

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Bankruptcy Blotter	2
Management on the Move	3
FYI for the DIY	3
Specialty Items	4
Hi Tech Entertainment	4
Health & Beauty Aids	4
Mass Merchant Musings	5
Heard in the Grocery Aisle	5
The Global World of Sports	6
Options and Resources	6
Off the Rack	7
Rating Changes	10

REMEMBER – The next best thing to knowing something is knowing where to find it.

Senate Panel OKs Rescue Bill

The Senate Banking Committee approved legislation last week intended to help the ailing housing market and impose tougher rules on mortgage-finance giants Fannie Mae and Freddie Mac.

The measure aims to prevent more foreclosures and create more affordable housing, and would result in a new regulator overseeing both Fannie (FNM) and Freddie (FRE).

The Senate bill would allow the Federal Housing Administration to insure up to \$300 billion in refinanced mortgages, where the lender agrees to write down part of the outstanding loan.

The bill, which now moves to the Senate floor, was written by the committee's Democratic chairman, Chris Dodd of Connecticut and the panel's top Republican, Richard Shelby of Alabama. As a result, there was little opposition among committee members. The final vote was 19-2.

House Financial Services Committee Chairman Barney Frank said that final passage of a housing bill was not within reach after the Senate action. "It is highly likely we will be able to compromise on a significant housing package," Mr. Frank said.

To get around a veto threat from President Bush, the bill is funded by an affordable housing fund that would be financed by Fannie and Freddie. Mr. Bush and many congressional Republicans had ob-

(Continued on page 7)

Whitehall Jewelers: Retailer of the Week

Whitehall Jewelers posted a sizeable loss of more than (\$74 million) for fiscal 2008, along with adding more debt on the balance sheet as a means to cover operations and fund losses. In addition, Whitehall Jewelers in April 2008 acquired 78 stores from the bankrupt Friedmans (and Crescent) Jewelers chain, with the purchase being covered through more debt. We question the validity of this move given that these locations were from a failed chain and that Whitehall Jewelers needed to go even deeper in debt to fund the transaction. With the economy stalling more and more and consumer spending on discretionary merchandise such as jewelry slowing, we do not anticipate a positive end to the company's severe financial woes. In light of a double-digit comp decline for the fourth quarter and the hefty loss for the year, Global Credit will update its credit rating from an "E-" to an "F", now reflecting a financially distressed enterprise.

BACKGROUND

Whitehall Jewelers has roots all the way back to 1895 and was formerly known as Marks Bros. Jewelers, Inc. The company was incorporate in 1947. For at least the past several years, the chain has struggled financially. In November 2005, the company announced the closing of 77 stores to hopefully take Whitehall Jewelers back to sustained profitability. During the second quarter and third quarter of fiscal 2006 (calendar year 2005), vendors agreed to have \$44.6 million of their trade debt turned into an extended note.

In 2006, the company was taken private in a buy out by Prentice Capital Management, LLC and oth-

(Continued on page 8)

Bankruptcy Blotter

... The tally of U.S. corporate defaults so far this year – 27 – has already eclipsed 2007’s total, and Standard & Poor’s says 107 more are on the brink, a five-year high. Of the 107 companies most vulnerable to default, the media and entertainment sector accounts for the largest number, 24. The list also includes 16 consumer-products companies. Other industries at risk include the retail/restaurant and forest-products sectors.

... More than 1 million American families are projected to file bankruptcy in 2008, according to recent data collected by Harvard professor Elizabeth Warren. Since 2000, more children have lived through their parents’ bankruptcy than through their parents’ divorce, according to Ms Warren.

... A meeting of the creditors of **Linens Holding** will be held on June 10, 2008 at the J. Caleb Boggs Federal Building in Wilmington, Delaware at 11 a.m.

... In other news, **Linens Holding** proposed **Tiger Capital Group, LLC** and **SB Capital Group, LLC** to serve as the stalking horse bid for the GOB sales for the 120 closing stores. Under the agreement, Linens will be paid 92.72% of the value of the inventory and will share 50% in any overage amount. The minimum threshold value of inventory has been placed at \$128 million.

... **Movie Gallery** emerged from Chapter 11 protection on May 20th after closing on a \$100 million exit loan. The company also announced that its founder CEO, **Joe Malugen** stepped down and was replaced by **C.J. Gabriel Jr.**, who most recently served as EVP of Marketing, Merchandising and Supply Chain Management at **Albertsons Inc.**

... In addition to the above, **Movie Gallery** named a new Board of Directors including: **Bob Fiorella, Mark Holliday, Joe Malugen, Thomas B. McGrath, Steven D. Scheiwe, Richard L. Shorten, Jr., and Neil Subin** – Chairman of the Board of Directors.

... The court denied **Friedman’s Inc.’s** request to pay 46 employees a total of \$1.7 million in bonuses to see the jeweler through its liquidation process after a federal monitor objected. The plan will be revised and resubmitted.

... The court gave final approval to **RedEnvelope Inc.’s** \$4.5 million DIP facility. In addition, **Creative Catalog** agreed to be the stalking horse bidder for the company with a \$5.7 million offer. An auction is scheduled for May 29th.

... **Interstate Bakeries Corp.** reported a loss for the four weeks ended April 5, 2008 of \$15.4 million, compared with a loss of \$12.3 million for the prior four weeks. Revenue for the period was virtually flat at \$210.2 million versus \$211.6 for the prior period.

... **Delphi Corp.** is suing a group of investors led by **Appaloosa Management LP** to force them to fund a \$2.55 billion equity deal they backed out of last month as the auto-parts supplier was getting ready to exit bankruptcy protection.

... **Andrew Beal**, founder of **Beal Bank** in Plano, Texas extended his \$603 million offer for a swath of California timberlands potentially up for grabs in **Pacific Lumber Co.’s** bankruptcy, bolstering an effort by bondholders to put the land on the auction block.

Feedback?

Questions?

Suggestions?

[Click Here](#)

[RETURN TO FIRST PAGE](#)



ARMZ offers instant results for getting customer reviews done quickly and professionally. This disciplined judgment process delivers a new level of efficiency and predictiveness for mitigating risk. In these difficult economic times, the credit quality of customers is very fluid and requires sophisticated credit-scoring tools to aid in the decision making process.

REAL PEOPLE. REAL INSIGHT. REAL TIME

WWW.GCSZONE.COM



“SEE THE FUTURE... NOW”

FULL-SOLUTION RISK MANAGEMENT

- In-House Credit Policy
- Establish Enterprise Credit Risk Categories A thru F
- Establish Parameters for Exposure Thresholds
- Generate Automatic Credit Limits Based on Your Appetite for Risk
- Collateral Tracking System
- Task Management System

Tel: 212.308.6060

Joe Pilla | pilla@gcszone.com | ext 138

Bill Peguillan | peguillan@gcszone.com | ext 106

Management on the Move

... **C.J. Gabriel Jr.** was named the new CEO of Movie Gallery.

... **Talbots** announced that **Chris Jackson** has been named Senior Vice President of Apparel, Design, and Development of the Talbots Brand. **Mr. Jackson** formerly worked as the Senior Vice President of Design at **Calvin Klein**.

... **John Fegan** will soon become vice president of pharmacy at **Winn-Dixie**. **Mr. Fegan** was formerly the senior vice president of pharmacy at **Ahold USA**.

... **Hannaford's** Chief Information Officer, **William Homa** will be leaving the company on July 1st.

... **Save Mart Supermarkets** announced that **Steve Junqueiro** has become the firm's Chief Operating Officer. **Mike Silveira**, the firm's Senior Vice President of Human Resources and Law, has become the Chief Administrative Officer. **Steve Ackerman**, the grocer's Vice President of Finance, has become the acting Chief Financial Officer. **Ron Riesenback**, the company's former Chief Financial Officer, has retired.

... Liquidation and sales specialist **Great American Group** formed a real estate division to provide services including valuation and appraisals, lease mitigation and renegotiation, and raising capital. The company hired **Richard Hauer** as President of the new **Great American Group Real Estate**, which will be based in New York. **Mr. Hauer** most recently served as the partner in charge of the Restructuring and Bankruptcy Group for **The Schonbraun McCann Group**.

... **Brown Shoe Company, Inc.** made two key moves toward strengthening its marketing communications for its Famous Footwear chain, naming **Willie A. Smith** to the position of SVP - Marketing and engaging creative and branding agency **Campbell Mithun**. **Mr. Smith** most recently served as Chief Marketing Officer-Athletics for **Steve and Barry's**.

... **Collective Brands** reported that **Matthew E. Rubel**, its CEO and President; **Judith K. Hofer**, retail consultant; and **Robert F. Moran**, President and COO of **PetSmart, Inc.** were re-elected to its Board of Directors.

... **United Rentals, Inc.** appointed **Joseph Dixon** its VP - Sales. Prior to joining United Rentals, **Mr. Dixon** served as Global VP and General Manager for **JLG Industries, Inc.**, a worldwide aerial equipment manufacturer and leading supplier to the rental industry.

... **Advance Auto Parts, Inc.** appointed **Chas Scheiderer** as the company's SVP, Supply Chain. **Mr. Scheiderer** most recently served as SVP, Logistics for **Optimal Advantage**, a boutique retail consulting firm. Prior to that, **Mr. Scheiderer** served as SVP of Logistics for **Best Buy**.

... In addition to the above, **Advance Auto Parts** named **Derrick Thomas** to the position of SVP, Operations - Southeast. Prior to joining Advance, **Mr. Thomas** served as the President and CEO of **Emerging Market Restaurant Group**. Prior to that position, **Mr. Thomas** served as Regional VP for **Starbucks**.

FYI for the DIY

... **Home Depot** CEO Frank Blake was grilled by investors, who also shop in his company's stores, on the retailer's commitment to customer service. Several shareholders spoke at the company's annual meeting about poor experiences in Home Depot, a possible reason for **Lowe's** better performance.

... With the U.S. home improvement market hobbled by an unrelenting housing slump, **Home Depot** is predicting a far rosier outlook in Mexico, which is in the midst of an unprecedented housing boom. The Mexican government hopes to spur construction of 16 million houses by 2030, a goal that would nearly double the nation's current stock. Last year, the company revealed that its stores in Mexico, Canada and China accounted

for 9% of its revenues and 1% of its operating profits.

... Even with its growing international operations, **Home Depot** reported sales for its first quarter ended May 4, 2008 of \$17.907 billion, down 3.4% versus sales of \$18.545 billion last year. For the quarter, the company reported net income of \$356 million versus net income of \$1.046 billion last year, a decline of 66.0%.

... Faring better than **Home Depot**, **Lowe's Companies, Inc.** reported sales for the first quarter of \$12.009 billion, down 1.3% versus last year's sales of \$12.172 billion. Net income for the quarter was \$607 million, down 17.9% versus prior year.

*Register a Colleague
Today to insure they
receive their own copy of
"Retail Sector Weekly"
and
Monthly Comps Analysis
Report*

[RETURN TO FIRST PAGE](#)

Specialty Items

... A hearing will be held on June 11, 2008 regarding the effort by shareholders to enjoin the proposed acquisition of **Restoration Hardware, Inc.** by an investment group led by CEO Gary Friedman and **Catterton Partners**. The action alleges breach of fiduciary duty.

... Negatively impacted by an unusually early Easter and the resulting separation of the Easter and spring marketing campaigns, **Cost Plus, Inc.** reported a 4.5% increase in sales from \$202.5 million in the first quarter last year to \$211.7 million this year, and a net loss for the quarter of \$32.0 million versus a net loss last year of \$11.1 million.

... **Movado Group, Inc.** will release its first quarter operating results on Thursday, May 29th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... For its third quarter ended April 30, 2008, **Zale Corporation** reported sales of \$476.7 million, up 6.2% versus sales of \$449.0 million for the comparable period last year. However, the company launched a concerted inventory reduction program resulting in a 500 basis point decline in gross margin. As a result the company reported a loss for the quarter of \$16.8 million versus a loss of \$4.0 million last year.

... **Finlay Enterprises, Inc.** will release its first quarter operating results on Wednesday, May 28th. Be sure to look for **Global's** updated analysis

and opinion shortly thereafter.

... **Room & Board** leased 40,000 square feet of space for a store in Culver City, California, its second in southern California and first in the Los Angeles area. A real estate broker in the deal also said it was helping the company identify locations for new stores in Washington, D.C., Boston, Philadelphia, Seattle, Portland, Oregon, Austin, Texas, Miami, Ann Arbor, Michigan, and Atlanta.

... For its first quarter ended May 4, 2008, **PetSmart** reported a 9.1% increase in net sales to \$1.213 billion. Net income for the quarter fell to \$41.2 million versus net income of \$106.7 million last year, which included a one-time gain on the sale of a portion of the company's shares in **MMI Holdings, Inc.** of \$95.4 million.

... **Autozone Inc.** reported sales for its 3rd quarter of \$1.517 billion, up 3.0% versus sales of \$1.474 billion for the first quarter last year. Net income for the quarter was up 4.6% to \$158.6 million.

... **E Com Ventures, Inc.** will restate its last two fiscal years as a result of errors with respect to its lease accounting. The restatement will reduce net income by approximately \$132,000 in fiscal 2006, increase net income by approximately \$94,000 in 2005 and increase the beginning accumulated deficit as of January 30, 2005 by approximately \$2.7 million.

Did You Know...?

As consumers cut back on spending, grocery-store data and analyst research have begun to indicate that private-label products are gaining market share in the packaged-food industry, to the detriment of branded consumer product companies.

Hi Tech Entertainment

... **Tech Data Corp** announced that its first-quarter net income increased to \$23 million. During Q1 2008, sales improved 12% to \$6.1 billion.

... **Tech Data Corp** announced that it has completed the acquisition of some of the assets of **Scribona**, a European company.

... **Movie Gallery** has completed its corporate restructuring and exited Chapter 11 bankruptcy protection.

... **Trans Word Entertainment** announced sales declined 19% to \$232.6 million during the quarter ended May 3, 2008. During the same period,

the firm posted an \$11.8 million loss.

... **Borders** has agreed to open a new 25,000-square-foot store concept store in Baton Rouge, Louisiana. The new store is slated to serve a full line of premium coffee and sell fashionable notebooks.

... **Staples** extended its tender offer for Corporate Express. As a reminder, **Staples** has offered 8 euros a share for the firm.

... CEO George Jones denied that he is looking to sell **Borders Group** to **Barnes & Noble**.

Health & Beauty Aids

... **McKesson** has been sued by the city of San Francisco for illegally manipulating the prices of branded drugs.

... **McKesson** has completed its acquisition of **McQueary Bros. Drug Company**. The firm based in Springfield, Missouri; it is a regional distributor of pharmaceutical and healthcare products.

... **Rite Aid** announced that it would offer \$150 million of unsecured convertible notes. The pro-

ceeds will be used to repay \$150 million of senior notes due in 2008.

... A North Carolina **Rite Aid** was fined for price-scanning errors.

... **CVS** entered into an agreement with **Google Health** to allow users to access medical records and healthcare information online. **Walgreen** also recently entered into a similar arrangement with **Google**.

[RETURN TO FIRST PAGE](#)

Mass Merchant Musings

... The Times of London reported that **Wal-Mart** owned **Asda Group** plans to get into the mortgage business by the end of the year, and is negotiating with three different companies to provide its customers access to discount home loans.

... **Wal-Mart** launched a new website designed to recruit employees for its new small-store format, "Marketside", which it plans to open in four Arizona cities – Chandler, Gilbert, Mesa and Tempe – later this year as a response to **Tesco's** "Fresh & Easy" concept.

... **BJ's Wholesale Club** reported that first quarter earnings were up 26% to \$17.2 million, from \$13.7 million during the same period a year ago. Net sales, which exclude membership fee revenue, rose 12.3% to \$2.26 billion, with comp store sales up 9.6%.

... Based on its first quarter results, reported above, **BJ's Wholesale** now expects earnings per share for the year to be in the range of \$2.04 to \$2.14 per share, a range that's 6 cents above the

company's previous expectations offered in March.

... Feeling the effects of the economy, **Target Corporation** reported sales for the first quarter of \$14.302 billion, up 5.0% versus sales of \$13.623 billion last year. Net income for the quarter, however, dropped 7.5% to \$602 million versus \$651 million last year.

... **Big Lots, Inc.** will release its first quarter operating results on Thursday, May 29th. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Meijer** is doubling the discount it offers shoppers on gasoline purchases – from five cents per gallon to 10 cents – from now until Labor Day at all of its 165 gas stations. In Canada they call that a loss liter.

... **Dollar General Corporation** will report its financial results for the first quarter ended May 2, 2008 on Monday, June 16th. Be sure to look for

Heard in the Grocery Aisle

... As a result of a weakening economy, **Bashas** has announced plans to end its home delivery program.

... **Giant Eagle** has announced plans to offer customers a 90-day supply of generic drugs for \$10. The Pennsylvania grocer now offers a 30-day supply of generic medications for \$4.

... **Meijer** announced that it would offer a 10-cent per gallon discount on gasoline for customers that use the firm's consumer credit cards.

... **Harris Teeter** has begun offering shoppers \$5 off their next purchase when they buy private-label paper and plastic products.

... **Unified Grocers** stated that its new line of natural and organic products has been well received by customers.

... **H.E. Butt Grocery** introduced plans to reduce prices on thousands of items at 43 stores in the Houston area.

... **Aldi** is opening a warehouse in the Dallas, Texas area. The firm eventually plans to open 25-30 stores in the Dallas-Fort Worth metropolitan area.

... **Winn Dixie** announced that it would soon be allowing its customers to purchase OTC and wellness items with Health Savings Accounts (HSA) or Flexible Spending Account cards.

... **Ahold's** American operation plans to reduce prices on 5,000 health and beauty care items.

... **Kroger's** stores in Cincinnati and northern Kentucky will begin selling flash drives that can store a patient's personal health records.

... **Sysco** is rumored to be in negotiations to build an \$81 million distribution center in Yaphank, New York. If completed, the building will service customers on Long Island.

... **Stop & Shop** announced that customers who spend \$200 and use their loyalty cards would get a coupon good for 10% off their next grocery bill.

... **Performance Food Group** received overwhelming shareholder approval to proceed with the buyout offer from **The Blackstone Group** and **Wellspring Capital Management LLC**.

... **Kroger's** announced that it would be offering fuel discounts to customers who purchase \$100 of goods from any of its stores.

... **Loblaws** is looking to cater to Canada's growing Asian and South Asian populations by expanding its ethnic food offerings.

... **Supervalu** has agreed to settle a class action lawsuit with some former Albertsons employees for \$15 million.

Did You Know...?

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

[RETURN TO FIRST PAGE](#)

The Global World of Sports and Footwear

... **NexCen Brands**, the owner of **The Athlete's Foot** franchise, said that in preparing its first quarter 2008 Form 10Q and following the appointment of its new CFO, it found "there is substantial doubt about its ability to continue as a going concern." It also announced that pending completion of an independent review, substantial doubt also may have existed at the time the company filed its 2007 Form 10K.

... **The Foot Locker, Inc.** entered into an amended credit agreement with its banks, which provides it with a \$175 million revolving credit facility and a maturity date extended to May 16, 2011. The agreement also provides for an incremental facility of up to \$100 million.

... **The Foot Locker, Inc.** reported net income for its first quarter ended May 3, 2008 of \$3 million, including store closing expenses of \$3 million, after-tax, and a non-cash impairment charge of \$15 million, after-tax. For comparative purposes, first quarter net income before enumerated charges was \$21 million compared to net income of \$17 million for the first quarter last year. Sales for the quarter decreased 0.5% to \$1.309 billion, including a 2.9% decline in comp store sales.

... Weakening consumer demand has spread from the malls to the big box stores as **Dick's Sporting Goods** reported a 4% drop in net income to \$20.8 million from \$21.7 million on a 22% increase in sales to \$912.1 million from \$823.6 million.

... Related to the above, **Dick's Sporting Goods** now expects earnings for the year to be in the range of \$144 to \$160 million from a previous range of \$176 to \$182 million, an 18% decline. Comp store sales are now forecasted to decline 3% to 5% for the year, down from a previous forecast of flat to a 1% gain.

... **West Marine, Inc.** announced a relationship with **East Marine Denizcilik & Turizm A.S.** to open its first franchise store in Istanbul, Turkey. The new West Marine store is set to open this July.

... **Gander Mountain** opened its 13th store in Wisconsin and its 5th store in Florida. Both stores are in the company's new larger format. The store in Eau Claire, Wisconsin, is 65,000 square feet

while the one in Ocala, Florida, is 66,200 square feet.

... **Mag Instrument**, owner of the patent for a miniature flashlight, sued **Academy Sports & Outdoors** for patent infringement, federal trademark dilution and unfair competition for advertising and selling its own line of flashlights under the name "Magellan Limited Edition Aluminum Flashlight Combo."

... **Hibbett Sports, Inc.** reported sales for its first quarter ended May 3, 2008 of \$145.8 million, up 9.0% versus sales of \$133.8 million for the first quarter last year. Net income for the quarter of \$9.4 million was down 7.8% versus net income of \$10.2 million last year.

... **lululemon athletica inc.** will reports its first quarter earnings on Monday, June 2, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

... **Zumiez Inc.** reported that sales for the first quarter ended May 3, 2008 increased by 14.4% to \$78.7 million, however, net income was down for the quarter was down 31.3% to \$1.6 million from \$1.6 million. Comp store sales for quarter decline 0.8%.

... **Brown Shoe Company** reported sales for its first quarter ended May 3, 2008 of \$554.5 million, a decrease of 2.1% compared to \$566.3 million in the first quarter last year. For the quarter the company reported net income of \$7.2 million, down 25.3% versus net income of \$9.6 million last year.

... **Skechers** reported sales for the first quarter of \$384.9 million, up versus last year by 11.6% versus \$344.9 million last year. E-commerce accounted for only 1% of revenue in the quarter, while the retail segment accounted for 15.7% this year. Domestic wholesale revenue was \$220.8 million, or 57.4% of overall revenue and international wholesale revenue was \$99.5 million or 25.9% of total sales.

... **Shoe Carnival, Inc.** will report its first quarter results on Thursday, May 29, 2008. Be sure to look for **Global's** updated analysis and assessment shortly thereafter.

Did You Know...?

The U.S. Department of Agriculture now estimates that food prices will rise 5% during 2008 (up from a prior forecast of 3.5%), the largest single-year increase in the U.S. since 1990.

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

How to Advertise in this Publication: If you wish to advertise in our weekly newsletter please contact us via email at delisle@gcszone.com

Subscribe to our Newsletter: Click [here to subscribe](#) to Retail Sector Weekly

[RETURN TO FIRST PAGE](#)

Senate OKs Rescue Bill

(Continued from page 1)

jected to using taxpayer funds for the rescue plan. But some House Democrats may seek to alter this funding mechanism as the measure moves through the legislative process.

Mr. Dodd, in an interview prior to the vote, said that the funding mechanism, which reportedly would collect about a half cent on every dollar of mortgages purchased by Fannie and Freddie, simply "makes sense." They've got resources coming in and they've got the capacity to do this," Mr. Dodd said.

Fannie and Freddie were going to be charged anyway. Democrats were going to use the funds strictly for low-income housing. The Senate plan diverts the funds to pay for the rescue plan for the first three years.

Mr. Dodd said even he wasn't sure the overall plan to aid homeowners would work because of its voluntary nature. "It only affects those occupying their homes. . .and you have to step up and ask for it," Mr. Dodd said.

Foreclosures are now running at a rate of 8,000 per day. However, Mr. Dodd feels that it is important for Congress to at least try "to put a floor" on the housing market contraction and limit the pain of the collapse.

Many are confident the measure will be approved by the full Senate, noting that a quarter of the membership of the body serve on the banking panel.

The Federal Reserve and Congressional Republicans have been trying for years to increase federal oversight of Fannie and Freddie. Treasury Secretary Henry Paulson even argued recently that establishing a new strong regulator for Fannie and Freddie might go a long way in ending the turmoil in financial markets.

The bill would allow the new regulator to raise the capital levels of Fannie and Freddie and limit the size of their portfolios. A spokesman for Freddie gave tempered support for the Senate bill, and warned about the risk of getting it wrong.

The House has passed its own version of a rescue plan and therefore any measure passed by the Senate would have to be reconciled with the House measure.

Did You Know...?

U.S. home prices fell a seasonally adjusted 1.7% in the first three months of 2008, the largest quarterly price decline on record. Prices fell in 43 states, and were down 3.1% between the first quarter of 2007 and the first quarter of 2008.

[RETURN TO FIRST PAGE](#)

Off the Rack

... **Macys** has announced plans to put 400 electronic vending machines inside its locations.

... **Sears Holdings** will open a 812,000-square-foot distribution facility in Jacksonville, Florida. The building will supply stores in Florida, Puerto Rico, Georgia and South Carolina.

... **Trans World Entertainment** announced sales declined 19% to \$232.6 million during the quarter ended May 3, 2008. During the same period, the firm posted an \$11.8 million loss.

... **Ross Stores** announced that it plans to shut down its store in Washington, Pennsylvania location because of some potentially contaminated soil.

... **Ross Stores** announced that its sales increased 10% to 1.6 billion, during the 13 weeks end May 3, 2008. The company's net income grew \$13.5 million to \$79.5 million, during the most recent period.

... **Pacific Sunwear** of California announced that revenues from continuing operations fell 0.5% to \$266.9 million. The retailer's net loss increased \$11.7 million to \$12.0 million.

... **Jos. A Bank** has opened a 3,500-square-foot store inside of Walden Galleria mall in Cheektowaga, New York. Walden Galleria is the largest shopping center in Western New York.

... **Borders** has agreed to open a new 25,000-square-foot store concept store in Baton Rouge, Louisiana. The new store is slated to serve a full line of premium coffee and sell fashionable notebooks.

... During fiscal 2009, **Dillard's** plans to open 4 new stores. Management also is looking to cut \$50 million of cost, during fiscal 2008.

... CEO George Jones denied that he is looking to sell **Borders Group** to **Barnes & Nobles**.

... **Borders** plans to open a new concept store in Southbury, Connecticut.

... **Target** announced that it is on schedule to open its 140,000-square-foot store on Plain Street in Lowell, Massachusetts.

... **Staples** extended its tender offer for Corporate Express. As a reminder, **Staples** has offered 8 euros a share for the firm.

Whitehall Jewelers: Retailer of the Week

(Continued from page 1)

ers. Under the private owners, the company continued to flounder financially. In the summer of 2007, Whitehall Jewelers was taken back public through a number of complicated steps. Prentice Capital Management continues to retain ownership in the company and debt owed to Prentice Capital was converted into new equity.

During the recent fiscal year, Whitehall Jewelers closed an additional 18 locations. Only one new store was opened during the year. The company also made several senior management changes as follows: Michael Don became President and COO in August 2007; David Harris, then SVP of Store Operations, left the company that month; and, Peter Michielutti joined Whitehall Jewelers as CFO; in April 2008 Edward Dayoob retired as CEO and Michael Don became CEO; and two directors resigned in April and May 2008.

In January 2008, shareholder Prentice Capital granted Whitehall Jewelers a \$35 million junior secured term loan. Since then, the loan has been increased to \$50 million with the company borrowing \$40 million in part to pay for the 78 stores acquired from Friedmans. Whitehall Jewelers may borrow the additional \$10 million and the loan will mature in February 2011. The term loan carries a hefty interest rate of 15%.

As noted above, in April 2008 Whitehall Jewelers acquired 78 stores from the liquidating Friedmans/Crescent Jewelers for \$14.3 million. With these stores, Whitehall Jewelers had 375 locations in 39 states as of April 30, 2008. From February 3, 2008 through April 30, 2008, an additional eight locations have been closed.

During fiscal 2008, the extended trade payables note became due. Most vendors agreed to another extension until March 2009 with certain conditions, which have been satisfied. For the exception of one supplier now liquidating under bankruptcy, most suppliers not agreeing to the extension have had their payables paid in full.

The company also continues to revamp its merchandise selection and is in the process of offering more upscale jewelry to achieve better price points and therefore improved margin performance.

FINANCIAL PERFORMANCE

Income Statement

	2006	2007	2008
Net Sales	\$284.7 mm	\$266.2 mm	\$242.9 mm
Comp Store Sales	-3.60%	-7.70%	-7.50%
Store Count	315	322	305
Gross Profit	\$93.7 mm (32.9%)	\$83.1 mm (31.2%)	\$68.1 mm (28%)
SG&A Expenses	\$112.9 mm (39.7%)	\$110.8 mm (41.6%)	\$105.1 mm (43.3%)
Operating Loss	(\$19.2) mm	(\$27.7) mm	(\$37) mm
Interest Expense	\$12.5 mm	\$16.1 mm	\$13.5 mm
Asset and Goodwill Write Downs (non cash charge)	\$8.83 mm	\$0	\$23 mm
Loss on Disposal of Assets	\$26,000	\$1.65 mm	\$484,000
Income or Loss from Discontinued Store Operations	(\$41.3) mm	\$782,000	\$0
Net Loss	(\$84.4) mm	(\$44.9) mm	(\$74.1) mm

Comp store sales began to tumble in the second half of fiscal 2008, dropping (7%) in the third quarter and then (13.8%) in the fourth quarter. Margins declined in both dollar and percentage of sales terms for fiscal 2007 and fiscal 2008. For fiscal 2007, the deleverage of negative comp store sales against occupancy expenses forced the percentage decline. For fiscal 2008, the even bigger drop in the margin rate over 2007, 320 basis points, was also tied to more clearance activity, higher shrink-

(Continued on page 9)

Did You Know...?

Wholesale prices rose a smaller-than-expected 0.2% in April after seasonally adjustments, with food prices flat and energy prices falling, the Labor Department reported. The producer price index has risen 6.5% in the past year.

[RETURN TO FIRST PAGE](#)

Whitehall Jewelers: Retailer of the Week

(Continued from page 8)

age, and increased costs associated with a jewelry repair plan.

SG&A expenses, when also viewed as a percentage of sales, rose by 190 basis points for fiscal 2007 and 170 basis points for fiscal 2008. For fiscal 2007, the expense structure increased due to negative sales deleverage against other non-occupancy costs and higher ad spend and payroll costs. For fiscal 2008, along with the deleverage impact, the cost structure suffered from increased ad spend and promotions, particularly for Mother's Day and Valentine's Day.

	2006	2007	2008
Cash	\$1.96 mm	\$1.31 mm	\$1.21 mm
Receivables	\$1.5 mm	\$2.03 mm	\$1.82 mm
Inventory	\$142.1 mm	\$174.1 mm	\$150.4 mm
Current Assets	\$148.4 mm	\$178.2 mm	\$157.9 mm
Total Tangible Assets	\$186.3 mm	\$212.6 mm	\$173.5 mm
Payables	\$17.7 mm	\$50.9 mm	\$30.8 mm
Trade Payables, inclusive of current amount	\$22.3 mm	\$22.4 mm	\$20.3 mm
Revolver Debt, classified as short term debt	\$64.9 mm	\$83.9 mm	\$58.4 mm
Long Term Debt	\$30 mm	\$56.1 mm	\$25 mm
Total Liabilities	\$169.6 mm	\$239 mm	\$157.4 mm
Current Ratio	1.3:1	1.0:1	1.4:1
Working Capital Coverage	2.8 months	Negative	4.5 months
Leverage Percentage (tangible assets only)	91%	112%	91%

Did You Know...?

The U.S. economy is likely to remain weak, but is not in a recession after the index of leading economic indicators rose a second straight month in April. The index, which attempts to forecast turning points in the economy, rose 0.1% in April, matching March's gain after falling for the five prior months.

The conversion of term loan debt into equity with the July 2007 migration to being a public company enabled Whitehall Jewelers to enjoy lower interest expense for the year. However, with all of the debt added during very late fiscal 2008 and early fiscal 2009, this will soon change.

Balance Sheet

As noted above, a term loan from Prentice Capital was converted to equity in July 2007. At fiscal year, however, Whitehall Jewelers had a new term loan with Prentice Capital with a balance of \$25 million, now up to \$40 million as of May 1, 2008. The term loan was originally used to fund ongoing operations in absence of enough cash to effectively run the business. Revolver borrowings were also reduced from the public offering. However, as of May 1, 2008, while current borrowings were not disclosed, the company reported scant availability of just \$7.6 million under a secured \$125 million revolver.

For fiscal year end 2007, the trade payables were classified as short term debt as that debt had a September 2007 maturity. Once the majority of those suppliers agreed to another extension, most of that debt was reclassified back to long term debt. This, along with the sizable reduction in payables, explains the shifts in the current ratio and working capital coverage. The decline in payables was in part associated with Whitehall Jewelers needing to keep payable amounts current in order for vendors to agree to another extension of the note payable.

Of course, the company remains highly leveraged with no relief in sight. Also, liquidity is quite limited with no real external source of funding readily available save for the modest revolver capacity and the additional \$10 million borrowing power under the term loan. Whether Whitehall Jewelers can secure additional sources of credit or issue more equity is fairly doubtful given the current state of financial institutions and financial markets.

OUTLOOK

Clearly, Whitehall Jewelers cannot support another year of operating losses in excess of \$35 million (exclusive of special charges). The steep comp store sales decline for the fourth quarter is troubling

(Continued on page 10)

[RETURN TO FIRST PAGE](#)

Whitehall Jewelers: Retailer of the Week

(Continued from page 9)

and points to an even tougher challenge for the company. The 78 stores from bankrupt Friedmans/Crescent could well place even more strain on very limited financial resources. At this point in time, we see little in the way of an easy out for the company and liquidity could soon become an issue again.

Rating Changes and Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
SAKS INC/FKA PROFFITTS INC	BB-	B+	POS	NM	C
BUILDING MATERIALS HOLDINGS INC/BMC WEST	B-	B	NEG	NM	E
LIMITED BRANDS INC	BBB-	BBB-	NEG	NM	C
MOTHERS WORK INC / MOTHERHOOD MATERNITY	B-	B	NEG	NEG	E+
MAY DEPT STORES CO INC/ SEE FEDERATED DEPT STORES	BBB	BBB	STA	NM	NR
MACYS INC (FKA FEDERATED DPT STORES)	BBB-	BBB	STA	STA	D
SPORTS AUTHORITY INC	B-	B	STA	NEG	D
LINENS HOLDING CO CASE NUMBER 08-10832	NR	D	NR	NM	F+
JO ANN STORES INC	B	B-	POS	POS	C-
COLLECTIVE BRANDS FKA PAYLESS SHOESOURCE	B+	B+	NEG	STA	C
BEST BUY CO INC-BBY	BBB	BBB	NM	STA	B-
CHARMING SHOPPES INC	B+	BB-	NEG	NEG	D-
CLAIRES STORES INC	B-	B	NEG	NEG	NR
LINENS HOLDING CO CASE NUMBER 08-10832	NR	D	NR	NM	F+
DUANE READE HOLDINGS, INC.	CCC+	CCC	DEV	NEG	F+
ACE HARDWARE CORP	BB-		STA		C-
CONSOLIDATED CONTAINER COMPANY LLC	B-	B-	STA	POS	NR
DAVE & BUSTERS INC	B-	B-	POS	STA	E+
GAMESTOP CORP	BB	BB	POS	STA	B-
155 EAST TROPICANA LLC	CCC+	B-	NM	NM	E

Advertise in
Global Credit Services'
Retail Sector Weekly
Newsletter

For Further information,
please [click here](#)



ARMZ offers instant results for getting customer reviews done quickly and professionally. This disciplined judgment process delivers a new level of efficiency and predictiveness for mitigating risk. In these difficult economic times, the credit quality of customers is very fluid and requires sophisticated credit-scoring tools to aid in the decision making process.

REAL PEOPLE. REAL INSIGHT. REAL TIME

WWW.GCSZONE.COM



"SEE THE FUTURE... NOW"

FULL-SOLUTION RISK MANAGEMENT

- In-House Credit Policy
- Establish Enterprise Credit Risk Categories A thru F
- Establish Parameters for Exposure Thresholds
- Generate Automatic Credit Limits Based on Your Appetite for Risk
- Collateral Tracking System
- Task Management System

Tel: 212.308.6060

Joe Pilla | pilla@gcszone.com | ext 138

Bill Peguillan | peguillan@gcszone.com | ext 106

[RETURN TO FIRST PAGE](#)