

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Bankruptcy Blotter	2
Management on the Move	3
Hi Tech Entertainment	3
Heard in the Grocery Aisle	4
FYI for the DIY	4
Health & Beauty Aids	5
Rating Changes & Outlooks	5
Off the Rack	7
Mass Merchant Musings	7
Specialty Items	8
The Global World of Sports	8
Options & Resources	8

Home Prices Falling At Record Rate

The decline in U.S. home values accelerated in November, with prices falling for the third month in a row in all 20 cities tracked by the Case-Shiller home price index released last week by Standard & Poor's.

For the 20 cities, prices fell a record 2.1% in November. In the past three months, prices fell at an annual rate of 16.2%.

Among those 20 cities, prices have fallen a record 7.7% in the past year. For the original 10-city index, which has a longer history, prices are down a record 8.4% in the past year, exceeding the drop recorded in 1991.

Home prices fell in all 20 cities in November, led by a 3.6% drop in Los Angeles.

"With supply overhang enormous and mortgage financing tougher to obtain, home prices are going to
(Continued on page 2)



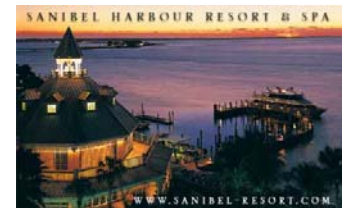
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This year's event will feature our talented Retail Industry experts conducting individual company analyses. The sessions will devote plenty of time to examining each of the following companies, their business models, and management strategies that have helped shape their current financial condition and will examine our outlook for them as well. Additionally, we have scheduled time for Industry Discussions. Among the companies we are considering for review:

- | | | | |
|------------------|-----------------|-------------------|-----------------|
| ◆ BJ's Wholesale | True Value | Duane Reade | Kirklands |
| ◆ Duckwall-Alco | HD Supply | Rite Aid | Gander Mountain |
| ◆ Bon Ton Stores | United Hardware | Linens Holding Co | Bakers Footwear |
| ◆ Gottschalks | A & P | Circuit City | Shoe Pavilion |
| ◆ Ace Hardware | Winn Dixie | Toys R Us | ...and more |

Here is where we need your input! After reviewing the list above, we would ask that you provide us a listing of the companies in which you have a particular interest that we'll strongly consider when finalizing our presentation listing. Please e-mail your lists to Jonathan Kanarek at kanarek@gcszone.com.

As slots are filling up rapidly, we urge you to register now to reserve your place at this premier credit industry event. We look forward to seeing you in Fort Meyers, Florida!

Remember....

Merely having an open mind is nothing. The object of opening the mind, as of opening the mouth, is to shut it again on something solid.

Home Prices Falling At Record Rate

(Continued from page 1)

decline considerable further in the quarters ahead, most likely to a double-digit pace on a year-over-year basis before too long," wrote Joshua Shapiro, chief economist for MFG Inc.

"We reached another grim milestone in the housing market in November," said Robert J. Shiller, chief economist at MacroMarkets LLC and one of the developers of the index. He noted that prices fell at a record pace in November in 14 of the 20 cities. In eight of the cities, prices have been falling for more than a year.

The Case-Shiller index, which tracks multiple sales of the same homes, is considered by many observers to be the best gauge of national and metropolitan-area real-estate values. Its major flaw is that it may overemphasize the coastal regions that had the biggest bubble.

But even in non-bubble cities such as Atlanta, Cleveland, Chicago and Minneapolis, prices are dropping.

Prices are down in 17 of 20 cities compared with a year ago.

Miami has recorded the largest drop in home prices in the past year, down 15.1% since November 2006. Prices have tumbled 13.4% in San Diego, 13.2% in Las Vegas and 13.0% in Detroit. The figures are not adjusted for inflation in the rest of the economy.

After adjusting for inflation of 4.8% prices have fallen even in the three cities with rising nominal prices over the past year – Charlotte, North Carolina, Portland, Oregon, and Seattle, Washington. Prices are up 2.9% in Charlotte, 1.8% in Seattle, and 1.3% in Portland.

First Page

Bankruptcy Blotter

... **Bombay Company** reported a net loss for the month of December of \$7.7 million on sales of \$83.1 million. The loss included \$1.5 million of reorganization items.

... The court has given **Interstate Bakeries Corp.** approval to send its bankruptcy plan to creditors for a vote. The company plans to mail information and ballots by February 4th with votes due by March 3rd, and a confirmation hearing on March 12th.

... More than 20 landlords of **Movie Gallery Inc.** oppose the company's plan to repay creditors, objecting to a provision that limits to six months' rent the amount that landlords may claim in damages if the company decides to reject their leases.

... **Friedman's** filed motions to convert the involuntary Chapter 7 case against it into a Chapter 11 case in which the company will put the business up for sale. The motions also included the **Crescent Jewelry** chain.

... In addition to the above, **Friedman's** was given interim approval for a \$75 million DIP revolving credit facility provided by **CIT** and a \$17.2 million DIP term loan provided by **Harbinger Capital Partners**.

... **Harbinger Capital Partners**, a hedge fund that owns most of **Friedman's**, is expected to make a bid to buy the company out of bankruptcy for the second time. Meanwhile, a meeting of creditors for the case as been set for February 29th in Wil-

mington, Delaware.

... **Nationwide Mattress and Furniture Warehouse**, one of **Sun Capital Partners'** earliest industry acquisitions, is set to be liquidated, according to industry sources. **Great American Group's** furniture division confirmed it was handling the liquidation.

... Homebuilder **Tousa Inc.** filed for Chapter 11 protection with plans for what its top executives called a quick and "painless" restructuring. The company plans to remain in business and complete a restructuring with little impact on customers and vendors.

... **Pacific Lumber Co.'s** biggest creditors, **Bank of New York Mellon** and **Marathon Asset Management LLC** offered competing bankruptcy plans for the logging company, setting up a fight over its future and the fate of more than 200,000 acres of California forests.

... The court has approved **Cerberus Capital Management's** \$170 million worth of new bankruptcy financing to **Dura Automotive Systems Inc.**, loans that buy the struggling parts maker an additional six months to figure out how to emerge from Chapter 11.

... **Delphi Corp.** has not yet been able to secure commitments from lenders for a \$6.1 billion bankruptcy-exit financing package, even though it expected to have those commitments in place by January 23rd.

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[RETURN TO FIRST PAGE](#)

Management on the Move

... **Cardinal Health** announced the resignation of **Matthew D. Walter** from the Board of Directors. The company will not fill Mr. Walter's Board seat and will reduce the size of the Board to 14 Directors.

... **Walgreens** named current Board of Directors member **Alan G. McNally** to the position of Lead Director. Mr. McNally was Chairman of the Board of **Harris Financial Corporation** from 1998 to 2006.

... **Sears Holding** announced the appointment of **Jim Barr** to the position of SVP in charge of Sears' newly revised online business, responsible for leading a new organization focused on innovative business architecture design, merchandising Planning/operational development and technology solutions integration. Mr. Barr joins Sears from **Microsoft Corp.**

... While **Eddie Bauer Holdings** reorganized its corporate staff across three locations, eliminating 123 positions, the company also announced two new hires to its management team. **Tony Krohn** joins the company from **The North Face** as Divisional VP of Research, Design, and Development for Outerwear, Activewear and Gear, and **Joe Moji** joins the company as Divisional VP of Financial Planning and Analysis.

... **dELIA*s** appointed **Michele Donnan Martin** to the position of President, dELIA*s Brand, to lead product design and merchandising for the company's retail and direct-to-consumer divisions. Most recently, Ms. Martin led product design and development for **Martin & Osa**, a brand that is part of **American Eagle Outfitters, Inc.**

... **Stage Stores, Inc.** announced the retirement of **Dennis Abramczyk**, EVP, COO of its **Peeble Division**. Mr. Abramczyk will remain in his position until his replacement has been appointed.

... **Crate & Barrel** announced that company President **Barbara Turf** will become CEO on May 1, 2008, succeeding co-founder **Gordon Segal**. Ms. Turf, who has been President for 11 years, started her career with the company in 1967. Mr. Segal will become Chairman of the Board and continue as a key adviser.

... **Circuit City Stores, Inc.** announced that **Jeffrey S. Stone** joined the company as EVP – New Business Development. Mr. Stone most recently served as President and COO of **Tivoli Audio, LLC**.

... **Staples, Inc.** appointed **Mark Mettler** to the position of SVP, General Merchandising Manager, Consumer Technology and Seasonal Supplies, reporting to **Jevin Eagle**, EVP of Merchandising. Mr. Mettler served as VP, General Merchandise Manager at **Sears Roebuck and Company**.

... With the retirement of **David L. Rogers**, **Conn's, Inc.** appointed **Michael J. Poppe** as its new CFO. Mr. Poppe has served as the company's Controller and Assistant CFO and Assistant Treasurer since he joined the company in September 2004. Mr. Poppe previously worked in various positions with **Arthur Andersen LLP**.

... **Sharper Image Corp.** announced the resignation of **Peter A. Feld** from its Board of Directors as a result of increasing demands on Mr. Feld's time at **Ramius Capital**.

Hi Tech Entertainment

...An ex-**Staples** executive was sentenced to 3 ½ years in jail after he was found guilty of embezzling \$600,000 from the retailer. The former marketing executive, **James Dorman**, was ordered to pay \$585,000 in restitution.

...**Officemax** has opened eight new Florida locations. The new locations are in the updated store layout the company feels will provide shoppers with a better experience.

...**Overstock** reported revenues of \$300 million for the fourth quarter, a 2% increase over the same quarter last year. Losses of \$4.3 million were much a large improvement from the \$45.6 million for the same quarter last year, while EBITDA was positive for the second quarter in a row, a first for the company.

...**Dell** announced that it would be closing its mall

kiosks in the US. The company currently operates around 140 kiosks. The plan is to put its computers in more stores, including Walmart and Best Buy.

...**PC Connection** reported that profits for the fourth quarter were up 35% to \$6.2 million. Revenues were up 13% to \$489.6 million.

...The board of **Netflix** has approved a plan that allows the company to buyback up to \$100 million in common stock. The plan runs through the end of 2008. Goldman Sachs also announced that it has raised its stake in the online movie rental company to 5.4% from 3.12% in September.

...**Microsoft** has put in a \$44.6 billion bid for **Yahoo**. The bid comes as the two are losing market share to rival **Google**.

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[RETURN TO FIRST PAGE](#)

Heard in the Grocery Aisle

...**Aldi** has announced it will build a distribution center in Haines City, Florida. This central Florida facility will be used to supply a network of stores that are in various stages of development.

...**Associated Wholesale Grocers** reached an agreement with **Kroger** to purchase four **Dillon** stores in Missouri. The deal should close during February; terms of the transaction were not disclosed.

...**Dillon**, a division of **Kroger** has purchased five stores from **Associated Wholesale Grocers (AWG)**. Three of the locations had the **Homeland** banner and two had the **Price Chopper** brand name. The transaction is scheduled to close in February; terms of the deal were not disclosed.

...**Kroger** will begin selling E85 fuel at some of its locations. This fuel is cheaper than gasoline; however, only flex-fuel vehicles can use it.

...**Bruno Supermarkets** announced that it would attempt to "re-invent" its brands by working with an ad agency.

...**Green Grocer Chicago** opened an organic grocery store in Chicago's west side.

...**Penn Traffic** announced the closure of 5 stores in upstate New York and Pennsylvania.

...**Roundy's Supermarkets** announced a push to promote its private-label food lines. **Roundy's** private label program includes 2,500 products.

...**Supervalu** announced that it was planning to move most of its IT related functions to Idaho.

...**Supervalu** plans on closing all five of its **Sun-flower Market** locations. This organic grocery

store format was not able to gain traction in the Midwest.

...**Jewel-Osco** has elected to relocate its Illinois-based headquarters from Melrose Park to Itasca. As a reminder, **Supervalu** owns **Jewel-Osco**.

...During Q2 2008, **Sysco** grew revenue by 8.1% to \$18.7 billion. The food distributor's income expanded 11.4% to \$531.1 million.

...**Stop & Shop** has announced plans to begin testing a wireless checkout system at a few of its stores.

...**Tesco** has announced plans to open 18 new stores in Northern California.

...All four **Martin's Super Food Stores** will be converted to the **Tops Markets** banner by early February.

...**Tops Markets** plans to spend \$22.5 million to upgrade its IT equipment.

...**Winn-Dixie** has begun testing \$1-a-day DVD rental kiosks in some Jacksonville, FL area stores. **Publix** is also experimenting with a similar offer in some of its locations in southern Florida.

...**Wegmans Food Markets** announced that higher prices have forced the retailer to increase the price of bread by 10-30 cents.

...**Whole Foods Market** announced that it inked a national distribution agreement with **Funky Monkey Snacks**. The agreement covers the shipment of all-natural freeze-dried fruit.

... **Zaccaro's Market** plans on opening a high-end 6,500 square foot store in Detroit.

Feedback?

Questions?

Suggestions?

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FYI for the DIY

... **The Home Depot** announced a 10% layoff at its Atlanta headquarters. Roughly 500 of the 5,000 employees were told by their managers that they would be let go as the company responds to the national chill in homebuilding and a slowing of the overall economy.

... At **Sherwin-Williams** net sales for the year increased 2.5% to a record \$8.01 billion while net income for the year rose 6.9% to \$615.6 million, in spite of a \$15.2 million asset impairment write-off.

... **Wesco International, Inc.** produced another record year, reporting sales for its fiscal year ended December 31, 2007 of \$6.00 billion, a

12.8% increase over the prior year and net income for the year of \$240.6 million, up 10.7% versus net income of \$217.3 last year.

... **Tractor Supply** competed another solid year, reporting sales of \$2.70 billion, up 14.1% versus sales for the prior year of \$2.37 billion. Net income for the year was \$96.2 million, a 5.8% increase over the prior year net income of \$91.0 million.

... North of the border, **Richelieu Hardware Ltd** reported a 13.1% increase in sales for its fiscal year ended November 30, 2007 to \$436.2 million, and a 6.3% increase in net income for the year to \$34.0 million.

[RETURN TO FIRST PAGE](#)

Health & Beauty Aids

...After six months, **Cardinal Health's** revenue grew by 6% to \$45.3 billion. The distributor's income fell 38% on a year-over-year basis because of a massive tax benefit during the prior fiscal year. On a year-to-date basis, the company's operating income expanded 5% to \$1.0 billion.

...**Standard & Poor's** announced it was upgrading **Cardinal Health's** credit rating to a BBB+ from a BBB.

...**Walgreens** will begin selling **General Imaging's** new camera in its store during April 2008.

...**CheckUps** announced it was closing 23 clinics inside of **Wal-Mart** locations in four southern states. **CheckUps** was unable to pay its bills. These facilities competed with in-store clinics operated in convention drugstore chains and those inside of grocery stores.

...**Little Clinic** announced that **CIGNA** was adding it to its network. **Little Clinic** operates facilities inside of both **Kroger** and **Publix**. The move by **CIGNA** should improve this in-store clinic's traffic.

...**HearAtLast Holdings** announced it would begin opening in-store clinics in America. These clinics offer ear products and tests at its locations.

...During Q1 2008, **AmerisourceBergen** announced that sales grew 3.5% to \$16.2 billion. The company's net income fell 7% to \$195 million.

...On a year-to-date basis, **McKesson's** sales grew by 15% to \$26.5 billion. The firm's operating income expanded 11% to \$997 million. **McKesson's** net income grew 4% to \$683 million.

...**Rite-Aid** reported that overall December comps were 2.0%.

Rating Changes and Outlooks

S&P Rating Changes

Company	Credit Rating		Credit Outlook	
	Current	Prior	Current	Prior
MCKESSON CORP	BBB+	BBB	POS	POS
CARDINAL HEALTH INC	BBB+	BBB	STA	POS
CSK AUTO CORP	B-	B-	NM	NEG
NEIMAN MARCUS INC	BB-	B+	STA	NM
VICORP RESTAURANTS INC	CCC	CCC+	DEV	NEG
WHOLE FOODS MARKET INC	BB+	BBB-	NEG	NM
CAESARS ENTERTAINMENT INC	NR	BB+	NR	NM
LANDRYS RESTAURANTS INC	B	B	NM	STA

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[RETURN TO FIRST PAGE](#)



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Did You Know...?

Fearing that financial market turmoil and a weak housing market could cause the economy to spiral downward, the Federal Reserve lowered the federal funds rate by 50 basis points to 3% last week, the second time in eight days that the rate was lowered.

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](#)

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

Off the Rack

...**Barney's** has opened up a new 80,000 square foot retail location on the Las Vegas Strip. The Barney's store is the anchor in the new Palazzo Las Vegas hotel and casino. Other retailers in the high-end shoppes include Tory Burch, Diane Von Furstenberg, Chloe, Anya Hindmarch and Lambertson Truex.

...**Walmart** has moved its apparel operations to New York, affecting 150 to 200 people. The move was designed to "strengthen apparel relevance and speed of product to market."

...**Macy's** has signed up to feature the new Martha Stewart line of wedding gifts. The deal is exclusive with the Irish Waterford Wedgwood brand.

...**Ann Taylor** will be closing 117 stores and laying off about 13% of its staff at its headquarters. The move is expected to save the company \$50 mil-

lion by 2010, with \$25 million of savings coming this year. Around 180 employees are in line regarding the layoffs.

...**JC Penney** has announced that it will layoff around 200 employees as the company will be consolidating the buying and marketing operations for the store and online operations. Comps were down 7.5% for the retailer in December.

...Investment guru Carl Icahn has amassed a large stake in **JC Penney**. Just how large remains unclear, but reports have it as among Icahn's top five holdings.

...**Syms** has assured its shareholders that it will continue to provide financial information, despite the delisting of the company's securities from the NYSE. Syms shareholders recently filed a lawsuit against the company.

Mass Merchant Musings

... **Wal-Mart** is endeavoring to emulate **Amazon.com's** online supremacy with an international e-commerce initiative aimed at securing billions of dollars of additional sales in countries including China, Japan and Brazil.

... **Wal-Mart Stores Inc.** is looking to accelerate its RFID rollout, and once again the Dallas area is at the heart of the effort. The company is requiring all suppliers shipping products to its Sam Club's distribution center in DeSoto to start applying the radio tags to their pallets or start paying a \$2 per pallet fee.

... **Wal-Mart** is restructuring its apparel operations, closing its product development and sourcing divisions, and eliminating dozens of positions. The company plans to organize the struggling apparel business around two hubs - brand merchandising and buying.

... **Wal-Mart** has issued \$750 million in 5.8% Notes due 2018 and \$750 million in 6.5% Notes

due 2037. After consummation of the underwriting, the amount of notes outstanding under the 2018 Series will be \$1.25 billion and the amount of all of the 2037 Series Notes will be \$3.00 billion.

... **Costco** filed label applications with the federal Tax and Trade Bureau for a Kirkland **Signature Hefeweizen**, amber ale and pale ale. These beers will be brewed by San Francisco-area craft brewer **Gordon Biersch**, which also brews private-label beers for the **Trader Joe's** supermarket chain.

... In other news, **Costco** plans to open its first store in Australia in 2009. The company is searching for sites in Sydney, Brisbane and Melbourne.

... **Canadian Tire Corporation** will release its fourth quarter and full year results on Thursday, February 7, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

Did You Know...?

In the past two holiday seasons, retailers have imposed stricter return policies. Among those surveyed by the NRF, about 40% said they had tightened the rules covering what merchandise they'll take back, and under which conditions.

[RETURN TO FIRST PAGE](#)



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Specialty Items

... **Tuesday Morning Corporation** reported sales for its second quarter ended December 31, 2007 of \$308.7 million, down 3.9% versus sales of \$321.3 million for the comparable period last year. Net Income for the quarter was \$20.5 million, down 13.8% versus prior year net income of \$23.8 million.

... Based on its operations through its fiscal second quarter, **Tuesday Morning Corporation** terminated the declaration an annual cash dividend.

... The New York Times reported that the owner of **Lord & Taylor Department Stores, NRDC Equity Partners**, is in negotiations to acquire **M Fortunoff** for \$100 million. However, the article indicated it was not known whether the deal would occur before a bankruptcy filing or as part of acquitting the assets out of bankruptcy.

... Continuing its rapid international expansion, **Tiffany & Co.** plans to open a store in Madrid, Spain in the fall of 2008. The approximately

5,400 square foot store will occupy two levels in a landmark building in the city's premier luxury shopping area.

... **O'Reilly Automotive** made an unsolicited bid to acquire **CSK Auto** for \$845 million, including the assumption of \$490 million of CSK debt, or approximately \$8.00 per share in cash. The offer brings into the daylight private conversations that have to date proven fruitless.

... **Overstock.com, Inc.** reported revenues for the fiscal year ended December 31, 2007 of \$768.8 million, down 2.5% versus prior year revenue of \$788.2 million. However, the company's net loss for the year of \$44.1 million represented a 43.3% improvement of the prior year's loss of \$101.8 million.

... The U.S. subsidiary of Monterrey, Mexico-based Top 100 company **Grupo Famsa** is acquiring the 12-store **Edelstein's Better Furniture** in Texas as it continues to expand its U.S. presence.

The Global World of Sports and Footwear

... After a slow start to the season, strong snowfall in most markets ignited a strong December and early January at retail, which has given the industry hope that by the end of the 2007/2008 season, it will be able to turn the page on last year. The market should be clean for next year and bills should be paid.

... Blaming the difficult retail climate, **Cabela's Inc.** missed its sales plan for the fourth quarter, recording a 5.9% decline in comp store sales for the quarter. As a result, the company is slowing its expansion plans and will open only two stores in 2008 in Scarborough, Maine, and Rapid City, South Dakota, and two stores in 2009 in Billings, Montana, and East Rutherford, New Jersey.

... **Sport Supply Group, Inc.** reported sales for its second fiscal quarter ended December 31, 2007 of \$54.1 million, up 9.5% versus sales for the comparable period last year of \$49.4 million. Net income for the quarter was \$0.5 million versus a loss last year of (\$0.9) million.

... Simultaneous with its solid results for the second quarter, **Sport Supply Group** raised its full year earnings per share outlook to a range of 63 cents to 73 cents per share or approximately net income in the range of \$7.8 million to \$9.0 million.

... **Sport Chalet, Inc.** will release its third quarter operating results after the market closes on Tuesday, February 5th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **GSI Commerce** will release its fiscal fourth quarter and year end operating results after the close of the financial markets on February 13th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... In other news, **GSI Commerce** signed a multi-year extension to continue to provide customer care services for the direct-to-consumer business of Restoration Hardware.

Did You Know...?

Although there was hope that U.S. consumers would boost the economy by spending their tax rebates, a new survey reveals that more than 50% of U.S. consumers plan to use their proposed tax rebates primarily to pay down debt, rather than spend it.

[RETURN TO FIRST PAGE](#)

Options and Resources

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