

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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**Remember...**

**Never invest in a business you cannot understand.**

### Treasury Plan to Overhaul Financial Regulation

The Bush administration proposed the most far-ranging overhaul of the financial regulatory system since the stock market crash of 1929 and the ensuing Great Depression.

The plan would change how the government regulates thousands of businesses from the nation's biggest banks and investment houses down to the local insurance agent and mortgage broker.

Treasury Secretary Henry Paulson unveiled the 218-page plan in a speech, declaring that a strong financial system was important not just for Wall Street but also for working Americans.

The administration's plan is already drawing criticism from Democrats that it does not go far enough to deal with abuses in mortgage lending and securities trading that were exposed by the current credit crisis.

Massachusetts Secretary of the Commonwealth William F. Galvin blasted Mr. Paulson's approach as "a disastrous backward step that would put the investor in jeopardy" because it would pre-empt state regulation of securities and insurance.

The administration said that it planned to work with Congress to have constructive conversations, but  
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### Appliance Recycling Centers : Retailer of the Week

Appliance Recycling Centers of America (ARCI) was able to finally turn in profit in 2007; however, the company still suffers from a weak balance sheet. Given the soft state of the balance sheet, including a cash overdraft at year end 2007, Global Credit will continue to retain its 'E' credit rating for ARCI, reflecting a high degree of credit risk. However, we think that operations will remain stable for at least the near term.

**BACKGROUND**

ARCI obtains its revenues from three sources, including retail stores offering special buy appliances that may be closeouts, floor samples, factory overruns, scratch and dent, and/or returns. The company began business in 1976 as a used appliance retailer. In the 1980s, when local environmental regulations began to require the proper disposal of old appliances, ARCI began to recycle old appliances for local utility companies. Today, there are seven contracts through four processing centers that perform this work. ARCI also derives revenues from the recycling of byproducts from these discarded appliances.

At the end of 2007, there were fifteen retail stores in operation. Product lines include Maytag/Whirlpool, Frigidaire, GE Consumer, and more recently in 2007, Danby. In 2007, one store was opened in Los Angeles and one store was closed in Columbus. Two new stores were opened in 2006. At this point, no new locations are planned for 2008.^

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## Treasury Plan to Overhaul Financial Regulation

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officials would not predict when any aspects of the proposal could be enacted into law.

The plan, which would require congressional approval for its biggest changes, seeks to trim a hodge-podge collection of overlapping jurisdictions that date back to the Civil War. It would give the Federal Reserve more power to protect the stability of the entire financial system while merging day-to-day bank supervision into one agency, down from five at present.

The plan would also create one super agency in charge of business conduct and consumer protection, performing many of the functions of the current Securities and Exchange Commission. It would propose eliminating the Office of Thrift Supervision and the Commodity Futures Trading Commission, merging their functions into other agencies.

It would ask Congress to establish a federal Mortgage Origination Commission to set recommended minimum licensing standards for mortgage brokers, many of whom now operate outside of federal regulation, and it would also take a first step toward federal regulation of the insurance industry by asking Congress to establish an Office of Insurance Oversight inside the Treasury Department.

In Congress, House Financial Services Committee Chairman Barney Frank, who is working on his own regulatory revamp, called Mr. Paulson's proposal a "constructive step forward" but said it wouldn't give the Federal Reserve enough authority to carry out its expanded job to police the stability of the entire financial system.

... Many Democrats said that Congress' first priority should be to deal with the current mortgage crisis that is threatening millions of Americans with the loss of their homes and that an extensive debate on a regulatory overhaul should not occur until a new President is in office next year.

As with most regulatory issues in Congress, it might not be a bad idea to see if current regulations are being enforced before additional regulations and obfuscation are added to an already ever-increasing regulatory environment.

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### Did You Know...?

Construction spending fell again in February as home building tumbled for a record 24<sup>th</sup> consecutive month. Overall construction dropped 0.2% in February while residential construction fell by 0.9% in February.

## Specialty Items

... **Finlay Enterprises, Inc.** reported sales for its fiscal year ended February 2, 2008 of \$835.9 million, up 13.1% versus sales of \$739.0 million in the prior year. For the year the company reported a net loss of \$10.0 million versus net income of \$4.4 million for the prior year.

to sell its corporate headquarters facility in Fort Worth, Texas to a subsidiary of **Chesapeake Energy Corporation** for \$104 million, and will lease back approximately 250,000 square feet of space. The transaction is expected to close no later than June 30<sup>th</sup>.

... **RedEnvelope, Inc.'s** line of credit with **Wells Fargo Retail Finance** was pulled for various reasons. As a result, the company has insufficient funds to continue operations as a going concern. The company is currently engaged in discussions with two potential acquirers for the purchase of substantially all of the company's assets.

... For its first quarter ended March 31, 2008, **Haverty Furniture Companies, Inc.** continued to see sales drop to \$185.2 million versus sales of \$191.1 million for the first quarter last year, a decline of 3.0%. Comp store sales for the quarter declined 6.3%.

... **Williams-Sonoma Inc.** is among the new members of the \$1 billion online sales club. For the year the company posted web sales of \$1.1 billion, an increase of 18.6% from web sales of \$927.6 million in the prior year. Fourth quarter e-commerce sales rose by 29% to \$368.6 million.

... **O'Reilly Automotive Inc.** reached agreement to buy **CSK Auto Corp.** in a cash-and-stock deal worth about \$12 per share of approximately \$1.0 billion including debt. The deal calls for CSK shareholders to receive \$11 worth of O'Reilly shares and \$1 in cash for each CSK share they hold, about \$528 million.

... **Borders Group Inc.** opened its second concept store at Town Square in Las Vegas. The company launched its first-ever concept store, which blends digital and internet options with a fresh look, in-store services and new features, in Ann Arbor in February.

... **Advance Auto Parts, Inc.** became the victim of a network intrusion impacting data from 14 of its stores in 8 states. Advance has notified its credit, debit and check processors and has started sending letters directly to the impacted customers whom it has been able to identify.

... **Pier 1 Imports, Inc.** entered into an agreement

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## Bankruptcy Blotter

... U.S. Senate Democrats dropped an attempt to let bankruptcy judges alter the terms of mortgages, a victory for the lending industry, though it did little to strengthen the tenuous bipartisan support for the Senate's first significant attempt to address the housing crisis.

As the credit crisis deepens, law firms around the country are betting that bankruptcy work will be their most promising avenue of growth, and are accelerating their recruitment of restructuring specialists.

... **Movie Gallery** plans to close an additional 160 stores on top of the 520 it closed last fall, and the 400 store closures announced in February of this year, bringing to almost 1,100 the number of stores closed in the last nine months. The company continues to operate approximately 3,500 stores throughout the country.

... In other news, **Movie Gallery** announced that creditors voted overwhelmingly to support its Plan of Reorganization. A confirmation hearing on the Plan is scheduled for April 9<sup>th</sup>. The company remains on schedule to emerge in the second quarter of 2008.

... **Lillian Vernon** agreed to be sold to **Current USA Inc.**, a unit of privately held **Taylor Corp.**, for \$15.8 million, subject to inventory and property adjustments. Current USA plans to continue operations in Lillian Vernon's facility in Virginia Beach, Virginia, following the purchase, which is scheduled to close on April 10<sup>th</sup>.

... **Whitehall Jewelers** placed a bid to acquire 78 store locations from **Friedmans/Crescent Jewelers**. An auction for the entire Friedmans enterprise, held last month, did not yield any satisfactory offers.

... **Friedman's Inc.** won court approval to conduct

a liquidation sale beginning April 5, 2008. Inventory valued at approximately \$400 million will be liquidated at below market prices in a sale that is expected to last approximately 10-12 weeks. The sale is being managed by a consulting group consisting of three liquidation and asset recovery firms: **Great American Group, LLC**; **Hudson Capital Partners, LLC**; and **Silverman Jeweler Consultants, Inc.**

... For the month of January 2008, **Bombay Company** reported revenues of \$14.4 million and a net loss of \$8.38 million. The company's balance sheet reflected \$10.5 million in cash, no inventory and post petition payables of \$4.3 million, with total post petition liabilities of \$10.6 million, and pre-petition liabilities of \$28.3 million. Total assets were \$39.9 million.

... **Pacific Lumber Co.'s** unsecured creditors are supporting a bankruptcy-reorganization plan that calls for **Mendocino Redwood Co.** and hedge fund **Marathon Asset Management** to take over the struggling logging company. Meanwhile, the company's own plan of reorganization appears dubious.

... **Dura Automotive Systems Inc.** won court approval to solicit votes from its creditors for its reorganization plan in spite of the fact that the company does not have its financing in place to exit bankruptcy. However, the company hopes to have the financing in place by the May confirmation hearing.

... An investor group led by hedge fund **Appaloosa Management LP** is pulling out of its deal to invest \$2.55 billion as part of **Delphi Corp.'s** plan of reorganization. A termination letter filed with the SEC accuses Delphi of violating several terms of the agreement and argues that the investors are entitled to an \$82.5 million "alternate transaction fee."

Feedback?

Questions?

Suggestions?

[Click Here](#)

## Off the Rack

... Bankrupt catalog company Lillian Vernon has found itself a buyer. The company was sold to Current USA for a purchase price of \$15.8 million. The bid was the winner in an auction conducted on April 1, 2008. Current USA plans to continue operating the catalog retailer from its Virginia Beach, VA location.

... **TJX Companies** will have to pay up to \$24 million in the computer intrusion case. It was reported that the number of data breach cases on the company during the first quarter was more

then double that of the same period last year. This settlement is with MasterCard, as TJX had a similar pact for \$40.9 million with Visa in November.

... **Talbots** reported that it expects a loss from discontinued operations in 2008. The company is planning on earnings from continuing operations of between 47 and 52 cents per share, with a loss including discontinued operations of between 7 and 17 cents per share.

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## Management on the Move

... **BJ's Wholesale Club, Inc.** elected **Michael Sheehan** to its Board of Directors. Mr. Sheehan is the CEO of **Hill, Holliday, Connors, Cosmopolus, Inc.**, a communications agency, owned by the **Interpublic Group of Companies Inc.**

... Having served 12 years as Chairperson, the maximum period allowed, **Doug Walker** stepped down at **Recreational Equipment (REI)**. **Anne Farrell**, former President and CEO of the **Seattle Foundation**, becomes Chairperson and **Ivar China** of Burlingame, California, becomes Vice Chairperson.

... **Donna Bhatia** was named President/CEO of **Baseball Express**, owned by **Team Express**. Previous Baseball Express President **Pat Cowles** left the company. Ms. Bhatia has been CEO of the company since last September.

... **lululemon athletica inc.** appointed **Christine Day** as President, COO and CEO designate. Ms. Day, who joined the company in January 2008 as EVP of Retail Operations, previously served as President of the Asia Pacific Group for **Starbucks Corporation**.

... **Citi Trends, Inc.** appointed **Elizabeth R. Feher** as EVP and Chief Merchandising Officer replacing **George A. Bellino**, the company's President and Chief Merchandising Officer who announced his decision to retire. Ms. Feher joined the company after serving as SVP - Ladies Apparel, Intimate and Kids and a member of the Executive Committee at **Value City Department Stores**.

... **Bob DeRodes**, EVP and CIO of **The Home Depot®** has decided to leave the company at the end of the year. Mr. Derodes will continue to serve in his position until his departure at the end of the year.

... **United Rentals, Inc.** realigned its field leadership structure designed to support its corporate strategy for profitable growth. **Steven Nadelman** was named SVP - Operations West, with responsibility for the company's Aerial West, Northwest, Rocky Mountain, Southwest and Gulf regions. **Matthew Flannery** was named SVP - Operations East, with responsibility for the company's Aerial East, Northeast, Northeast Canada, Midwest and Southeast regions.

... In other news, **United Rentals** appointed **Dale Asplund** to the newly created corporate position of VP - Supply Chain, leading the operations of contractor supplies, fleet management and stra-

tegic sourcing.

... **John Pound** resigned his position as Chairman and CEO and as a member of the Board of Directors of troubled **RedEnvelope, Inc.** In addition, **Gary Heil** also resigned from the Board of Directors.

... **Zale Corporation** named **William Acevedo** EVP, Chief Stores Officer, responsible for store operations for all of the company's brands. Most recently, Mr. Acevedo served as VP of Stores for **Banana Republic**.

... **Reitmans Limited** announced the retirement of **Cyril Reitman**, a Director of the company for 39 years. Mr. Reitman was replaced by **John J. Swidler**, FCA, a senior partner of **RSM Richter**, an accounting and consulting firm.

... **Charles Jenkins Jr.** is stepping down as the head of **Publix** and **William Crenshaw** will succeed him. **Mr. Crenshaw** was serving as the Lakeland, Florida grocer's President.

... **John Lederer** was named Chairman and CEO of **Duane Reade Holdings**. Mr. Lederer is the former President of **Loblaws**.

... **Tops Markets** named **Kevin Darrington** its CFO. **Mr. Darrington** recently was the CFO of **Pathmark**.

... **Stage Stores** announced the promotion of **Andrew Hall** to Board of Directors. Mr. Hall joined the company in 2006 and serves as President and COO. He takes the place of Michael McCreery, who retired on March 28, 2008.

... **JC Penney** announced that **Ken C. Hicks** will be joining its Board of Directors. Mr. Hicks currently holds the post of President and CMO of the department store chain.

... **Dillard's** named four new Directors to the Board. The company had come under fire from activist hedge fund Barington Capital, pressured to nominate four seats. The two sides struck a deal and will hire **Nick White**, a former Wal-Mart exec, **James A. Haslam III**, CEO of Pilot Travel Centers, **R. Brad Martin**, former Chairman and CEO of Saks, and **Frank R. Mori**, co-CEO and President of Takihyo.

... **Ross Stores** formally announced the resignation of Board Member **John W. Froman**. Mr. Froman has accepted an executive position with Sears Holdings.

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"Retail Sector Weekly"*

*and*

*Monthly Comps Analysis  
Report*

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## Heard in the Grocery Aisle

... **Kroger** locations in southern California will begin offering \$4 generic drugs. **Kroger** also announced that it would begin selling \$4 generic drugs to its customers in West Virginia, Ohio, Kentucky, North Carolina and Tennessee.

... **Kroger** announced that it had reached a labor agreement with the United Food and Commercial Workers in Kentucky and southern Indiana. The agreement will cover 11,000 workers in 87 stores.

... **Safeway** plans to spend \$200 million to renovate its Chicago-based **Dominick's** locations. **Dominick's** President Don Keppta denied rumors that Safeway was looking to unload the business.

... Iowa-based **Fareway Stores** announced that it would open its first location in Minnesota.

... After some tense negotiations, **Safeway** and **Giant Food** workers in the Baltimore and Washington D.C. markets voted to approve a new contract. In addition to increased wages, the new deal will force new employees to pay \$5 per week for individual healthcare coverage.

... **Delhaize** announced that it had purchased **Plus Hallas**, a grocery store in Greece, for \$108.5 million. In addition, the company said it would purchase **La Fourmi**, a Romanian grocery store for \$29 million.

... **Affiliated Foods Midwest** is rumored to be planning to build a 700,000-square-foot distribution center in Kenosha, Wisconsin. It would compete directly with **Certified Grocers**.

... **Penn Traffic** announced it has obtained credit extensions to its existing credit agreements. The agreement includes a \$130 million revolver, a \$6 million term loan and a \$26 million supplemental real estate facility. A portion of the agreement expires during April 2009, while the remainder

ends a year later.

... **Penn Traffic** announced that it would close its **BiLo Foods** store in McConnellsburg, Pennsylvania.

... The U.S. Equal Employment Opportunity Commission has filed a lawsuit against **Albertsons LLC**.

... **Giant Eagle** is one of the companies that have been charged with collusion as it relates to the pricing of chocolate.

... As GCS previously reported, **Tesco** has halted American store construction for 3 months. Many industry experts speculate that these stores are not performing up to **Tesco's** expectations and that the British grocer is now looking to retool the operation. Contrary to prior promises, **Tesco** has refused to reveal the American operation's financial statements.

... **Jewel-Osco** signed a contract with **Passages Hospice** of Elgin, Illinois to provide medications and medical supplies.

... The **Great Atlantic & Pacific Tea Company** announced the opening of a remodeled **Fresh** format store in Holmdel, New Jersey. This new format aims to have a European market feel. The facility will also be much larger than the typical **A&P** store; the new store measures 55,000 square feet.

... **Rite Aid** has announced plans to purchase 12 of **Spartan Stores'** Pharm locations in the Toledo, Ohio area. This is likely an effort by **Spartan Stores** to concentrate on its core Michigan market.

... **Meijer** has lost 3 of its remaining 4 in store clinics. The company had had 39 facilities open in its stores at one point.

### Did You Know...?

*The government reported the steepest monthly job losses in five years, as non-farm payrolls fell by an estimated 80,000 in March, the largest decline since March 2003. In the same report, the nation's unemployment rate surged to 5.1% last month, the highest since September 2005.*

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## Health & Beauty Aids

... **Walgreens** announced that it would refill ink cartridges at 3,000 of its stores for free. The company plans to expand the number of stores providing this service to 4,500 by the end of the year.

... **Rite Aid** announced that it has increased the number of organic bath and body products in its stores.

... As allergy season begins, **Rite Aid** plans to beef

up its allergy healthcare program.

... **DuPont** announced it was going to purchase **Cardinal Health's** industrial apparel line. Terms of the deal were not announced.

... Fitch Ratings affirmed **AmerisourceBergen's** investment-grade credit rating.

... **McKesson** announced that it was purchasing **Rosebud Solutions, LLC** for an undisclosed price.

## Mass Merchant Musings

... For the first time a digital download seller has beaten a brick-and-mortar store for selling the most music in the U.S. The new king is **Apple's iTunes Store**, knocking off the former king, **Wal-Mart Stores**. On the flip side, many industries are feeling the pain as bookstores are shutting down and newspapers are laying off thousands as advertisers and readers move to the Web.

... **The National Advertising Division of the Council of Better Business Bureaus** recommended that **Wal-Mart** discontinue the claim that consumers can save \$2,500 annually by shopping there. Wal-Mart acknowledged that people don't need to shop at the retailer to realize the savings. Wal-Mart has dropped the claim from TV and magazine ads, though it remains on the company's website.

... Looking to capitalize on consumers' growing interest in sustainable coffees, **Wal-Mart Stores Inc.** is rolling out its own line of organic, Rainforest Alliance and fair trade certified coffees. This month, the company will begin selling six coffees under the Sam's Choice brand in all of its U.S. stores.

... In keeping with its previously announced intention to reduce capital spending in the U.S. and to focus on increasing financial returns, **Wal-Mart** has abandoned a record-shattering 45 proposed new store projects over the past 10 months,

while another 19 projects have been killed by local citizen's groups, for a total loss of 64 projects.

... Feeling the pinch of lower discretionary spending by its customers, **Family Dollar Stores, Inc.** reported net income for its second fiscal quarter ended March 1, 2008 of \$63.3 million, compared with \$90.5 million for the comparable period last year. Sales for the quarter were \$1.833 billion, or 5.9% below sales of \$1.947 in the prior year.

... Based on the lower than anticipated reported sales and earnings above, **Family Dollar Stores** now expects earnings per share for the fiscal year to be in the range of \$1.50 to \$1.60 per share, compared with \$1.62 in the prior fiscal year.

... **Duckwall-ALCO Stores, Inc.** terminated its agreement with **William Blair & Company, LLC** to help with a threatened proxy contest. The threat of the proxy fight has been eliminated for the present.

... **Toys "R" Us** launched an exclusive line of environmentally friendly toys that will be marketed under the Toys "R" Us brand. The first toys in the collection - Natural Wooden Toys, Natural Cotton plush animals and Organic Cotton Dolls - will be available *exclusively* in the company's stores nationwide by Earth Day, April 22<sup>nd</sup>.

### Did You Know...?

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

## Hi Tech Entertainment

... Bankrupt movie retailer **Movie Gallery** announced that it would be closing an additional 160 locations. This is the third large scale store closing initiative in the past six months. The company announced the closure of 520 stores in September, 400 stores in February, and now 160 more.

... Renegade investor Mark Wattles fired some shots at **Circuit City** this week, calling for the ousting of CEO Philip Schoonover. Wattles owns around 6.5% of the struggling consumer electronics retailer. His firm also owns **Ultimate Electronics**, which he bought out of bankruptcy.

... In response to the previous bullet, **Circuit City** has requested a sit-down with the disgruntled shareholder. Circuit City claims that Wattles "may not have a full understanding of the company's current strategy and challenges."


... **Circuit City** announced that it will be shrinking its installation business. Over the next few months, the company will cut 67 jobs of employees who prewire new single-family houses. The company has said it hopes to offer the employees positions elsewhere in the company.

... **Borders Group** has delayed the filing of its 10-K. The company is seeking alternate financing in competition for the loan it has secured from Pershing Square Capital Management.

... **Best Buy** reported a 3% drop in fourth quarter profits. The company did manage to beat most estimates, earning \$737 million in the three months.

... **Staples** secured the \$3 billion in financing for its **Corporate Express** offer. The agreement was arranged by Lehman Brothers, Bank of America and HSBC Bank USA.


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## The Global World of Sports and Footwear

... In anticipation of winding down its business this year, **Footstar, Inc.** entered into an agreement to sell its intellectual property, including the intellectual property related to the company's Kmart business, to Sears Holding for \$13.0 million. In addition, Kmart has agreed to offer employment (effective December 31, 2008) to substantially all of the company's store managers and district manager level employees and the company agreed to make all other store employees available to Kmart for interviewing.

... Sporting lower sales volumes, declining gross margins and impairment charges, **Broder Bros.** reported a net loss for its fiscal year ended December 29, 2007 of \$124.1 million versus a loss of \$7.7 million in the prior year. While sales declined 3.1% to \$929.1 million and gross margins dropped 9 basis points, the company wrote-off \$100 million before tax in restructuring and goodwill impairment charges.

... Citing a challenging sales environment due to weak macroeconomic trends, **Sport Chalet, Inc.** now expects to report an earnings per share loss for its fiscal year ended March 31<sup>st</sup> in the range of 24 cents to 29 cents per share versus net earnings for the prior year of 50 cents per share.

... **West Marine, Inc.** received notice from **The NASDAQ** that its common stock is subject to delisting. The notice was issued in accordance with standard NASDAQ procedures as a result of the delayed filing of the company's annual report on Form 10-K. The company subsequently filed its Form 10-K on April 4<sup>th</sup>.

... **Cabela's Incorporated** increased its existing credit agreement to \$430 million from \$325 million. A consortium of institutions led by **U.S. Bank** supports the five-year facility, which expires June

2012.

... In other news, **Cabela's** will release its first quarter financial results after the market closes on May 1, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... The **Forzani Group Ltd.** will release its fourth quarter and year-end fiscal financial result on Thursday, April 10<sup>th</sup>. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... In an odd twist of product expansion, **The Sports Authority** intends to begin selling **Taser** personal protection devices in approximately 32% of its 433 stores shortly. We didn't realize hunters and fishermen could be so competitive.

... Despite a 19.5% increase in sales to \$162.1 million from \$135.7 million in the prior year, **The Walking Co.** reported a net loss for the year of \$0.8 million compared to net income of \$2.3 million for the prior year.

... Also reporting significantly higher sales and a net loss for the year, **Shoe Pavilion** reported sales for fiscal 2007 of \$152.6 million, up 18.2% versus sales of \$129.1 million in the prior year. However, the company reported a net loss for the year of \$16.3 million versus net income for the prior year of \$1.9 million, as gross margins tumbled.

... **lululemon athletica inc.** reported revenue for its fiscal year ended February 3, 2008 of \$274.7 million, up 84.5% versus sales of \$148.9 million in the prior year. Net income for the year rose more than four-fold to \$30.8 million versus \$7.7 million in the prior year.

### Did You Know...?

*Developing Asian economies will register solid growth in 2008 despite a coincident slowdown in major industrial economies, surging good and fuel prices and a simmering credit crisis in the U.S. Asian economies are expected to expand by 7.6% in 2008 and 7.8% in 2009, while inflation is expected to rise to 5.1% in 2008 and gradually slide to 4.6% in 2009.*

## FYI for the DIY

... **Home Depot** announced a reorganization of its in-stores human resources staff that will result in a net loss of 970 jobs. However, the ultimate effect of the move on overall employment is still unclear because the goal is to use the cost savings to add more associates to the store floors.

... Completing the first purchase of its planned buying spree, **HD Supply** acquired **D&M Fabrication Inc.** in Lodi, California, a company that designs and installs sprinkler systems. D&M will become part of HD Supply's Waterworks division, which already boasts of 260 branches in 41 states. Terms were not disclosed.

... **Five Star Products, Inc.** reported sales for its fiscal year ended December 31, 2007 of \$123.7 million, up roughly 14.5% versus sales of \$108.1 million in the prior year. Bolstered by the increased sales and vendor allowances, the com-

pany reported net income for the year of \$1.0 million, approximately 5 times the net income of \$0.2 million reported for the prior year.

... **W.W. Grainger** engaged **Wachovia Capital Markets, LLC** to syndicate a four-year term loan of up to \$500 million, depending on financial market conditions, to pay off short-term debt. The loan is expected to close May 1, 2008.

... **Fastenal Company** will release its first quarter results on Friday, April 11<sup>th</sup>. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Griffin Land & Nurseries, Inc.** signed agreements settling litigation related to Meadowood, Griffin Land's proposed residential development in Simsbury, Connecticut. The agreements call for Griffin to be able to build up to 299 homes.

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## Appliance Recycling Centers: Retailer of the Week

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### FINANCIAL PERFORMANCE

#### Income Statement

	2005	2006	2007
Retail Sales	\$62.4 mm	\$65.5 mm	\$72.9 mm
Recycling Revenues	\$10.9 mm	\$10.3 mm	\$25.2 mm
Byproduct Sales	\$1.6 mm	\$1.97 mm	\$2.66 m
Total Revenues	\$74.9 mm	\$77.8 mm	\$100.8 mm
Gross Profit	\$22.5 mm (30%)	\$23.5 mm (30.2%)	\$32.8 mm (32.5%)
SG&A Expenses	\$22.6 mm (30.2%)	\$24.6 mm (31.6%)	\$28.6 mm (28.3%)
Operating Income/Loss	(\$150,000)	(\$1.1) mm	\$4.2 mm
Interest Expense	\$883,000	\$1.08 mm	\$1.47 mm
Interest and Other Income/Expense (net)	\$100,000	\$781,000	(\$33,000)
Net Income/Loss, income tax expense only for 2007	(\$933,000)	(\$1.4) mm	\$2.54 mm

For both 2006 and 2007, retail revenues benefited from overall positive comp store sales and in 2007 recycling revenues soared thanks to two new contracts with energy companies in Ontario and Southern California. Increases in prices paid for scrap metal helped with byproduct revenues.

In 2007, the margin rate grew 230 basis points as ARCI achieved better operating efficiency in retail operations and was able to take advantage of early payment discounts to vendors. SG&A expenses benefited from having only one new retail store opened in 2007 versus two new sites in 2006. Interest expense increased with higher revolver borrowings.

In 2006, ARCI recorded other income of \$730,000 from a retained security deposit for a building that had been placed for sale but the deal not consummated.

#### Balance Sheet

	2006	2007
Cash	\$2.75 mm	\$2.78 mm
Receivables	\$2.41 mm	\$10.1 mm
Inventory	\$11 mm	\$14.1 mm
Current Assets	\$17.4 mm	\$28.2 mm
Total Assets	\$23.9 mm	\$35.5 mm
Line of Credit for Purchases only from Whirlpool	\$6.87 mm	\$13.6 mm
Overdraft	\$0	\$310,000
Other Trade Payables	\$3.2 mm	\$4.35 mm
Mortgage Debt, including current portion	\$4.79 mm	\$4.62 mm
Total Liabilities	\$19.8 mm	\$28.3 mm
Current Ratio	1.2:1	1.2:1
Leverage Percentage	83%	80%
Working Capital Coverage	1.5 months	2.1 months

ARCI utilized borrowings to purchase merchandise from Whirlpool in 2007. At the end of 2007, there was little available on that line, which contains a borrowing base and has a first lien on assets. The company also had a cash overdraft of \$310,000 on the books, which it did not have at year end 2006 or even year end 2005. Liquidity is weak, leverage is high, and working capital coverage is insufficient. Unfortunately, with assets pledged for an \$18 million line for Whirlpool purchases, securing additional sources of credit in today's environment will not be easy. The company continues its attempt to sell off its real estate assets.

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#### Did You Know...?

First time applications for state unemployment benefits rose during the week of March 29<sup>th</sup> by 38,000 to reach 407,000, marking the highest level seen for this economic indicator since mid-September 2005.

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## Appliance Recycling Centers: Retailer of the Week

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### OUTLOOK

With a weak balance sheet and virtually a negative cash position at year end 2007, ARCI has little-to-no room to operate if revenues begin to slide. Luckily for now, retail stores are doing well and the company was able secure two new contracts in 2007 as well as grow its byproduct revenues. It is possible that consumers with tighter financial resources may consider the kind of appliances that ARCI offers in its retail stores rather than shopping at traditional chains. Still, with the existing balance sheet situation and in consideration of Global Credit's "E" rating, clients should carefully monitor their exposures and be vigilant about reviewing ongoing Global Credit updates and alerts.

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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
SIMMONS/WIGGINS ENTPS LLC	B	B	NEG	STA	NR
VICORP RESTAURANTS INC	D	CCC	NM	NEG	11
MOTOR COACH INDUSTRIES	CCC-	CCC	NEG	NM	NR
FOOT LOCKER INC	BB	BB+	NEG	NM	B-
CBRL GROUP INC / CRACKER BARREL	BB-	BB	STA	NEG	D
REGIONS BANK	A+	A+	STA	NM	NR
CHARMING SHOPPES INC	B+	BB-	NEG	NEG	C-
DENNYS CORP	B+	B+	NEG	STA	E+
LOEHMANNS HOLDINGS INC DE	CCC+	B-	NEG	NEG	D
MICHAELS STORES INC	B-	B-	STA	POS	D-

#### Did You Know...?

Chain store sales for the week ended March 29<sup>th</sup> rose 0.5% from the year ago period. On a week-over-week basis, sales fell 0.2%.

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## Options and Resources

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

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