

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember....

Authority without wisdom is like a heavy axe without an edge; fitter to bruise than polish.

Home Prices Fall a Record 10.7%

Home prices in 20 major U.S. metro areas have plunged a record 10.7% in the past year as prices continued to decelerate.

The 20-city Case-Shiller home price index fell a record 2.4% from December to January, the 18th consecutive decline in prices. For 10 major cities, prices fell 2.3% in January and 11.4% for the past 12 months.

"No markets seem to be completely immune for from the housing crisis," said David Blitzer, Chairman of the index committee at S&P.

Of the 20 cities, only Charlotte, North Carolina, has managed any gains in the past year, rising a meager 1.8%. For the fifth straight month, all 20 cities recorded lower prices compared with the previous month.

Home prices in 10 of the 20 cities have fallen at double-digit rates in the past year.

In a separate report, the Conference Board said consumer confidence plunged in March to the lowest level since the start of the Iraq War, while consumers' expectations about the economy over the next

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Linens Holding Co: Retailer of the Week

Showing only signs of even more financial deterioration, Linens Holdings (aka Linens N Things, LNT) posted what would be a very sizable loss for a retailer of its size for 2007, including a significant fourth quarter loss of \$62 million. With the economic environment in an even more chaotic state since the end of 2007, we see nothing positive for LNT for the first half of 2008. In fact, we believe that an operating loss of \$80 million to \$100 million for the first quarter of this year, exclusive of any special items and interest expense, is certainly not out of the question. Since LNT did end the year with a little more than \$300 million in availability, Global Credit will hold the line on its "F+" credit rating, still reflecting a financially distressed situation. We temper that positive availability number with the fact that during the first quarter vendors seemed to have held LNT to credit terms and limits. This, along with possibly funding significant first quarter losses, would place even more pressure on remaining credit resources.

BACKGROUND

LNT is the second largest retailer of home textiles, house wares and accessories in North America, operating 589 stores in 47 states and seven Canadian providences as of December 29, 2007. Major competitor Bed Bath & Beyond has a larger store base (along with significantly better financial performance). LNT offers a wide array of brand name merchandise along with its own proprietary lines.

In 2006, LNT was acquired by Apollo Management in part from an equity infusion and \$650 million of secondary secured debt. The debt was subsequently resold in the open market (thus, the requirement of filing financial statements with the Securities and Exchange Commission.) Since the acquisition, LNT has seen its financial performance worsen.

In 2007, LNT did slow down new store expansion, opening only eighteen new sites. No stores, how-

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Home Prices Fall a Record 10.7%

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six months fell to the lowest level in 35 years.

The Case-Shiller index tracks sales of the same homes over time, so the mix of homes sold does not have an influence in any particular period, however, it closely tracks only 20 cities, many of which had participated in the housing bubble earlier in the decade.

A separate index released by the Office of Federal Housing Enterprise Oversight showed a much smaller 3% decline in prices in the past year, although the general pattern of both measures is weakening. In the OFHEO index, prices fell 1.1% in January. The OFHEO index covers more geographic areas, but does not include nonconforming mortgages such as jumbo loans or subprime loans, so it misses the part of the market that is weakest.

Falling prices have eroded Americans' wealth, cutting into their ability to borrow against their home, refinance or to sell for a profit. Millions of Americans now owe more on their home than it is worth.

Clearly the housing market will exert a severe drag on real output in the first half of 2008, and tighter credit conditions overall are expected to have a dampening effect on other big ticket purchases, such as automobiles and household appliances.

But falling prices are likely a necessary ingredient in getting the housing market growing again. Many economists expect prices to ultimately fall 20% to 30% from the peak as measured by the Case-Shiller index; they are now down 12.5%.

The National Association of Realtors reported the first increase in sales of existing homes in seven months last week, driven by the record decline in prices.

With supply overhang enormous and mortgage financing tougher to obtain, home prices are going to decline considerably further in the quarters ahead.

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Bankruptcy Blotter

... **Boards Video Company LLC** agreed not to object to **Movie Gallery Inc.'s** plan to exit bankruptcy under a deal that settles a contract dispute inherited by Movie Gallery when they acquired **Hollywood Video** in 2005.

... **Hoop Holdings LLC**, a unit of **Children's Place Retail Stores Inc.** which filed for Chapter 11 protection agreed to sell the inventory at most of its stores in the U.S. and Canada to **Walt Disney Co.** for \$55 to \$65 million, subject to court approval. The deal also calls for Disney to takeover at least 180 store leases. Children's Place is not included in the Chapter 11 filings.

... In other news, **Wells Fargo** has agreed to provide **Hoop Holdings** with a \$35 million DIP loan to fund operations pending the proposed sales of inventory. Hoop is looking for interim approval to tap the loan for up to \$30 million pending a final hearing.

... **Harvey Electronics, Inc.** received final court approval for the use of cash collateral of **YA Global Investments, L.P.**, its secured lender. The cash collateral will be available for use for up to eight weeks to complete five store closings and to operate the remaining two stores.

... **Hancock Fabrics** reported sales for the period January 5, 2008 to February 2, 2008 of \$21.2

million and a net loss of \$3.8 million, including reorganization items of \$1.0 million.

... **Bradley Stinn**, former CEO of **Friedman's Inc.** and **Crescent Jewelers** was convicted for his role in a massive accounting fraud that falsely inflated the company's earnings. Mr. Stinn faces up to 25 years in prison. Sentencing is scheduled for July 9th.

... Because of the delay in the sale of **Friedmans**, the company was in default of its DIP lending facility with **CIT**. **Friedmans** received court approval last week for an extension of the facility.

... The **Pension Benefit Guaranty Corp.** claims that all but one of the five competing plans to take **Pacific Lumber Co.** out of bankruptcy are fatally flawed because they do not address the logging company's pension liabilities. The criticism comes as the court is set to begin hearings in April to confirm one of the five rival plans.

... Facing the prospect that its bankruptcy reorganization could start to unravel over the next few weeks, **Delphi Corp.** is seeking to extend the expiration of a labor cost cutting agreement involving its biggest union beyond March 31st. In addition the company is looking to extend a pact with the IRS involving more than \$1 billion in potential company liabilities also expiring on March 31st.

Management on the Move

... **Pamida, Inc.** appointed **Paul E. Rothamel** as President and CEO. Mr. Rothamel, who has served as interim CEO since last November, will be responsible for the overall growth and direction of the company. Prior to his role as interim CEO, Mr. Rothamel served as the company's SVP of Operations.

... **S. Leslie Flegel** resigned as Chairman of the Board and a Director of **Five Star Products, Inc.** and as a Director of Five Star's parent, **National Patent Development Corporation**, to pursue other interests.

... **WESCO International, Inc.** appointed **John K. Morgan** to its Board of Directors increasing the Board membership to 10. Mr. Morgan is currently the Chairman, President and CEO of **Zep Inc.**, a specialty chemicals company.

... **W.W. Grainger, Inc.** announced that **James T. Ryan**, the company's President, will add the title and responsibilities of CEO effective June 1, 2008. Mr. Ryan is succeeding **Richard L. Keyser**, who will remain with the company as Chairman of the Board.

... **RedEnvelope, Inc.** named **Philip E. Neri** its CFO, replacing **William T. Gochnauer** who has served as interim CFO since late 2006. Mr. Neri, who joined the company in 2006 as VP of Finance, previously served as Director of Finance at **Restoration Hardware, Inc.**

... **Advance Auto Parts, Inc.** named **Charles Tyson** to the position of SVP, Merchandising, responsible for providing strategic direction and leadership for all merchandising areas serving both DIY and Commercial customers. Most recently Mr. Tyson served as SVP, Merchandising and Technology with **OfficeMax, Inc.**

... **Howard Fager** joined **The RoomPlace at Harlem Furniture** as case goods and bedding buyer, tak-

ing on some of the responsibilities handled by **Vesna Telalovic**, VP of Merchandising. Mr. Fager previously was case goods buyer for **Wickes Furniture**.

... **Tech Data** promoted **Rich Pereira** to vice president, sales and VAR East and **Mark Livings** to vice president, e-business. Pereira has more than 25 years in the industry, including 12 years at IT reseller MicroAge. Pereira has been with Tech Data since 1996 as a marketing manager. Livings was most recently an executive with Fidelity National Information Services. He has more than 12 years of executive experience in the IT industry.

... **Handleman** has announced the resignation of **Thomas S. Wilson** from the Board of Directors. Mr. Wilson also served on the Compensation Committee of the Board.

... **Sears Holding** named **John W. Froman** to president of tools, lawn and garden operations. Mr. Froman was most recently CEO at Namco, LLC, a recreation superstore. He was also COO of Circuit City Stores. The company also promoted Douglas T. Moore to senior vice president, appliances. Moore started at Sears Holding in June 2007 after 17 years at Circuit City.

... **Freds Inc** named **Bruce A. Efird** president this week for a two year term. Efird joined the company in September 2007 after nearly two years as executive vice president at Meijer, Inc.

... **Giant Food Stores** announced that **Kris Murphy** has been promoted to vice president of process performance and internal controls.

... **Giant Food Stores** announced that **Wade Bucher** has been appointed to vice president of audits for the U.S. Retail operation.

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and
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Report*

FYI for the DIY

... **Sherwin-Williams Co.** lowered its first-quarter and full-year earnings forecasts, citing lower U.S. sales, rising costs of raw materials and the weak U.S. economy. The company said it expects to earn 56 cents to 61 cents per share in the first quarter, down from a previous forecast of 72 cents to 80 cents per share for the quarter.

... **MSC Industrial Direct Co., Inc.** will release the financial results for its second quarter results on Tuesday, April 8th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... Real estate sources say that **The Home Depot**

Inc. is close to abandoning its long-anticipated store in Harlem, in New York City. Home Depot confirmed that it is rethinking the location, even though it has already signed a lease.

... **Jewett-Cameron Trading Company Ltd.** reported sales for its second quarter ended February 29, 2008 of \$15.1 million, down 7.9% versus sales of \$16.4 million for the comparable period last year. Net income for the quarter was \$513,198, up 59.7% versus net income of \$321,348 last year.

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Heard in the Grocery Aisle

... **Supervalu** has announced that it joined the EPA's GreenChill Advanced Refrigeration Partnership, which promotes green technologies and energy conservation.

... On April 3, **Piggly Wiggly** announced plans to open the first of a new format of stores in Orangeburg, South Carolina. The high-end facility includes wine experts, sushi chefs and a drive-thru pharmacy.

... **Kroger** and **Monsanto** are fighting over how milk should be labeled in stores. The grocer wants to place labels on its private label milk to indicate that it is free of a hormone produced by **Monsanto**.

... **Albertsons** and **Stater Bros.** have both announced the hiring of nutritionists to educate customers on eating healthier.

... **Wegmans Food Markets** has won the right to sell liquor at seven Pennsylvania stores. The company will also be allowed to sell beer at its in-store restaurants. The grocer has filed beer applications for three other Pennsylvania locations. The Malt Beverage Distributors Association of Pennsylvania has appealed the decision.

... Six **ShopRite** locations in New Jersey will stop selling cigarettes by the end of March. Store ownership mentioned that high taxes and a small profit margin were the reasons that this product was pulled from the shelves.

... **Tesco** plans to soon saturate the Phoenix area with 100 stores. This equals a location for every 20,000 residents. The company also indicated that the response to the initial stores has been positive. The firm currently operates 19 stores in the region. This figure is larger than the number of stores run by **AJ's Fine Foods**, **Sprouts Farmers Markets**, **Wal-Mart Neighborhood Markets** or **Trader Joe's**. However, over the weekend, it was reported that the international grocer would put

its expansion of its Fresh & Easy stores in the U.S. on hold for three months.

... **Tops** announced that it was going to double the number of workers at its corporate headquarters in Amherst, New York.

... **Kroger** is rumored to be opening a Fresh Fare supermarket in the Buckhead section of Atlanta, Georgia. The Fresh Fare format offers traditional groceries along with organic, natural and gourmet foods.

... **Downtown Foodland** is expected to open a location just east of downtown Detroit, Michigan in July.

... **Zaccaro's Market** is slated to open on April 7th in the Brush Park section of Detroit, Michigan.

... The union representing 23,000 supermarket workers in the Washington-Baltimore region had reported little progress in negotiations with **Safe-way** and **Giant Landover**, with the current contract expired on March 29th. However, a tentative agreement was reached over the weekend, with the employees scheduled to vote early this week. Otherwise, they could vote to strike.

... **Marsh Supermarkets** announced that it would reopen a former Arthur's Fresh Market in New Palestine, Indiana under the name Marsh Home-town Market.

... **Wegmans Food Markets** has begun using online coupons to promote its Asian soups.

... **Loblaws** has obtained a new credit facility worth \$800 million. The new agreement replaces an existing \$500 million line.

... **Harris Teeter** has signed a 20-year lease for a grocery store at Constitution Square in Washington D.C.

Did You Know...?

The Commerce Department estimated that the U.S. economy downshifted abruptly in the fourth quarter, growing at a 0.6% annual rate, the slowest pace since late 2002. By contrast, GDP grew at a 4.9% annual rate in the third quarter.

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Health & Beauty Aids

... **Walgreens** will begin selling a line of affordable casual basic apparel for men and women.

... **Walgreens** plans to promote its Take Care Health clinics with a tour of 300 cities. The program includes 10 customizable traveling education and health-screening vehicles, which will provide free health screenings and services.

... **Walgreens** won a contract to be the specialty pharmacy provider for **Prime Therapeutics**, a pharmacy benefit manager, which is owned by 10 affiliates of **Blue Cross and Blue Shield**.

... **Identigene's** OTC paternity test kits are now available at **Rite Aid** stores across America with the exception of locations in New York.

Off the Rack

... **Bon Ton Stores** and **Goodwill** are teaming up to get customers to "clean out their closets." Consumers who donate old bedding and clothing at participating Goodwill locations will receive coupons toward the purchase of new merchandise at Bon Ton Stores. One coupon is given per item donated, and the coupons are generally for 20% off.

... **Bon Ton Stores** will be consolidating the operations of its Green Bay Distribution Center into its other distribution centers in PA, OH and IL. The move will impact the jobs of approximately 27 associates.

... **Casual Male** reported a decrease in profits for the fourth quarter, citing a more challenging economic environment. Revenues were down 7.5% to \$133.9 million on a comp store reduction of 0.3%. Net income was just \$1.3 million.

... **Dillards** has been asked to open up to an in-

vestigation brought upon by Barington Capital Group, which owns 5.4% of the chain. Barington Group is trying to seat four members onto the board of Dillards. Barington is looking for information on the "nature of any family, business or personal relationships between the company's executives."

... **Wet Seal** will launch a line of tops promoted by singer Ashlee Simpson. Simpson is preparing for the release of her new CD, which will also be available in Wet Seal stores.

... **Fred's Inc** lost \$4.4 million during the fourth quarter compared to \$9.2 million in profits last year. Revenues for the period fell 7.7% to \$494.4 million. Revenues for the year fell 60% to \$10.7 million.

... **JC Penney** slashed its first quarter guidance. Earnings are projected at \$0.50 per share, down from original estimates of \$0.75 per share.

Options and Resources

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Did You Know...?

Boosted by a record decline in prices, the U.S. housing market showed signs of stability in February, with sales of existing homes rising modestly for the first time in seven months and inventories falling. Resales of homes and condos rose 2.9% to a seasonally adjusted annualized rate of 5.03 million, the strongest sales pace since October.

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The Global World of Sports and Footwear

... Closing out a year plagued by weak operating results and an expensive aborted merger attempt with **Genesco**, **Finish Line** reported a net loss for the fiscal year ended March 1, 2008 of \$60.4 million versus net income of \$32.4 million in the prior year. Sales for the year were down 4.1% versus prior year to \$1.277 billion.

... Based on its financial results, **Finish Line** expects to improve results this year by closing unprofitable stores, focusing on higher product margins, better inventory management and reshuffling marketing expenditures to focus on direct-to-consumer and lease-line initiatives. However, the company did not provide financial guidance for the new year.

... For its fiscal year ended December 29, 2007, **West Marine, Inc.** reported sales of \$679.5 million, down 5.2% versus prior year, and a net loss of \$50.2 million, which included Goodwill and store closure costs of \$57.7 million. For the new fiscal year, the company estimates earnings ranging from 2 cents to 9 cents per share and a decrease in comp store sales ranging from -5.0% to -3.5%.

... **American Skiing Company** reported that **Talisker Canyons** exercised its right to extend the deadline for closing on its acquisition of **The Canyons** to May 31, 2008. In conjunction with the extension, Talisker provided an additional deposit of \$2.5 million, bringing the total good faith deposit to \$12.5 million. Talisker also provided a note in favor of the company for \$7.5 million.

... Sporting a \$17.4 million loss for the year **Bob's**, a unit of **TJX Companies**, which continues to evaluate its 34-door business based in the U.S.

Northeast, announced that it would not open any new stores this year.

... **Gander Mountain** opened its newest store in Palm Beach Gardens, Florida. The store is the fourth in Florida; a fifth store, located in Ocala, will open in May. Other stores are located in Jacksonville, Lake Mary and St. Augustine.

... **Sport Supply Group, Inc.** began trading on the **NASDAQ** under its existing ticker symbol: "RBI". The company previously traded on the **American Stock Exchange**.

... **The Forzani Group** initiated another one-year, stock buyback plan to purchase up to 10% of its public float through March 27, 2009. Under its most recent share repurchase program, the company bought more than 1.8 million of its shares.

... **L.L. Bean** will reportedly open a two-story store, and **City Sports** and **lululemon athletica** will each have a retail presence at Legacy, a new lifestyle retail center that will open in Dedham, Massachusetts next summer.

... **The Athlete's Foot** had 640 locations in 40 countries at December 31, 2007 with approximately one-third of the franchised doors in Australia. The value of TAF trademarks at year end was \$49 million.

... For its fiscal year ended February 2, 2008, **DSW Inc.** reported net income of \$53.8 million on net sales of \$1.41 billion, compared with net income of \$65.5 million on net sales of \$1.28 billion for the prior year. Given the current economic uncertainty, the company would not provide full-year guidance for the new year.

Did You Know...?

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

Mass Merchant Musings

... **Dollar General Corp.** reported that sales for its fiscal year ended February 1, 2008 were \$9.495 billion, up 3.5% versus sales of \$9.170 billion for the prior year. The company reported a net loss for the year of \$12.8 million as interest expense jumped to \$263.2 million, the result of a leveraged buyout. Net income in the prior year was \$137.9 million.

... **Sears Holdings** plans to sell appliances in more of its **Kmart** stores and will open more dealer stores this year. During 2008, Sears Holdings will continue to explore opportunities to profitably cross-merchandise products and services between its Kmart and Sears stores, something it has been slow to do since the merger.

... **Family Dollar Stores, Inc.** will release its financial results for its second quarter ended March 1, 2008 on Friday, April 4th. Be sure to look for **Global's** updated analysis and assessment

shortly thereafter.

... After two years of haggling for environmental and zoning approvals, **Wal-Mart** has abandoned yet another plan to build a 212,000 square supercenter in Hadley, Massachusetts.

... **Wal-Mart Canada** began to place a new home line in stores, which is a spin-off of its "George" apparel program that has enjoyed success in Maple Leaf country. The George program has not been nearly as successful in the U.S.

... **ShopKo Stores** opened a new prototype format in Green Bay, Wisconsin. The 80,000 square foot store features a complete redesign, with a modern twist to appeal to female shoppers. Features include boutique focal points, armoire fixtures, coffered ceilings, crown moldings and white woodwork.

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Hi Tech Entertainment

... **Hastings Entertainment** reported profits of \$5.8 million for the fourth quarter. Revenues for the quarter were \$171.5 million, down 1.5% from the same quarter last year. The strong profits were a result of reduced costs and strong performance in the video game business.

... **Blockbuster** is giving its shareholders a vote in how much the company pays its top executives. The votes are non-binding beginning in 2009. The program, called "say on pay", will be discussed at each annual shareholder meeting and the will include Chairman and CEO James Keyes and CFO Thomas Casey.

... Rock band Smashing Pumpkins is suing Virgin Records over Pepsi ads, saying the former record label damaged the Grammy-winners image and reputation. The band claims a breach of contract and the lawsuit was filed Monday in LA.

... Select **CompUSA** stores in Florida will be re-opening their doors. **Systemax** bought 16 of the

stores as well as compusa.com from Gordon Brothers, who purchased the assets of CompUSA. The stores that will be reopened are located in Tampa, Clearwater and Brandon. Systemax subsidiary TigerDirect remains under investigation by the Florida attorney general for failing to pass on manufacturer's rebates to customers.

... **Netflix** experienced technical difficulties on its website Wednesday and the company will be giving a 5% credit on customers monthly bills. The website was down from 11 hours on Monday.

... **HHGregg** continues to grow rapidly, and the company has announced that it will be entering its ninth state. Two new stores will be opened in Florida, with Grand Opening sales to be held March 27-29.

... The future at **Conn's** continues to look bright. The company beat fourth quarter estimates by posting profits of \$13.1 million for the quarter, beating the \$12.7 million it earned last year. Revenues for the quarter rose 6% to \$225.9 million.

Did You Know...?

Consumer confidence took another dive in March, falling nearly 12 points to 64.5, down from 76.4 in February and remained at its lowest in five years, since it hit 61.4 in March 2003 as the Iraq war was starting.

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Rating Changes and Outlooks

Global Credit Rating Changes				
Company	Credit Rating		GCS Outlook	
	Current	Prior	Current	Prior
AMERISOURCEBERGEN CORP	D	C	STA	NEG

Rating Changes					
Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
CBRL GROUP INC / CRACKER BARREL	BB-	BB	STA	NEG	D
REGIONS BANK	A+	A+	STA	NM	NR
DENNYS CORP	B+	B+	NEG	STA	E+
CHARMING SHOPPES INC	B+	BB-	NEG	NEG	C-
LOEHMANN'S HOLDINGS INC DE	CCC+	B-	NEG	NEG	D
MICHAEL'S STORES INC	B-	B-	STA	POS	D-
RESTAURANT CO (INC)	B-	CCC+	STA	NEG	E
CHARMING SHOPPES INC	B+	BB-	NEG	NEG	C-
VICORP RESTAURANTS INC	CCC	CCC	NEG	DEV	NR
O CHARLEYS INC	BB-	BB-	NEG	STA	D
DARDEN RESTAURANTS INC	BBB	BBB+	STA	NM	C-

Linens Holding Co: Retailer of the Week

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ever, were closed in 2007. For 2008, just ten new sites are planned. LNT is currently reviewing its store base for possible closures; however, it has not disclosed a number of possible locations that would be shuttered or any financial impact of potential closings. As of December 29, 2007, the company still reported 17% of unproductive inventory.

LNT is also moving to contain its cost structure with initiatives aimed at achieving annual savings of \$50 million. Still, with SG&A expenses of more than \$1.2 billion for 2007, this would represent a decrease of just a little over 4%.^

FINANCIAL PERFORMANCE

Income Statement

	2005	2006	2007
Net Sales	\$2.69 b	\$2.8 b	\$2.82 b
Comp Store Sales	-5.90%	-0.70%	-3.40%
Store Count	542	571	589
Gross Profit	\$1.1 b (40.8%)	\$1.08 b (38.3%)	\$1.05 b (37.5%)
SG&A Expenses	\$1.04 b (38.5%)	\$1.22 b (43.3%)	\$1.22 b (43.7%)
Operating Income/Loss	\$62.7 mm	(\$134.5) mm	(\$174.5) mm
Interest Expense	\$4.9 mm	\$79.8 mm	\$101 mm
Asset Impairment Charges (non cash)	\$4.1 mm	\$31.1 mm	\$16.9 mm
Write off of Deferred Financing Costs	\$0	\$0	\$7 mm
Other Income	\$4 mm	\$2.8 mm	\$6.6 mm
Income/Loss before Income Taxes (benefit for 2006 and 2007)	\$57.9 mm	(\$242.6) mm	(\$292.7) mm
Net Income/Loss	\$36 mm	(\$154.5) mm	(\$242.1) mm

The comp store sales decline actually moderated in the second half of 2007. After posting first and second quarter declines of (5.2%) and (7.3%), respectively, the loss lessened to (1.4%) in the third quarter and then down to (1%) in the fourth quarter. However, those sales came at the sake of price promotions, forcing a 80 basis point drop in the margin rate. For 2006, the need to sell off an even greater amount of distressed inventory and a shift towards lower pricing forced the steeper 250 basis point decline.

With higher occupancy and marketing expenses but no lift on sales, the SG&A rate rose 40 basis points in 2007. However, the 2006 rate contained expenses tied to the acquisition by Apollo Management and LNT still has not gotten back even close to the 2005 level. And again, \$50 million in savings still does very little for the overall financial health of LNT. We are at a loss as to why the expense structure keeps rising, particularly as the rate of the sales decline slows.

Interest expense in 2006 jumped due to the \$650 million of debt being issued in early 2006 and additional revolver borrowings. Revolver debt continued to grow in 2007 and accordingly, interest expense continued to rise. LNT wrote off \$7 million of deferred financing costs when it entered into a new credit facility in the fourth quarter of 2007. Other income included interest on invested cash and gains from foreign currency exchange.

Balance Sheet

	2006	2007
Cash	\$12.5 mm	\$16.1 mm
Receivables	\$37.1 mm	\$34.2 mm
Inventory	\$793 mm	\$795.4 mm
Current Assets	\$874.7 mm	\$861 mm
Total Tangible Assets	\$1.44 b	\$1.32 b
Payables	\$204.8 mm	\$179 mm
Revolver Debt	\$37.8 mm	\$205.6 mm
Long Term Debt	\$652 mm	\$650 mm
Total Liabilities	\$1.42 b	\$1.31 b
Current Ratio (revolver debt reclassified to short term debt)	1.8:1	1.3:1
Leverage Percentage (tangible assets only)	91%	108%
Working Capital Coverage	4.1 months	4 months

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Did You Know...?

The volume of debt owed by financially troubled U.S. companies surged by \$38 billion in March, marking the biggest monthly expansion since the credit crunch began last summer. In all \$142 billion in corporate debt was deemed "distressed" as of March 13th.

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Linens Holding Co: Retailer of the Week

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The most striking entry is the revolver borrowings jumping more than five-fold by the end of 2007. There was also a decline in payables, however, we believe this to be a function of suppliers holding LNT to stated terms. In fact, average account payable turns dropped from 60 days at the end of 2005 to 42 days at the end of 2006 and then down to 37 days at the end of 2007.

Of course, LNT remains very leveraged from the 2006 Apollo deal and even more so at the end of 2007 with the additional revolver debt. As stated above, while availability looked sufficient at year end 2007, a potential sizable first quarter loss and even more pressure from vendors to strictly abide by terms could take a good bite out of the near \$303 million available at year end.

OUTLOOK

An even softer macro economic environment (gas prices, falling house values, rising consumer debt, restriction of consumer credit, etc.) in all likelihood as made an even steeper first quarter operating loss than the (\$69.5) million recorded in 2007. The question becomes at what point will LNT's primary lender, GECC, place undue pressure on LNT to either quickly reverse its financial course (doubtful if it could anyway) or face other alternatives. And lets not forget competitive pressure from Bed Bath & Beyond, a company that is certainly better positioned to take a short term hit on margins to become more competitive than LNT (with the impact of possibly driving LNT out of the market-place).

Needless to say, these financial losses are stark indeed. Clients are advised to review and monitor their exposures.

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Specialty Items

Did You Know...?

The National golf Foundation reported that rounds played for the month of January decreased 4.3% for the month, compared to the same period last year. While not necessarily a sign for alarm, rounds were down 3.9% in Central/South Florida and 14.5% in the Southwest.

... Hard hit by the economy, **Kirkland's, Inc.** reported sales for the 52-week year end February 2, 2008 of \$395.9 million, down 10.7% versus sales of \$443.2 million for the prior year. With the decline in sales, the company reported a net loss for the year of \$25.9 million, versus a loss of \$0.1 million in the prior year.

... **Williams-Sonoma, Inc.** reported sales for its fiscal year ended February 3, 2008 of \$3.945 billion, up 5.8% versus sales of \$3.728 billion for the prior year. However, net income for the year dropped 6.3% to \$195.8 million from \$208.9 million versus last year in spite of an extra week of sales.

... In conjunction with the release of its earnings, **Williams-Sonoma** reported that it expects sales for its fiscal year ended February 2, 2009 to be in the range of \$3.793 billion to \$3.877 billion. Earnings per share are expected to be in the range of \$1.42 to \$1.56 per share, a decrease versus earnings of \$1.76 per share for the year ended February 3, 2008.

... **Charles Chinni**, recently appointed Chairman of **Fortunoff**, a unit of **NRDC**, reported that the company's expects to add to its 14 outdoor stores in 2009.

... **Books-A-Million, Inc.** reported sales for the 52-

week fiscal year of \$535.1 million versus sales of \$520.4 million for the 53-week prior year, a 2.8% increase. Net income for the year was \$16.5 million, down from net income in prior year of \$18.9 million. On a comparable 52-week basis the income for the prior year would have been \$16.8 million.

... **Richelieu Hardware** reported total sales for its first quarter ended February 29, 2008 of \$C96.1 million, up 1.7% versus the comparable period last year with net earnings of \$C6.6 million, up 11.0% versus the prior year.

... **Rooms To Go** opened the first of four stores planned for the Houston, Texas metro area. Rooms To Go now has more than 130 stores including other Texas showrooms in Dallas, Austin and San Antonio.

... **Israels Designs for Living**, which acquired **Klingman's** earlier this year, acquired a vacant department store and adjacent properties in Wyoming, Michigan, to establish a 150,000 square foot superstore under the Klingman's name.

... **Pep Boys** reported sales for its fiscal year ended February 2, 2008 of \$2.138 billion, down 4.7% versus sales of \$2.244 billion in the prior year. The net loss for the year was \$37.4 million versus a net loss of \$7.1 million last year.

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