

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### REMEMBER

Friends may come and go,  
but enemies accumulate.

## Grocery Prices Getting Fat on Ethanol Demand

Hungry for a chicken sandwich with sliced tomatoes washed down with a tall glass of milk? Prepare to fork over more money.

Throughout the grocery store, food prices are higher – brought on by forces as disparate as drought in Australia and demand for ethanol.

U.S. retail chicken prices in January were up 10% compared with a year before, while whole milk was up at least 20% and tomatoes 25%, according to the Bureau of Labor statistics. Bread was up 5.4% nationally. Skyrocketing wheat prices mean higher flour prices, which means everything from pizza crust to cake is likely to see a price hike in the coming months.

And that side of egg salad? Not cheap. Eggs gained more than 30%.

Escalating food costs could present a greater problem than soaring oil prices for the national economy because the average household spends three times as much for food as for gasoline. Food accounts for about 13% of household spending, compared with about 4% for gas.

And consumers spending more on food have less disposable income to spend on items that keep

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## Winn-Dixie Stores, Inc.: Retailer of the Week

Winn Dixie, roughly one and a half years removed from its November 2006 emergence from bankruptcy, **remains a high risk, 'E' credit with a stable outlook.** On a short-term basis, the situation has been brightened by the company's ability to turn a small operating (and net) profit. Furthermore, the supermarket's P&L statement isn't burdened with hefty interest payments due to its clean post-bankruptcy balance sheet. Strategically, the firm is hoping that its store update plans will reverse a troubling trend of declining foot traffic in its supermarkets. Impressively, the retailer has **maintained a very decent liquidity profile** since its emergence. Cash, revolver availability, and operating cash flow remain earmarked to make upgrades to its existing store base of 521 units across Florida (359), Alabama (73), Louisiana (51), Georgia (22), and Mississippi (16). Due to its decision to confront Publix instead of Wal-Mart, freshening up its outdated store base becomes an even more critical initiative. **This remodeling program will hopefully give Winn Dixie the ability to ratchet up its sales per square foot (currently at ~\$300) to a more acceptable industry standard.**

Management noted recently that the prospect of a struggling economy (particularly in Florida) is not a new phenomenon for the firm to contend with. Furthermore, customers looking to shop closer to home due to spiking gas prices could play into the grocer's hands in core markets. ^

During its 21-month stint in Chapter 11, Winn Dixie closed roughly 400 stores and extracted over \$100 million in annualized operating costs from its P&L statement. Management is attempting to elevate the grocer's reputation among middle class shoppers without losing its blue collar clientele. This supermarket's chances of sustainable success will likely hinge upon its ability to co-exist in territories that contain much tougher competitors.

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## Grocery Prices Getting Fat on Ethanol Demand

retailers happy – from electronics to dining out. Food prices are rising while home values fall and the stock market falters – all of which can shake consumer confidence.

“It’s the biggest risk we face economically, and it might be the thing that does us in,” said Rich Yamarone, director of economic research at Argus Research Corp. “There’s nothing really worse than having a job, making money and forking most of it over just so you can have the same amount of food. You’re running in place, and it really weighs on you.”

Many analysts expect consumers to keep paying more for food. Wholesale food prices, an indicator of where supermarket prices are headed, rose last month at the fastest rate since 2003, with egg prices jumping 60% from a year ago, pasta products 30% and fruits and vegetables 20%, according to the Labor Department.

A whole shopping basket of factors are combining to make a trip to the market more costly.

Higher fuel prices make it costlier to grow crops and get them to market. Corn, a key foodstuff for farm animals, has shot up as ethanol demand increases. Corn prices have more than doubled in commodity markets over two years, and soybeans nearly tripled.

Soybean farmers, lured by higher margins, are growing more corn, causing soybean supplies to shrink and prices to increase.

In 2005, wheat averaged \$3.50 to \$4 per bushel on commodities markets. By December, the price was \$7.75 and in January it was \$8.55. Futures markets predict a further increase.

Corn inflation has translated to higher meat prices. Meanwhile, China and India are eating more meat, and a drought in Australia has limited grain and dairy exports to Europe and Asia, cutting the global supply and prompting more countries to turn to the U.S. for food.

Overall, the Department of Agriculture forecasts food prices will gain about 4% this year, faster than in recent years. The price hikes are enough to take a lot of the comfort out of comfort food.

### Did You Know...?

The Federal Reserve and other leading central banks doubled to more than \$400 billion the amount of money they’re willing to lend to banks and bond dealers, hoping to flood dysfunctional credit markets with enough money to get them working again.

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## Winn-Dixie Stores, Inc.: Retailer of the Week

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<i>\$ in millions, 28 weeks ended</i>	<b>1/9/2008</b>	<b>YOY Var.</b>	<b>1/10/2007</b>
Net Sales	\$3,867.90	0.70%	\$3,840.90
Identical Store Sales Growth	0.40%		1.80%
Gross Margin	27.00%	104 bps	26.00%
Adjusted Operating Profit	\$5.20	N/M	(\$80.80)
Adjusted Operating Margin	0.00%	210 bps	-2.10%
Impairment Charges	\$0.20	N/M	\$20.80
Restructuring Charges (Gain)	\$0.00	N/M	\$0.80
Reorganization Items (Gain), net	\$0.00	N/M	(\$334.40)
Earnings & Gain (Loss) on Disposal of Discontinued Operations	\$0.00	N/M	\$16.30
Net Profit	\$3.30	N/M	\$262.20

### OPERATING PERFORMANCE: 28 WEEKS ENDED JANUARY 9, 2008

Winn Dixie's first half results for its fiscal 2008 year included revenue growth of 0.7% to nearly \$3.9 billion, with each store generating \$265,000 of sales on a weekly basis. **Identical store sales increased 0.4% during the twenty-eight weeks ended January 9, 2008** as a 2.5% rise in average basket size overcame a 2.1% decline in transaction count. Recent food price inflation appears to be a key driver of basket size, though somewhat negated by a mix shift in pharmacy sales from branded to generic drugs (see Comparable Store Sales). CEO Peter Lynch noted that the company has been successful thus far at passing through inflation to its customers. Winn Dixie continues to work towards a revamped three-tiered private label program; the grocer currently has 700 SKUs with the new packaging on its shelves, well on its way to hitting its goal of hitting 1,000 SKUs by fiscal 2008's completion.

The 104 basis point improvement in Winn Dixie's 27.0% gross margin was owed to more effective management, promotional spending, and operational improvements that reduced shrink. Other operating and

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## Winn-Dixie Stores, Inc.: Retailer of the Week

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administrative expenses fell approximately 120 basis points to 26.9% of net sales to \$1.0 billion during the first semester of fiscal 2008. This reduced cost burden was attributable to 1) non-recurring items totaling \$15.6 million from the previous fiscal year (\$21.5 million of emergence-related expenses and \$5.9 million of income related to favorable vacant store lease buyouts), 2) a favorable claims development of \$15.5 million recognized in Q2 2008, 3) a reduction of \$5.8 million related to lower depreciation and amortization owed to fresh start reporting revaluations, and 4) a reduction of \$4.6 million related to lower insurance premiums. The grocer did, however, report an uptick of \$2.8 million in its first half advertising expenses. In aggregate, all of these changes actually allowed Winn Dixie to **produce positive operating profits**.

The minimal financing costs Winn Dixie currently enjoys might not be a realistic scenario over the long-term in the capital-intensive supermarket industry. Remodeling 75 stores on an annualized basis will require time (6-9 months, depending upon the extent of the renovations) and money (\$1.9 million per store, on average). That doesn't even include "maintenance" cap-ex requirements. Following the completion of a remodel, that store then requires 4 weeks of heavy promotional spending to invite customers back to the store. The point, therefore, is that this grocer needs to create sustainable profitability to justify its existence over the long-term. The good news is that the 24 recently remodeled stores deemed to be "offensive" were enjoying a weighted average sales lift of 12% (with transaction count rising 5.2% and basket size increasing 6.8%).

Approximately 80% of Winn Dixie's remodels are anticipated to be of an offensive nature, and the results seen in this small existing sample is giving management some degree of encouragement that it is headed in the right direction. By the end of fiscal 2010, approximately half of the chain should be updated (if things go according to plan). The capital expenditure forecast for fiscal 2008 has been refined to \$230 million (from \$250 million) due to the timing of payments being shifted into fiscal 2009.

### LIQUIDITY & FINANCIAL STRUCTURE

Winn Dixie had **\$141.8 million of cash & equivalents** as of mid-January, supplemented by **\$446.6 million of borrowing availability** remaining on its \$725 million revolving credit facility. Revolver availability this winter was likely helped by seasonal changes in the borrowing base; no direct borrowings and L/C usage totaling \$191.2 million were reported (see Bank Reference). Global Credit estimates the gross borrowing base as of this winter to have been \$707.2 million, with a usable borrowing base of \$687.8 million. Both asset-side and liability-side liquidity are solid at the current time. CEO Lynch believes that Winn Dixie can fund scheduled remodels for fiscal 2008 without tapping into the firm's revolver.

Benefiting from both growth in shareholders' equity and a decline in intangible assets, tangible net worth improved 26% to \$488.6 million on a year-over-year basis. Liabilities-to-assets held steady at 0.52 (identical to the level seen in both Q4 2007 and Q1 2008), with long-term liabilities primarily comprised of reserves for self-insurance liabilities and unfavorable leases. Despite the lack of debt, Winn Dixie has little assets to speak of other than its inventory and equipment, which are pledged to the banks. To this point, the grocer owns only 2% of the locations it uses to operate (stores, corporate headquarters, distribution centers, and manufacturing ops).

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## Management on the Move

... **W.W. Grainger, Inc.** elected **Gregory S. Irving** as the Principal Accounting Officer of the company. Mr. Irving, was appointed VP and Controller of Grainger, Inc. earlier this month. Since September 2004, Mr. Irving served as VP, Finance, for Acklands - Grainger Inc.

... **Richard D. Offenbacher**, who is currently serving as SVP, Sales and Marketing at **Graybar Electric Company**, was named SVP, Sales and Marketing, Electrical, while **Kathleen M. Mazzarella**, who is currently serving as SVP, Human Resources and Strategic Planning, has been named SVP, Sales and Marketing, Comm/Data.

... Veteran retailing executive **Charles Chinni** has joined **Fortunoff** as Chairman and CEO, following the specialty retailer's acquisition by **NRDC Equity Partners**. Mr. Chinni retired last year from **JCPenney**, where he had been EVP, Home.

... **Kimberly Prodan** was named interim executive director of the Chicago Fashion Incubator at **Macy's**. Prodan, 30, has been with **Marshall Field's** and **Macy's** as a buyer and planner for 10 years.

... **Goody's** named **Paul White** as its new CEO. Mr. White came over from **Shopko Stores**, where he was president and CMO. He has also held mer-

chandising and advertising executive positions with **Famous-Barr**, a division of **May Stores**.

... **Kevin Holt** was named retail and operations chief at **Sears Holdings**. He will head up one of the five umbrellas that Sears Holdings split into last year. Kevin Holt was previously an executive at **Meijer**, where he was for 13 years

... **Ultimate Electronics** named **Jim Pearse** as its new president this week. Mr. Pearse was promoted to the position from his post of senior vice president of merchandising.

... **Jerry Stritzke** will take over as president of **Coach**, taking over the post that will be vacated by retiring president **Keith Monda**. Jerry Stritzke was previously co-leader at **Victoria's Secret**.

... **Tesco** has moved **Jeff Adams**, a supermarket industry veteran, to the United States from Thailand.

... **Cardinal Health** announced that **Michael C. Kaufmann** would become head of its pharmaceutical supply-chain operation.

... **Tenet Healthcare's** General Counsel, **Peter Urbanowicz**, announced that he was leaving the company.

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## Off the Rack

... **Bon Ton Stores** reported profits of \$75.2 million for the fourth quarter ended February 2, 2008, down from \$88.4 million last year. Quarterly sales were down 9% to \$1.14 billion. The fourth quarter last year contained an extra week of revenues. Comps were down 3.6% for the period. For the year, revenues were up 0.3% to \$3.37 billion, as net income fell sharply to \$11.6 million for the year.

... **Gottschalks** reported profits of \$1.1 million for the fourth quarter, barely breaking even during the crucial holiday season. Revenues for the period were down 14.2% to \$204.4 million. Last year contained an extra week of revenues. Comps were down 8.5% for the fourth quarter. For the year, the company lost \$12.4 million on revenues of \$628.6 million. Last year, the company made \$2.6 million on revenues of \$683.9 million.

... A Columbus area children's hospital is under fire for accepting donations from local retailers.

The hospital accepted a \$50 million donation from **Abercrombie & Fitch**, which some feel as being too racy. The hospital will have the Abercrombie & Fitch Emergency Department and Trauma Center. The hospital also accepted a \$5 million donation from **Limited Too**, which will have the Limited Too & Justice Main Lobby.

... **Nordstrom** has said that weak sales in California and in women's apparel has hurt results for the company. A number of retailers are expressing concerns in the region, which has been hit particularly hard by the downturn in recent months.

... **Talbots** has said that it will be slowing its expansion in 2008, and will be closing an additional 20 retail locations. The company said that it lost \$171 million in revenues for the fourth quarter. Sales for the year were \$2.29 billion, as comps fell 5.5%. Talbots plans to open 27 Talbots and 19 J. Jill in 2008.

## Health & Beauty Aids

... **Pilot Travel Centers** announced that it has opened an in-store clinic with Roadside Medical Labs in Cartersville, GA.

... **Medical Marts** has announced that it would close all of its in-store clinics. The decision was the result of venture capitalists pulling the plug on the firm.

... During fiscal 2007, **Duane Reade** announced that its sales increased 6.4% to \$1.7 billion. On an annual basis, comparable store sales expanded by 7.4%. The firm's front-end comps grew 8.6% while its pharmacy same-store sales increased 5.9%. The company's losses equaled \$15.1 million; this figure is a dramatic improve-

ment over the \$29.7 million of losses recorded during fiscal 2006.

... The remodeled **Carnival** store in Plano, Texas will hold a dental clinic along with a nurse-staffed healthcare clinic.

... **Walgreens** named **Butler, Shine, Stern & Partners** its first marketing agency of record. The agency will be marketing **Take Care Health's** brand and creative advertising message.

... **Medco** began building a \$140 million automated pharmacy in Boone County, Indiana. The facility will be capable of dispensing one million prescriptions per week by 2012.

## Specialty Items

... **Linens Holding Co.** will release its fourth quarter and full year financial results on Thursday, March 20<sup>th</sup>. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... For its fiscal year ended February 2, 2008, **Jo-Ann Stores** reported sales of \$1.879 billion, up 1.5% from sales of \$1.851 billion. For the year the company reported net income of \$15.4 million versus a loss of \$1.9 million in the prior year.

... **Pet Valu, Inc.** reported sales for its fiscal year ended December 29, 2007 of \$163.0 million, up 10.9% versus sales in the prior year of \$147.0 million. Net income for the year rose 64.7% to \$12.4 million.

... **Finlay Enterprises Inc.** extended its license with a division of **Macy's Inc.** for two years until January 29, 2011, and encompassing 222 stores. The company will not renew licenses for 94 Macy's as a result of restructuring.

... In other news, **Finlay Enterprises** will release its fourth quarter and full year financial results on Wednesday, April 2, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Borders Group Inc.** has ended its talks with **A&R Whitcoulls** regarding the possible sale of its stores in Australia and New Zealand. Last fall Borders sold its United Kingdom and Ireland subsidiaries, including 42 Borders stores to a group of London investors.

... **Books-A-Million**, which operates over 200 stores in 20 states and the District of Columbia, opened a 15,500 square foot store in Davenport, Florida, the company's 37<sup>th</sup> in Florida.

... **Rooms To Go** is partnering with Disney to launch a line of children's furniture inspired by **Miley Cyrus'** hit television character, pop star **Hannah Montana**. The Disney Hannah Montana furniture collection is now exclusively available at all Rooms To Go stores as well as online.

... **Jennifer Convertibles, Inc.** signed a lease to open its second **Ashley Furniture HomeStore** in Bayport, New York. The store is expected to open in April. As of January 8<sup>th</sup>, the company owned 155 stores and licensed 22 (including 21 owned and operated by a related company on a royalty free basis) and operated one licensed Ashley Furniture HomeStore.

... **The Pep Boys - Manny, Moe & Jack** will disseminate its fourth quarter and year-end financial results on Wednesday, March 26<sup>th</sup>. Look for **Global's** updated analysis and assessment shortly thereafter.

... Another furniture retailer is tying free furniture to a home team sports victory. **SuitePlay**, a four-store Chicagoland retailer of home entertainment furniture, games and accessories, will reimburse all purchases made at its stores from March 13 through April 15<sup>th</sup> if the Chicago Cubs win the World Series this year. The year marks the 100<sup>th</sup> anniversary of the Cubs World Series win against the Detroit Tigers.

... The **Container Store** is expanding its e-commerce business to Canada, has added in-home installation of its Elfa shelving and drawer systems and is keeping its growth plans on track to open 29 stores in the next five years. Through its on-line market, the company is testing the Canadian market for future expansion.

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## The Global World of Sports and Footwear

... Fresh off its merger agreement settlement, **Genesco Inc.** reports sales for its fiscal year ended February 2, 2008 of \$1.502 billion, up 2.9% versus sales of \$1.460 billion in the prior year. Net income for the year was \$7.8 million, which included \$37.3 million pre-tax of merger and litigation related expenses, versus net income of \$67.6 million in the prior year.

... Related to the failed merger, **Genesco** will receive \$95 to \$100 million in net cash from the settlement and intends to use the proceeds for a new \$100 million stock buyback program that will begin this month. Also, the company intends to distribute to its shareholders a 12% equity stake in **Finish Line** it will receive as part of the settlement.

... Heavily impacted by the challenging external environment, **Foot Locker, Inc.** reported sales for its fiscal year ended February 2, 2008 of \$5.437 billion, down 5.4% versus sales of \$5.750 billion for the prior year. Net income for the year fell 78.9% from \$251 million last year to \$53 million this year.

... Feeling the economic pinch, **Hibbett Sports, Inc.** reported sales for its fiscal year ended February 2, 2008 of \$520.7 million, up only 1.7% versus prior year sales of \$512.1 million, as comp store sales for the year declined 2.9%. Net income for the year dropped 19.0% to \$30.8 million versus prior year.

... **Highland Consumer Fund**, the venture capital firm headed by **Staples** founder **Tom Stemberg**, purchased an 80% stake in **City Sports**. Financial terms of the transaction were not disclosed, however, it is being reported that Highland is supplying a substantial growth equity investment.

... Including the operating results of **Golf Galaxy** and **Chick's Sporting Goods** from their respective acquisition dates, **Dick's Sporting Goods, Inc.** reported sales for its fiscal year ended February 2, 2008 of \$3.888 billion, up 24.9% versus sales of \$3.114 billion in the prior year which did not include those acquisitions. Net income for the year was \$155.0 million, up 37.7% versus net income of \$112.6 million for the prior year.

... **Dunham's Sports** is opening a 44,000 square foot store in the Cranberry Mall in Cranberry, Pennsylvania, 21 miles northwest of Pittsburgh, in late summer.

... The assets of the **Baseball Warehouse** and **Softball Warehouse** businesses were sold to **Matrix Group Ltd.** Additional details of the transaction, which will relocate the businesses from Lewisville, Texas to Florida, were not immediately available. With the acquisition, Matrix broadens

its portfolio of catalog and internet sporting goods businesses.

... **Road Runner Sports** opened its first store in the Washington, D.C. area, continuing its recent expansion into the eastern part of the country. The store in Falls Church, Virginia, follows recent openings in North Brunswick, New Jersey, and Columbia, Maryland. The company now has 19 stores across the country.

... **Fleet Feet**, the 80-door, franchised chain of running specialty stores surpassed \$75 million in sales last year, up from \$63 million in 2006. The company's comp store sales grew 15% year-over-year. The company intends to open a dozen new stores this year.

... While experiencing some softness in sales late in the year, **Zumiez Inc.** still posted record sales and earnings results for its fiscal year. Sales for the year rose 27.9% to \$381.4 million, while net income rose 21.4% to \$25.3 million versus prior year.

... **lucy activewear** will open three stores this month as part of their new store expansion - making a total of 64 stores nationwide. The new stores are to be located in San Francisco, California, Leawood, Kansas, and Marietta, Georgia.

... **K-Swiss** opened its first U.S. retail endeavor in the form of a branded pop-up store in Santa Monica, California. The shop will remain there through April 3<sup>rd</sup>, before it heads to New York.

... **L.L. Bean Inc.** reported a record \$1.62 billion in sales for 2007, a 5.5% increase over 2006. During the year the company opened new store fronts in Connecticut and New York State. The company is on track to open an additional three stores in Chicago, New York State, and Pennsylvania in 2008.

... Reflecting a tough retail climate and the impact of purchase price accounting from the **Stride Rite** acquisition, **Collective Brands** reported net income of \$42.7 million for its fiscal year ended February 2, 2008, down 65% versus net income of \$122.0 million for the prior year. Total revenue for the year was \$3.04 billion, up 8.5% versus the prior year due to the addition of Stride Rite.

... In other news **Collective Brands** plans to consolidate its five primary North American distribution centers into three U.S. centers, to improve distribution of the company's merchandise to its North American wholesale and retail customers. By late 2009, the three U.S. distribution centers will be located in Redlands, California, Louisville, Kentucky, and Brookville, Ohio.

### Did You Know...?

Chain store sales for the week ended March 8<sup>th</sup> rose 1.6% from the year-ago period. On a week-over-week basis, sales climbed 0.3%.

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## Bankruptcy Blotter

... **Lillian Vernon Corp.** has a \$9.25 million offer for its assets, and looking for the court to approve its auction rules in hopes it will draw rival bids topping that of **Creative Catalog Holding Corp.** The deal includes a \$185,000 break-up fee and \$92,500 in expense reimbursement.

... **Sharper Image** received final court approval of its \$60 million DIP financing arrangement with Wells Fargo Retail Finance.

... In other news, **Sharper Image** received court approval to hold an auction for liquidation firms seeking to conduct GOB sales at 96 of the company's 184 stores. A number of landlord and the U.S. Trustee have objected to the sales as constituted.

... Separate from the bankruptcy, **Sharper Image** signed a new, expanded multiyear licensing agreement with **MerchSource, LLC**, a leading manufacturer of unique electronic gifts and other items. The first new products will be available in the fall of 2008.

... In addition to the above, **Shaper Image** also signed a multiyear licensing agreement with **ARG Manufacturing**, a leader with more than 30 years experience making high quality kitchen utensils, kitchen tools, bakeware and barbecue tools. This agreement is the twelfth licensing agreement by Sharper Image's Brand Licensing Division.

... **Friedman's Inc.** and the U.S. Trustee monitoring its bankruptcy case have objected to the law firm - **Moses & Singer LLP** - that the company's unsecured creditors want to hire, claiming a conflict of interest because one of the firm's partners is a brother of a Friedman's director.

... The stalking horse bidder, **RCS Real Estate Advisors, Hudson Capital Partners, Crystal Capital Fund** and **Julius M Feinblum Real Estate**, won the bidding for the right to market 44 stores and 4 distribution centers for **Wickes Furniture**. The

joint venture will pay at least \$3.5 million for the lease rights.

... Creditors of **Wickes Furniture Company** want to question **Sun Capital Partners** about its claim for payment of more than \$50 million in secured loans. The official committee of unsecured creditors filed papers requesting the power to conduct a Rule 2004 examination of the private equity firm.

... Due to lease modifications, **Hancock Fabrics** has decided not to close eight stores previously earmarked to shutdown. However the company now has placed a motion before the court to close three other stores and have **Great American** conduct GOB sales.

... **Interstate Bakeries Corp.'s** plan to exit bankruptcy went off the rails last week as the company asked a court to delay hearing the plan because it has begun talking with a new investor - **Ripplewood Holdings**. The new proposal includes labor concessions that would be acceptable to the Teamsters, something the original plan lacked.

... Relations between **Delphi Corp.** and its investors continue to sour, leaving a bankruptcy reorganization plan in disarray just weeks before it is expected to close. Delphi is accusing investors of illegal insider trading, while investors have resisted Delphi's wishes to wrap up its 29-month bankruptcy stay, claiming the company is jumping into the troubled credit markets at their expense.

... **Dura Automotive Systems Inc.** has commenced discussions with numerous financing sources in a renewed effort to find the money it needs to pay down debts and exit bankruptcy. The company is now seeking \$230 million in financing, much less than the \$425 million it hoped to get last year to fund a more generous exit plan.

Feedback?

Questions?

Suggestions?

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## FYI for the DIY

... **Lowe's** now plans to delay store openings due to tough market conditions. President and CEO **Larry Stone** admitted that a soft housing market and tight credit is creating a tough sales environment, but said he remains optimistic that conditions will improve.

... **United Rentals, Inc.** entered into a memorandum of understanding with lead plaintiff's counsel to settle three purported class action lawsuits that were filed following the August 2004 an-

nouncement of an SEC inquiry concerning the company's historical accounting practices. The memorandum of understanding provides that the claims of the plaintiff class will be settled for a cash payment of \$27.5 million.

... In 2008 through 2010, **Home Depot** will rollout new distribution centers, following up on the centralized distribution pilot that began in the Atlanta area. A second "rapid deployment center" or RDC was opened in Chicago in January.

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## Heard in the Grocery Aisle

...**Supervalu** CEO Jeff Noddle said that he has no plans to sell the firm's distribution business. However, he mentioned that a sale of the distribution business is possible if the firm needs cash. In addition, CEO Noddle stated that the firm would look to unload the wholesale business if it began interfering with the operation of the core retail business.

...Unionized **Shaw's** workers in Connecticut voted to approve a four-year labor deal that includes better wages and a bonus.

...Approximately 5,000 Minnesota-based unionized grocery and meat workers at **Lunds/Byerly's**, **Kowalski's**, **Cub Foods**, **Jerry's Foods**, **Festival Foods** and **Rainbow** reached a three-year labor agreement.

...**C&S Wholesale Grocers** and **The Great Atlantic & Pacific Tea Company (A&P)** announced that they had reached a 10-year distribution agreement. Under the terms of the deal, A&P is required to procure the product and C&S will provide logistical support.

...**A&P** announced that it would launch "Seafood Joe's Market Fresh Fish" at certain locations.

...**Loblaws**' president Mark Foote rejected the idea that the Canadian grocer plans a management shuffle.

...**Ahold** announced that it would repurchase 56 Dutch supermarkets from **Schuitema**.

...The Canadian grocer **Sobeys** announced that it had generated a same-store sales increase of 2% during fiscal 2007.

...**Nash Finch** has announced that it is settling a securities fraud lawsuit for \$6.75 million. The cash will be used to pay investors who purchased stock between February 24, 2005 and October

20, 2005.

...**Safeway** announced that the firm would focus on delivering "better everyday value" to its customers rather than working with promotional pricing.

...**Whole Foods Market** announced that it would open between 25 and 30 new stores during fiscal 2009. The exact locations of these new buildings were not revealed.

...**Kroger** announced that sales increased 6.2% to \$70.2 billion during the fiscal year. When accounting for the extra week, identical store sales grew 8.2% during fiscal 2007. Inside store sales expanded 5.3% over the same period. Earnings expanded 15% to \$1.18 billion during the past 12 months.

...**Arden Group** announced that its revenues grew 0.7% to \$485.9 million on an annual basis. During the fiscal year, the grocer's net income rose 25.8% to \$29.2 million. Arden blamed new competition for slower sales growth. As a reminder, this firm operates stores under the Gelson's Markets name in California.

... **Associated Grocers of New England** announced that it has formed a new division that is focused on distributing supplies to convenience stores.

...**Wegmans** is looking to improve its customer service by launching a training program to educate its associates on how to brew better coffee.

...**Price Chopper** announced that it would begin attempting to make its stores more environmentally friendly.

...iWhite Teeth Whitening Systems will be available for purchase at 500 **Winn-Dixie** stores by April 2008.

### Did You Know...?

Total U.S. winter sport sales for the six months ended January 31<sup>st</sup> were \$2.35 billion with all snow sports sales channels reporting growth in unit and dollar sales, including a 43% increase in units and a 48% increase in dollars in the Internet channel.

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## Hi Tech Entertainment

...Bankrupt **Sharper Image** is expanding its brand licensing agreement with **MerchSource**. The new agreement will put the brand on more items, such as memory foam slippers and digital photo viewers. The company already has its name on photo key chains, MP3 players and other gifts.

...**Handleman Company** reported revenues of \$346.9 million for the third quarter ended January 31, 2008, down from \$485 million last year. Most of the decline was due to the termination of an unprofitable music supply agreement in the UK. Operating income was \$8 million for the quarter, while net income was \$2.4 million. Handleman had \$32.4 million in cash and \$90 mil-

lion in debt.

...**Amazon.com** completed its initial tender offer for all outstanding shares of **Audible**. The accepted shares, together with what Amazon already owns, represents over 87% of the outstanding shares of the company.

...**Borders** will not be talking with **A&R Whitcoulls** related to the possible sale of the company's Australian and New Zealand operations. Last year, the company announced that it would be exploring strategic alternatives for most of its international operations.

## Mass Merchant Musings

... When **Wal-Mart** swooped to buy **Asda** in 1999 analyst predicted that the arrival of the world's largest retailer would change the UK high street forever – sparking a savage price war and a wave of mega mergers. With the doom-laden predictions of 1999 proven wide of the mark, it is reported that Wal-Mart became so dismayed at the failure to crack the UK market and the constraints on future growth that last year a strategic review was undertaken with the possibility of a complete pull-out of the UK.

... Trying to combat its ogre image, **Wal-Mart** jacked up its lobbying budget by 60% in 2007, spending \$4 million to influence the government on issues ranging from energy efficiency to retail crime.

... **Wal-Mart** is lowering prices on over 3,500 products in its Canadian stores due to Easter being the third-largest holiday shopping day of the year. In addition Easter coincides this year with “Spring Break” for many kids.

... **Sam's Club** and **Enterprise Rent-A-Car** entered into a preferred provider relationship, giving Sam's Club members access to reduced rates.

... After more than ten years of delays, **Wal-Mart**

will build its first San Diego Supercenter in Vista City, California. The plan is to expand an existing location by 30,000 square feet.

... Big names in retail fashion are trading teams. **Isaac Mizrahi**, the everyman's fashion oracle, is about to leave behind his popular cheap-chic clothing collections at **Target** to be the creative director for **Liz Claiborne**. **Dana Buchman**, a long-time favorite of customers at upscale stores like **Saks Fifth Avenue** and **Neiman Marcus**, is decamping this fall to the budget-conscious **Kohl's**, and **Tommy Hilfiger**, a constant in department stores like **Dillard's** and **Bon-Ton** for two decades, now says he will sell his clothes only at **Macy's**.

... **Target** is in discussions with **JPMorgan Chase & Co.** about taking a half-interest – roughly \$4.0 billion, in the retailer's credit-card operations. If the deal is completed, a closing during the second quarter looks possible.

... Addressing her second analyst conference in as many days, **Martha Stewart Living Omnimedia's** chief elaborated on her earlier assertion the brand would live on in the mass market after its exclusive contract with **Kmart** expires in January 2010. Right now Martha Stewart does not believe, however, its likely partner will be Kmart.

### Did You Know...?

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

## Rating Changes and Outlooks

Rating Changes					
Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
O CHARLEYS INC	BB-	BB-	NEGATIVE	STABLE	D
DARDEN RESTAURANTS INC	BBB	BBB+	STABLE	NM	C-
BUILDING MATERIALS HOLD-	B-	B	NEGATIVE	NM	D
OFFICEMAX INC	BB-	BB	NEGATIVE	NM	D

## Options and Resources

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