **Supervalu** sell its distribution business to generate capital funds to be reinvested into the retail business. It is unclear whether Supervalu is facing any additional pressure to divest this steady bottom line contributor.

...**Schwan Food Company** has announced plans to sell its bakery and freezer facility in Suwanee, GA to **Flowers**.

...**Schwan Food** announced that it was closing a facility in South Carolina in favor of sourcing the work to Stillwell, Oklahoma.

...The internet food retailer **Fresh Direct** has announced that it eventually plans to become a national player in the coming years.

...Virginia grocery store **El Nopal** has announced plans to expand to include an internet café and a Laundromat.

### Did You Know...?

Construction on new homes fell 14% in December to a seasonally adjusted annual rate of 1.01 million, the slowest building pace in more than 16 years. Compared with December 2006, monthly housing starts were off 38%, the biggest year-over-year decline since 1980.

[RETURN TO FIRST PAGE](#)

## Rating Changes and Outlooks

S&P Rating Changes				
Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
LAKE AT LAS VEGAS JOINT VENTR	D	CC	NM	NM
BON TON STORES INC	B	B	NEG	STA
STATER BROS HOLDINGS INC	B+	B+	NEG	STA
ROUNDYS SUPERMARKETS INC	B+	B+	STA	NEG
KROGER CO,THE	BBB-	BBB-	POS	STA
SBARRO INC	B-	B-	NEG	STA
RITE AID CORP	B	B	NEG	STA
EL POLLO LOCO	B-	B-	STA	NEG
FINLAY ENTERPRISES INC	B-	B	NEG	NM
FINLAY FINE JEWELRY CORP	B-	B	NEG	NM



## Global Credit Services 6th Annual Symposium Sanibel Harbour Resort, Fort Myers, Florida April 1st–4th, 2008



REGISTER BEFORE FEBRUARY 15th  
FOR EARLY REGISTRATION DISCOUNTS  
[PLEASE CLICK HERE TO REGISTER](#)

### *Did You Know...?*

*Retail sales should rise 3.5% in 2008, with activity picking up in the year's second half, according to the National Retail Federation. Sales growth is projected at 3.2% in the first half and 3.8% in the second half.*

Global Credit Services (GCS) cordially invites you and your associates to join our team and a winning group of industry leading presenters and panelists for our **6th Annual Credit Symposium** from **April 1st - 4th, 2008** at the **Sanibel Harbour Resort & Spa** in Fort Myers, Florida. There has not been a more critical time in recent years for the Retail Supply Chain to stay informed about the latest trends and challenges facing the Retail Sector today. Don't miss this opportunity to meet our talented team of GCS Senior Analysts who will be featured at this year's Symposium to discuss specific customers and retail sector issues of most concern to you. Our compelling program combines our in-house talent with the opportunity to develop relationships with and learn from many retail, credit, financial, and legal professionals alike while exchanging information and ideas regarding risk management.

Based upon the availability of annual-year end results, we have agreed to hold our Symposium in April in order to provide more detailed information and discussion regarding the companies that we monitor. 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 fiscal 2008.

And like every year, we will be offering Sponsors and Exhibitors unique networking opportunities in both a professional and personal format. Detailed sponsorship information regarding this event will be available in the coming days.

For a preview of the **Symposium Agenda**, please click into the "**Sixth Annual Symposium**" info tab on the Global Credit Services website below. Any questions, please contact your Account Executive or Amelia Labriola at 212.308.6060 ext 104.

[RETURN TO FIRST PAGE](#)

[WWW.GCSZONE.COM](http://WWW.GCSZONE.COM)

Please click on the "Hotel" tab for reservation information. We encourage you to reserve your spot(s) today!

## Health & Beauty Aids

...**Walgreens** has purchased 20 pharmacies from Farmacias El Amal in Puerto Rico. Farmacias El Amal will continue to operate its remaining 41 Puerto Rican stores. Terms of the deal were not disclosed, however; the transaction is expected to close during the first quarter of fiscal 2008. Walgreens currently operates 73 stores in Puerto Rico.

...In an effort to market its in-store clinics, **Walgreen** will include Take Care Health Systems in an infomercial being carried on Lifetime Television.

...**MedBasics** announced plans to open three in-

store clinics inside of Little Rock based USA Drug stores. MedBasic plans to open up 47 clinics within USA Drug locations during the next few years.

...**Rite Aid** sold the former Brooks Pharmacy headquarters to the New England Institute of Technology. Terms of the deal for the 285,000 square-foot building were not disclosed.

...**Pharmaca** is considering opening a new location in Menlo Park, CA. The retailer currently operates 19 stores, with 11 of them being located in California.

## Off the Rack

...**Coldwater Creek** has announced that it expects to lose \$0.16 to \$0.20 per share during the fourth quarter, down from the forecast of break even that was announced previously. Sales are expected to fall in the mid to high teens. Rivals at **Chico's**, **Ann Taylor** and **Talbots** have also announced reduced estimates.

...**New York & Company** has lowered its profits guidance from \$0.23 to \$0.32 per share down to \$0.15 to \$0.19 per share. The company said its results are weighed down by a 3.5% drop in comps during the holiday season.

...**JCPenney** will be selling "Messages From the Heart" baby apparel. The clothing line is designed by renowned artist Sandra Magsamen.

...650,000 credit card customers privacy information could have been compromised. The information for customers of **JCPenney** was being stored at a warehouse by Iron Mountain, a data storage

company. The tape went missing last October. Early indications are that there is no indication of theft.

...While many retailers are closing down locations, fast-growing **American Apparel** sees an opportunity. The company sees the closed locations as real estate opportunities for the retailer, which currently operates around 180 locations.

...**Kohl's** will be selling Dana Buchman brand after it struck a deal with **Liz Claiborne**. The line includes women's appare, accessories and footwear and will be available in the spring of 2009.

...**Urban Outfitters** has agreed to acquire **Styer's**. **Styer's** is one of the most respected garden center, operating in the Philadelphia area. The move is a new venture for Urban Outfitters, which operates clothing retailers such as Anthropologie, Free People and Urban Outfitters.

## Hi Tech Entertainment

...**Overstock.com** has approved a \$20 million two-year stock and debt repurchase program. The company will buy back stock and convertible notes on the open market.

...**TicketMaster** finally has an answer for last year's purchase of **StubHub** by **ebay**. TicketMaster has purchased TicketsNow for \$265 million. TicketsNow is the second largest online ticket scalper, coming in behind StubHub. The company sold \$200 million worth of tickets in 2006.

...**Borders** is in preparation to take back the operations of its website. The website has been running in an alliance with **Amazon.com**, while Borders has received a portion of the revenues. The agreement expires after the first quarter of the year, when Borders plans to launch its own website.

...**Borders** raised \$1.1 million for First Book, a national literacy organization. Borders and First

Book have worked together to provide books to children in low income families during the past three years.

...**Overstock.com** was ranked #4 on the 2007 National Retail Federation Foundation/American Express Customer Service Survey. The survey polled 8,877 consumers and was conducted from September 4-11, 2007. The consumers polled answered open ended questions.

...**Apple** has announced that it will be getting into the business of movie downloading. The company will be offering 24-hour downloads for \$3.99. This may cause **Netflix** to shift away from its current mail format to a more digital centered format. Mostly, however, this could be bad news for **Blockbuster**.

...**TransWorld** will close two distribution facilities and lay off 252 workers. The facilities are located in North Canton, OH and Johnstown, NY.

### Did You Know...?

*First-time jobless claims dipped last week to 301,000, down 21,000, to mark the lowest level seen since September 22ns. Initial claims have now fallen for three consecutive weeks. However, claims are expected to surge in the next several weeks.*

[RETURN TO FIRST PAGE](#)

## The Global World of Sports and Footwear

... Reflecting the weak macroeconomic trends in the company's markets, **Sport Chalet, Inc.** expects to report sales for its third quarter ended December 30, 2007 of \$116.0 million, up 1.1% versus sales of \$114.7 for the third quarter last year. Based on those sales and in anticipation of approximately \$2.1 million of pre-tax non-cash impairment charges, the company expects to report a loss of in the range of 6 cents to 9 cents per share versus income of 28 cents per share last year.

... **Hibbett Sports, Inc.** now expects to report earnings for its fourth quarter in the range of 20 cents to 26 cents, down from previous guidance in the range of 36 cents to 44 cents. The income drop reflects a revised forecast of a mid-single-digit comp store sales decrease for the quarter.

... Bucking the trend in retail, **Dick's Sporting Goods, Inc.** increased its fourth quarter earnings guidance from a previous estimate of approximately 59 cents per share to a range of 60 cents to 61 cents per share.

... **Cabela's** will be celebrating the grand opening of its two newest 125,000 square foot stores in Post Falls, Idaho, and in Reno, Nevada at the end of January.

... **REI** will open its second prototype store to test retail design and green building concepts in

Round Rock, Texas. **REI's** first prototype store opened in Boulder, Colorado last October.

... **The Walking Company** closed its acquisition of substantially all the assets of **Natural Comfort Footwear, Inc.** Natural Comfort has eight stores operating under the names Natural Comfort and Martini's, which will be converted to The Walking Company stores.

... **GSI Commerce Inc.** obtained a \$75 million revolving secured line of credit from a bank group led by **PNC Capital Markets.** The five-year, revolving secured line of credit is available for letters of credit, working capital and general corporate purposes, including possible acquisitions. The facility can be expanded to \$150 million under certain conditions.

... With softer than expected reorders for winter sports equipment and a challenging global retail environment, **Quiksilver, Inc.** decreased its fiscal first quarter earnings expectations to a loss of 9 cents to 12 cents per share, down from earlier guidance of a small loss.

... **Brown Shoe Co.** is considering moving its corporate headquarters out of St. Louis. Among options the company is considering expanding at its current site in Clayton, moving elsewhere within the St. Louis metropolitan area or moving out of state.

### Did You Know...?

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

## Mass Merchant Musings

... **Meijer Inc.** is pulling the plug on two of its stores in the Columbus, Ohio area and one in Dayton, amid plans to open two more sites in Central Ohio and one new unit in Dayton.

... **ShopKo** plans to open a new Shopko Express store in its hometown of Green Bay, Wisconsin. The drug store will be located on the ground floor of a 39,000 square foot, 3-story building that is part of a \$90 million redevelopment deal.

... **Wal-Mart Stores Inc.** is opening small-format grocery stores in Arizona this year under the trade name, "**Marketside**", going head to head with the new Fresh & Easy markets being rolled out in the

U.S. by **Tesco**, the UK grocer. Wal-Mart secured leases for four 20,000 square foot stores south east of Phoenix.

... **Wal-Mart Stores Inc.**, the third largest retailer in Brazil, is investing \$690 million in the country this year, a 20% increase from last year, adding 36 new stores.

... According to a research note from UBS, **Wal-Mart Stores** could expand its reach into Russia within the next 24 months. The company is expected to enter the market by taking a minority stake in a local retail chain, similar to its path in China.

## Specialty Items

... Amid a weak retail environment, **Williams-Sonoma** lowered its earnings guidance for the fourth quarter to a range of \$1.11 to \$1.14 per share from previous guidance in the range of \$1.19 to \$1.25 per share. In addition, the company believes revenue could fall in 2008.

... **Zale Corp.** will close 60 stores in the next 90 days, joining a growing list of retailers announcing post-holiday store consolidations. Zale is also cutting its capital spending to \$85 million this

year from a planned \$100 million.

... **Tiffany & Co.** plans to open a boutique in Tokyo's Matsuzakaya Ginza department store, and a boutique in Fukuoka's Hakata Daimaru department store in March of this year.

... The Board of Directors of **Overstock.com, Inc.** authorized a two-year repurchase program, which allows the company to repurchase \$20 million in shares of its common stock and/or its Convertible Senior Notes.

[RETURN TO FIRST PAGE](#)