

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Did You Know...?

The number of vacant homes in the U.S. increased by 1 million over the past year to a record 18.6 million, putting further downward pressure on home prices.

Consumers Taking Toll on Economy

For months, beleaguered consumers have defied expert forecasts that they would soon succumb to the pressures of falling home prices, fewer jobs and shrinking paychecks. Now, they appear to have given in.

Last Wednesday, the Commerce Department reported that the economy continued to stagnate during the first three months of the year, with a sharp pullback in consumer spending the primary factor at play.

Pressures on households in which cash is tight appeared to weigh significantly in the calculations of the Federal Reserve as it rolled back interest rates for the seventh time since September – this time by one-fourth of a percentage point – in a bid to prevent a further falloff in the economy. The Fed made clear, though, that investors and borrowers should not expect another drop in interest rates anytime soon.

With the overall economy growing at a mere 0.6% annual rate for the second quarter in a row, consumer spending advanced by only 1%. That was down sharply from the 2.9% gain for all of 2007 and the 3.1% gain for 2006. It was the weakest showing since 2001, the last time the economy was ensnared in a recession.

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Penn Traffic: Retailer of the Week

Penn Traffic continues on as a high risk, 'E' credit with a stable outlook due to its limited financial flexibility and weakened operating state. Feeling the effects of softer consumer confidence as it services its price sensitive customers, this retailer remains surrounded by a plethora of stronger competitors (Wegman's, Price Chopper, Giant Eagle, Weis Markets, and Wal-Mart) with greater resources at their disposal. According to management, there have been some positive developments. EBITDA and operating profits, adjusted for numerous one-time items, did see some improvement. In the stores, sale item availability has improved as of late. Furthermore, the firm's procurement outsourcing agreement with C&S Wholesale Grocers was designed to improve profitability. The company appears committed to removing unproductive assets to free up resources to augment its core. Still, CEO Greg Young explained that "much work remains to be done". Over the past year, the firm's headcount has declined by 8%, while full-time staff is down by 12%. Of note, the company spent \$4.0 million to investigate a proposed acquisition that went unconsummated; management offered no confirmation on the call as to whether these discussions involved Tops.

As a reminder, Penn Traffic filed for Chapter 11 on May 30, 2003 and emerged on April 13, 2005. As of February 2008, the company was operating 103 supermarkets across Pennsylvania, upstate New York, Vermont, and New Hampshire under Bi-Lo (19 stores), P&C (58 stores), and Quality (26 stores) banners. Additionally, Penn Traffic's wholesale distribution business was servicing 58 independent supermarkets and 66 other independent wholesale customers. In January 2008, the firm announced the immediate closing of its Penny Curtiss commercial bakery operation to free up additional resources to devote towards its retail business. The bakery business, which had been contributing approximately 4% of Penn Traffic's revenues, lost a major supply contract in August 2007. Of the 103 supermarkets Penn Traffic operated as of the latest statement date, the grocer owns 20 units while leasing the other 83 stores. On a year-to-date basis in fiscal 2009, the company has closed an additional five stores and announced the closure of a sixth.

(Continued on page 8)

Bankruptcy Blotter

... Lasting longer than many believed possible, **Linens 'n Things** filed for bankruptcy protection in Delaware. It should be noted that the filing does not include the company's profitable Canadian operations. Pending court approval, the company has secured a \$700 million DIP facility with **General Electric Capital Corp.**, which will effectively be a roll-over of its pre-petition facility. It is estimated that the facility will have approximately \$430 million outstanding when it is rolled over.

... As part of its reorganization, **Linens 'n Things** announced that it will seek court permission to close approximately 120 under performing stores, or roughly 20% of its current 589 store base.

... In other news, **Michael F. Gries**, Co-Founder of **Conway Del Genio Gries & Co.**, was named Chief Restructuring Officer and Interim CEO of **Linens 'n Things**. Current CEO, **Robert DiNicola**, will become Executive Chairman.

... **Hancock Fabrics** reported sales for the month of March of \$24 million and a net loss for the month of \$1.9 million, which included reorganization items of \$1.1 million.

... **Walt Disney Co.** closed on its purchase of the **Disney Store** chain from bankrupt **Hoop Holdings LLC**, a subsidiary of **The Children's Place Retail Stores Inc.** Disney acquired roughly 220 stores in the U.S. and Canada, in addition to the right to close 98 stores in the U.S. and 2 in Canada.

... **Movie Gallery Inc.** is seeking court approval to sell its shuttered movies-on-demand service for \$2.25 million to **Dar Capital Limited**. Movie Gallery bought the service from Walt Disney last year for \$10 million. A hearing is scheduled for May 8th.

... With **Wells Fargo & Co.** pulling the plug on its financing, **Domain Inc.**, which operated under the trade name **Domain Home**, is moving to a Chapter 7 liquidation.

... **RedEnvelope Inc.** won court approval to tap its \$4.5 million financing from **Creative Catalog** and **Granite Creek FlexCap I L.P.**, and to establish Creative Catalog as its stalking horse bidder at \$5.7 million to buy the company's assets. An auction is scheduled for May 27th.

... Faced with declining sales and mounting debt, **Nor-Ski and Sports Inc.** of San Ramon, California filed for bankruptcy protection, with the firm, owned by **Bodil Carvacho** and **Christian Carvacho**, reporting total liabilities of \$2.5 million.

... Also filing for bankruptcy protection in Californian was **Unrban Boardshop, Inc.**, a Poway, California retailer headed by **Cheryl Ann Johnson**. The company listed total liabilities of approximately \$0.5 million.

... **Interstate Bakeries Corp.** won court approval to extend its DIP facility through the end of September and to increase the facility to \$250 million as it works to finalize a plan to exit Chapter 11. The company also pushed back a hearing on its reorganization plan that was slated for April 23rd to continue negotiating with potential investor **Ripplewood Holdings**.

... **Pacific Lumber Co.** reached a tentative deal to back a Chapter 11 exit plan proposed by hedge fund **Marathon Asset Management** and **Mendocino Redwood Co. LLC**, potentially ending an impasse that has delayed the company's exit from bankruptcy. However, **Harvard University's** endowment is still interested in taking over Pacific Lumber and says that its offer will top the price offered by Marathon Asset Management.

... **Delphi Corp.** won court approval to extend its \$4.1 billion bankruptcy loans to the end of the year, giving the company time to figure out how it will exit Chapter 11 without the assistance of an investment consortium, led by **Appaloosa Management**, that had offered to pump \$2.55 billion into the company but has since withdrawn its offer.

Feedback?

Questions?

Suggestions?

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Management on the Move

... **Kohl's Corporation** has expanded the size of its Board of Directors to 12. The company has nominated Peter Boneparth and Dale E. Jones to fill the new Board seats effective immediately.

... **Stein Mart** has named **Glori Katz** to the post of Senior Vice President of Marketing and Advertising. Katz career spans more than 25 years, with the last half coming with Sears Holdings where she worked on the "Softer Side" campaign.

... **Pat Curran** has been named senior vice president of sales and merchandising of **Tops Markets**.

... **Quiksilver, Inc.** announced the resignation of **Heidi Ueberroth** from its Board of Directors. Ms. Ueberroth, who joined the company's Board in December 2006, currently serves as President, Global Marketing Partnerships and International Business Operations for the **National Basketball Association**.

... **Mike Clark**, a 25-year veteran of **Sears Roebuck & Company**, is joining **True Value** as SVP and Chief Merchandising Officer. Mr. Clark replaces **Steve Mahurin**, who left the company to become EVP of Merchandising at **Office Depot**.

... **Michael D. Mahre** resigned from his position as President and CEO of **SelectBuild**, a unit of **Build-ing Materials Holding Corporation**. **Stanley Wil-son** has become President and COO and as- sumed operating responsibilities for both **BMC West** and **SelectBuild**.

... **Central Garden & Pet** announced the resignation of **Bruce A. Westphal** from its Board of Directors to spend more time with his family and pursue personal interests.

... Beating the crowd out the door, **George Golle-her** resigned from the Boards of Directors of each of **Linens Holding Co.** and **Linens "N Things Inc.**

Specialty Items

... Still feeling the effects of the housing slump, **Tuesday Morning Corporation** reported sales for its third quarter ended March 31, 2008 of \$178.4 million, down 5.7% versus the comparable period last year with sales of \$189.2 million. The company reported a net loss for the quarter of \$4.7 million, versus income of \$1.0 million last year.

... **Rent-A-Center** reported revenues for its first quarter ended March 31, 2008 of \$756.6 million, virtually flat with sales for the comparable period last year of \$755.2 million. Net income for the quarter, however, more than doubled to \$36.4 million from the prior year's net income of \$15.1 million.

... **Restoration Hardware** voted on the proposed merger between itself and an investment group backed financially by **Catterton Management Partners** on May 2, 2008. As we go to press results of that vote were not available.

... **Kirkland's, Inc.** will release operating results for its first quarter ended May 3, 2008 before the market opens on May 30th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Rooms To Go** is planning to buy land across from its 1.7 million square foot Lakeland, Florida distribution center to expand with another one. The company is expected to close on the 44-acre land deal in August and break ground on the 700,000 square foot facility next January.

... Pleased with the progress of the initiatives undertaken to lower SG&A expense, **Haverty Fur-**

niture Companies, Inc. reported sales for the first quarter of \$185.3 million, down 3.0% versus the first quarter last year, but net income of \$1.0 million, up 24.2% versus last year.

... Due to current economic and market conditions, **GE Capital Solutions** is cutting back its inventory financing program to the furniture industry. Effective immediately, GE is no longer offering new credit lines under an unsecured inventory finance program.

... **Zale Corporation** engaged **Ernst & Young** to serve as the company's independent public accountants for the fiscal year ending July 31, 2008, replacing **KPMG**. The change eliminates any conflict of interest represented by the presence of **Richard C. Breeden** and **James Cotter** as members of the company's Board of Directors. Mr. Breeden serves as KPMG's Monitor, and Mr. Cotter is a member of the monitoring team.

... **Tiffany & Co.** plans for a late-2009 opening of an approximately 10,000 square foot store in the **Crystals at CityCenter** in the heart of the Las Vegas Strip.

... **Pet Valu, Inc.** reported sales for the first quarter ended March 31, 2008 of \$53.3 million, up 17.5% from sales of \$45.3 million for the first quarter last year. Net income for the quarter was \$2.8 million versus \$1.7 million last year, an increase of 62.3%.

... **Barnes & Noble** will open its two newest locations on May 14th in Arlington, Texas, and Cumming, Georgia.

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Heard in the Grocery Aisle

- ... **Aldi** announced plans to open 13 stores in the central Florida market.
- ... **Roche Bros.** is attempting to block **Wegmans** from obtaining a liquor license in Westwood, Massachusetts.
- ... The SEC has concluded its investigation of John Mackey's anonymous internet message board postings. The regulatory body suggested that no action be taken against the **Whole Foods** chief.
- ... **Roundy's** plans to offer its customers a \$30 bonus for every \$300 of tax rebate checks that are cashed at its stores.
- ... **Safeway** announced that it would allow its customers to cash tax rebate checks for free at its stores.
- ... **Publix** announced that it was opening three in-store health clinics across Florida. **The Little Clinic** of Brentwood, TN will administer these facilities. **Publix** currently has 6 Miami-area clinics in its construction pipeline.
- ... **Dorothy Lane Market** has expanded its private label program by introducing gelato and sorbetto.
- ... **Supervalu** announced that it was accelerating the rate of development of premium private-label prepared foods. The company is undertaking this effort to capitalize on consumers trading down.
- ... **Bi-Lo Supermarkets** plans to open a lower-end store in Lenoir, North Carolina. The new location will be called Food\$mart.
- ... **Hy-Vee** will begin offering a wide array of home medical equipment at a location in Waterloo, Iowa.
- ... **A&P's** executive chairman, Christian Haub, said that the company is on pace to recognize \$40 million of cost-of-goods savings and more than \$150 million of annual synergies.
- ... **A&P** announced plans to convert two existing **Pathmark** locations into low-priced supermarkets that will offer more than 20,000 SKU's.
- ... **Wegmans Food Markets** has launched a website that promotes its newest store in Woodbridge, Virginia.
- ... In an effort to attract Hispanic customers before Cinco de Mayo, **Safeway** will offer discounts between April 30th and May 6th.
- ... **Giant Food** has begun rearranging its product mix and simplifying its offerings in its Maryland locations.
- ... The shutdown of **Aloha Airlines** prevented many perishable food deliveries from getting to Hawaii.

Did You Know...?

The Conference Board's consumer confidence index was 62.3 in April, down from 65.9 in March – the lowest level in five years and the eighth drop in nine months.

FYI for the DIY

- ... Reflecting the tough operating conditions, **Home Depot** is closing 15 stores, mostly in the Northeast and Midwest, and is suspending the development of 50 additional stores. None of this comes without a cost, as the company will record a \$586 million pre-tax charge related to the actions.
- ... **Building Materials Holding Corporation** will release its first quarter operating results before the market opens on Monday, **May 12th**. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.
- ... Increased emphasis on equipment rental and cost containment was directly responsible for **United Rentals** reporting record earnings for its first quarter ended March 31, 2008. While total revenues for the quarter were down 7.9% to \$772 million versus the comparable period last year, net income was up 26.7% to \$38 million.
- Based on first quarter results, the company revised its full year earnings to a range of \$2.65 to \$2.85 per share.
- ... **Griffin Land & Nurseries, Inc.** settled all previous filed lawsuits related to Meadowood, Griffin's proposed residential development in Simsbury, Connecticut. The settlement allows Griffin to build 299 homes, requires Griffin to perform certain remediation measures on the land and enables residents to vote on the acquisition of a portion of the land that had been previously considered for development.
- ... **Central Garden & Pet Company** will release its operating results for the second quarter ended March 29, 2008, on Wednesday, May 7th after the close of trading. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

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Consumers Taking Toll on Economy

(Continued from page 1)

As real estate prices plunge, so does the ability of homeowners to borrow against the value of their homes, crimping a major artery of spending. As banks grow tighter with their dollars in a period of uncertainty, families are running up against credit limits, forcing many to live within their incomes. And as companies lay off employees and cut working hours, paychecks are effectively shrinking.

Consumer spending fell for a broad range of goods and services, including cars, auto parts, furniture, food and recreation, reflecting a growing inclination toward thrift. Areas in which spending rose were predominantly those not considered optional purchases, including health care, housing and utilities.

The fact that the economy expanded at all, even by a tiny margin, sowed hopes that a recession might yet be averted. But most economists found in the details of the preliminary report signs of broadening economic distress at home even as businesses expanded production to meet growing demand from abroad.

A panel of economists at the National Bureau of Economic Research, a private research organization, ultimately decides whether a particular period of weakness qualifies as a recession, which it defines as a "significant decline in economic activity spread across the economy, lasting more than a few months."

In spite of the modest growth in the first quarter, many economists still assume the economy will slide into negative territory. Moreover, the recession-or-not-question is now almost entirely academic given the steady erosion of American spending power and soaring costs for goods and gasoline.

The Commerce Department reported that growth was hampered in the first three months of the year by a continued decline in home construction, which fell for the ninth straight quarter, and by a pull-back in investments for business equipment and buildings.

The only factors preventing the economy from sliding backward were the growth of American exports – aided by a weakening dollar – and a swing in business inventories from shrinking to swelling. Putting exports and inventories aside, the final sales of goods and services produced domestically dipped at a 0.4% annual rate in inflation-adjusted terms, the first such decline since the end of 1991.

The biggest questions ahead center on the duration and severity of the downturn. Attention now turns to the job market and the tax rebate checks being sent out to roughly 130 million taxpayers to encourage spending.

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Health & Beauty Aids

... **Walgreen** announced that it was opening five in-store clinics in the West Palm Beach, Florida.

... **Hospira Inc.**, a drug delivery systems manufacturer has purchased **Sculptor Developmental Technologies**. Terms of the agreement were not revealed.

... **McKesson** has acquired software maker **HTP Inc.** The terms of the deal were not disclosed.

... **Rite Aid** has partnered with **Patient Portal Technologies** to launch a pilot prescription delivery system.

Off the Rack

... **Jones Apparel** reported a 59% drop in net income in the first quarter to \$19.5 million. The company also lowered its guidance for the year on the results. Excluding the sale of **Barney's New York**, profits would have fallen even further.

... **Kohl's** is planning to slow its expansion plan in the coming year based on what the company

describes as a "very conservative sales estimates." The company plans to open 70 to 75 locations this year, down from 112 last year.

... **Juicy Couture** is suing **Victoria's Secret**, saying the retailer has been taking its ideas and integrating them into the "Pink" line. Attorneys at Juicy Couture have laid out a long list of complaints.

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Mass Merchant Musings

... Continuing to reel from a management shakeup, **Duckwall ALCO Stores, Inc.** reported sales for its fiscal year ended February 3, 2008 of \$499.0 million, up 6.8% versus sales of \$467.3 million in the prior year. For the year, however, the company reported a loss of \$0.2 million versus net income of \$5.7 million for the prior year.

... Citing strong sales of furniture, consumables and seasonal merchandise, **Big Lots Inc.** raised its comp store sales outlook for the first quarter to the low- to mid-3% range, versus prior expectations of a rise of between 1% and 2%.

... For its fiscal year ended February 2, 2008, **Toys "R" Us, Inc.** reported sales of \$13.794 billion, up 5.7% versus sales of \$13.050 in the prior year. Net income for the year was up 4.0% to \$153 million versus \$109 million last year.

... **Canadian Tire Corporation** will release its first quarter operating results on Thursday, May 8th. Be sure to look for **Global's** updated analysis and

assessment shortly thereafter.

... **Wal-Mart** reported that shoppers with a household income of more than \$50,000 to \$70,000, categorized as more affluent, increased by 0.7% in February and was up 2.2% in March, further evidence of recent inflationary price increases. Are you feeling more affluent?

... Meanwhile, **Wal-Mart** has become the subject of yet another lawsuit by employees claiming the company charged its employees unreasonably expensive fees to participate in the company's 401K program. Participants in the suit are seeking at least \$60 million for the fees they paid during a six-year period.

... High-end specialty retailer **Barneys New York** is clearing out space in its flagship New York and Beverly Hills stores to sell a line of clothes being designed by **Rogan Gregory** for discount retailer **Target Corp.**, marking the first time Barneys will sell Target merchandise.

Hi Tech Entertainment

... Bankrupt movie retailer **Movie Gallery** announced that it had made \$5.7 million for the period of February 11, 2008 through March 9, 2008. The company is planning to emerge from bankruptcy in the second quarter.

... **Office Depot** is being sued by the state of Nebraska, which claims that the company has overcharged around 400% on its \$3 million worth of business. The University of Nebraska has a separate \$3.3 million contract that is also under investigation. Office Depot has been running into similar problems with a number of other states.

... The \$54 million lawsuit for the lost laptop at **Best Buy** has been dismissed. The owner of the laptop was given around \$1,100 for a new laptop and a \$500 gift certificate for her troubles.

... **Overstock** will be expanding internationally after it struck a deal with E4X. E4X will power Overstock's international ecommerce expansion

with its integrated FiftyOne Global eCommerce solution.

... **Officemax** fell short of its first quarter profit guidance. The company reported revenues of \$2.3 billion for the quarter, down from \$2.44 billion last year. Comps were down 8.7%. Sinking margins hurt profits. Net income for the quarter was \$62.4 million.

... **Office Depot** first quarter profit fell 55% to \$68.8 million. Revenues for the company fell 3% to \$3.96 billion.

... **Tech Data** received approval from the European Union to move forward with its acquisition of Nordic peer **Scribona**.

... HBK Capital, the largest shareholder in **Circuit City**, is also demanding that the chain open up its books and consider the potential sale of the business to **Blockbuster**.

Did You Know...?

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The Global World of Sports and Footwear

... Despite a comp store sales decline of 8.4%, **Cabela's Incorporated** reported a 15.9% increase in total revenue to \$535.5 million compared to \$462.1 million for the comparable period last year, with the lion's share of the increase generated in the retail segment. Net income for the quarter rose 39.4% to \$10.0 million versus \$7.1 million last year.

... **Gander Mountain Company** mailed its first catalogue in 12 years, a 324-page whopper containing products from its recently acquired **Overton's** subsidiary, Gander Mountain and other vendors. The return to direct marketing completes a key objective for the company by allowing it to become a true multi-channel marketer.

... With virtually every key metric moving in the right direction, **Sport Supply Group, Inc.** reported sales for its third quarter ended March 31, 2008 of \$65.8 million, up 4.1% versus sales for the comparable period last year of \$63.2 million. Net income for the quarter virtually doubled to \$3.4 million from \$1.7 million in the first quarter last year.

... **Recreational Equipment, Inc.** was named the "Employer of the Year" at the **2008 World Retail Congress** held in Barcelona, Spain last month. Earlier this year, REI was again named to **Fortune** magazine's "100 Best Companies to Work for in America."

... **Golfsmith International Holdings, Inc.** plans to release its first quarter 2008 financial results after the market close on Wednesday, May 7th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... Despite a double-digit sales increase of winter merchandise, **Big 5 Sporting Goods Corporation** reported a 1.9% decline in sales for the first quar-

ter ended March 30, 2008 to \$212.9 million from \$217.0 million last year. Net income for the quarter declined 45.7% to \$4.1 million from \$7.6 million last year. Based on first quarter results, the company now expects earnings for the year to be in the range of 60 cents to 85 cents.

... **Joe's Sports & Outdoor** opened its newest location in Nampa, Idaho, marking the company's 30th store and second in Idaho.

... Continued deterioration in the marine retail environment, **MarineMax, Inc.** reported sales for its second quarter ended March 31, 2008 of \$233.3 million, down 28.2% versus sales of \$325.1 million in the comparable period last year. For the quarter, the company reported a net loss of \$3.5 million, versus net income in the prior year of \$3.3 million.

... Also feeling the pinch of the overall economic environment, **West Marine, Inc.** reported sales for its first quarter ended March 29, 2008 of \$113.3 million, down 10.0% versus sales of \$125.8 million in the prior year. The net loss for the quarter was \$17.7 million, an increase of 55.6% versus the loss last year of \$11.4 million.

... **Bakers Footwear Group, Inc.** reported sales for its fiscal year ended February 2, 2008 of \$186.3 million, down 9.0% versus sales of \$204.8 million in the prior year. For the year the company reported a net loss of \$17.7 million versus a loss of \$1.5 million last year.

... **Payless ShoeSource** and **Nickelodeon** signed a multi-year licensing agreement enabling a more direct creative collaboration between Payless and Nickelodeon and resulting in a new line of Blues Clues footwear with certain styles featuring the Blue's Clues characters offered only at Payless.

Did You Know...?

Job losses decelerated in April, falling by 20,000, far fewer than the average 80,000 jobs per month lost during the first quarter of the year, and significantly lower than the estimated 70,000 loss.

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Rating Changes and Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
CLAIRES STORES INC	B-	B	NEG	NEG	B
LINENS HOLDING CO CASE NUMBER 08-10832	NR	D	NR	NM	F+
DUANE READE HOLDINGS, INC.	CCC+	CCC	DEV	NEG	F+
CONSOLIDATED CONTAINER COMPANY LLC	B-	B-	STA	POS	NR
ACE HARDWARE CORP	BB-		STA		C-
DAVE & BUSTERS INC	B-	B-	POS	STA	E+
155 EAST TROPICANA LLC	CCC+	B-	NM	NM	E
GAMESTOP CORP	BB	BB	POS	STA	B-
SAKS INC/FKA PROFFITTS INC	BB-	B+	POS	NM	C

Penn Traffic: Retailer of the Week

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OPERATING PERFORMANCE: 52 WEEKS ENDED FEBRUARY 2, 2008

<i>\$ in millions</i>	52 weeks 2/2/2008 Fiscal 2008	53 weeks 2/3/2007 Fiscal 2007
Revenues	\$1,219.50	\$1,293.90
Cost of goods sold	\$897.50	\$965.10
SG&A (as reported)	\$334.60	\$342.80
Adjusted Operating Profit (1)	\$7.00	(\$0.30)
Reorganization expense	\$5.40	\$1.00
Interest expense	\$9.60	\$9.40
Income tax expense	\$0.20	\$0.30
Net Profit	(\$41.70)	(\$27.40)
Sales per week	\$23.40	\$24.40
Gross Margin	26.40%	25.40%
Adjusted Operating Margin (1)	0.60%	0.00%
Adjusted EBITDA Margin (1)	2.60%	2.00%
Interest Coverage	3.2x	2.8x
(1) - During fiscal 2008, we exclude \$19.6 million of expenses buried in SG&A, \$2.0 million of losses on store closings, and \$0.5 million of asset impairment charges. During fiscal 2007, we exclude \$13.7 million of expenses buried in SG&A and \$2.7 million of losses on store closings.		

Did You Know...?

National chain store sales fell 1.5% in the first three weeks of April versus the previous month according to Redbook Research's latest indicator. The drop in the index compared with a targeted 1.4% fall.

Penn Traffic endured a 5.7% decline in its firmwide sales during its fiscal 2008 year ended February 2, 2008 to \$1.22 billion. Of note, fiscal 2008 did have one less selling week than did fiscal 2007. Retail sales declined 6.2% to \$1.01 billion, while wholesale food distribution revenues fell 3.4% to \$210.0 million. On the retail side, **comparable store sales suffered a mild 0.3% drop**, likely cushioned by the handful of store closings alluded to in the text above. The company made noticeable progress on the gross margin front, noting that growing sales of private-label goods and signature products, a new price optimization system, and improved operational disciplines to reduce shrink collectively overwhelmed the firm's increased distribution costs. During the call, management did imply that it was eating some inflation (not passing all of it on to its customers).

As part of the company's strategy to reverse its financial struggles while the in-store experience, the firm has undertaken a numerous of initiatives such as lowering its center store and fresh shrink, adding store-specific fresh category products, boosting sales of products with more attractive margins, selectively targeting stores that could benefit from minor fixings, improving the reclamation process, containing supply costs by standardizing items, and rejuvenating its private label offerings. If some of these sound familiar, many of these initiatives commenced during fiscal 2007. Despite some modest improvements, Penn Traffic's chain appears to have a long road ahead of it.

A slew of items that were one-time in nature were reported during fiscal 2008, including professional fees, closed store costs, a fixed asset policy change, legal costs, personnel engagement costs, severance, Chapter 11 reorganization costs, and a proposed acquisition that went unconsummated. Adding back \$14.2 million of non-recurring one-time items embedded with the firm's SG&A expense (versus \$12.7 million in fiscal 2007), another \$5.4 million of reorganization-related items (versus \$1.1 million during fiscal 2007), and \$2.6 million of asset impairments and losses on store closings (versus \$2.7 million in fiscal 2007) yielded adjusted EBITDA of \$31.1 million during fiscal 2008, representing a 19% increase over fiscal 2007. Interest expense rose nearly 3% relative to the year-ago period to \$9.6 million. Penn Traffic's decision to exit the Penny Curtiss business is reflected in its \$11.3 million loss from discontinued operations.

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Penn Traffic: Retailer of the Week

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LIQUIDITY AND FINANCIAL STRUCTURE

Penn Traffic's liquidity remains okay for now, though less than we'd prefer to see. Cash and cash equivalents amounted to \$20.9 million on February 2, 2008, down approximately 15% from fiscal 2007's end. **At the conclusion of fiscal 2008, the firm had \$36.3 million of availability on its secured revolving credit facility.** Outstanding borrowings in early-February totaled \$46.6 million while stand-by letters of credit tallied \$45.0 million. Direct borrowings at that time were allocated in the following manner: \$17 million against the revolver, the \$6 million term loan remained fully drawn, and \$23.6 million was outstanding on Penn Traffic's supplemental real estate facility. **In late-March 2008, the firm was successful in extending the maturities on its facilities through April 13, 2009, and under certain conditions, April 13, 2010** (see Bank Reference). **Through our communications with CFO Tod Nestor and information released by the company in the facility amendment 8-K, we believe that lower L/C usage as of late-March left recent availability in the neighborhood of \$41.0 million.**

Leverage ratios continue to creep higher. Liabilities-to-assets of 74% has risen from 70% and 64% during fiscal 2007 and fiscal 2006, respectively. Furthermore, debt-to-total capitalization has jumped to 0.47 (up from 0.41 and 0.30, respectively, during fiscal 2007 and fiscal 2006). Capital spending was dramatically off in fiscal 2008 falling 66% to \$7.9 million; further store closings or asset sales will likely be utilized to reinvest in those stores management deems to have promise. The grocer's tangible net worth dove 20% to \$53.8 million over the past twelve month period.

<i>\$ in millions</i>	2/2/2008 Fiscal 2008	2/3/2007 Fiscal 2007
Cash	\$20.90	\$24.70
Accounts & Notes Receivable	\$37.50	\$35.10
Inventory	\$89.20	\$100.00
Other Current Assets	\$7.30	\$8.50
Total Current Assets	\$154.90	\$168.30
Capital Leases, net	\$8.30	\$9.90
Property, Plant, & Equipment, net	\$78.40	\$96.50
Intangible Assets	\$15.40	\$25.20
Other Assets	\$5.40	\$7.60
Total Assets	\$262.40	\$307.50
Current Debt	\$0.30	\$0.30
Current Portion of Capital Leases	\$1.40	\$1.50
Accounts & Drafts Payable	\$34.20	\$34.70
Other Current Liabilities	\$61.20	\$65.90
Total Current Liabilities	\$97.10	\$102.40
Long-Term Debt	\$50.20	\$52.40
Long-Term Capital Leases	\$9.00	\$11.00
Defined Benefit Pension Plan Liability	\$6.30	\$22.20
Other Non-Current Liabilities	\$30.70	\$26.80
Total Liabilities	\$193.30	\$214.70
Shareholders' Equity	\$69.20	\$92.70
Total Liabilities & Shareholders' Equity	\$262.40	\$307.50
*-some categories in prior balance sheets were condensed by Penn		

Did You Know...?

The Case-Shiller home price index of 20 cities fell by 12.7% in February versus last year, the largest decline since its inception in 2001. All 20 metro areas have declined for six straight months.

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