

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

### Retailers Post Surprising Sales

Retailers' fears that their customers would keep their pocketbooks shut proved to be unfounded last month.

Despite falling consumer confidence and gas prices that teetered around \$4 a gallon, retailers said last Thursday that comp store sales for May were stronger than expected, touching off a stock market rally that lifted the main indexes nearly 2%.

Discount retailers like Wal-Mart Stores, Costco Wholesale and TJX fared particularly well as price-conscious customers spent federal income tax rebate checks on groceries, gasoline and off-price clothing.

Analyst said forecasts for May were especially conservative as retailers braced for disappointing news. There was no telling whether consumers would spend or save their tax rebates as housing prices plunged and the economy weakened. *(continued on page 2)*

### Retail Ventures Group: Retailer of the Week

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores business to VCHI Acquisition Co., a newly formed entity owned by **VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC**. Retail Ventures received no net cash proceeds from the sale, paid a fee of \$500,000 to the purchaser, and issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI common shares at an exercise price of \$10.00 per share. Even though RVI received no cash in the transaction, and in fact had to pay \$500,000, many including Global Credit Services view the transaction as a plus for RVI, as Value City was a tremendous drain on RVI's resources.

With the departure of Value City, RVI finished its fiscal year ended February 2, 2008 with net income of \$51.4 million, though much of that income was the result of a change in the value of derivative instruments, the company did finish the year with a much improved balance sheet, including ample liquidity. **With the departure of the Value City and the improved liquidity we have decided to raise our Credit Rating for Retail Ventures to a "D-" with an "Unclear"**

(\$ in Millions)	For the Fiscal Year Ended			
	28-Jan-06	3-Feb-07	2-Feb-08	Change
<b>Sales</b>	\$1,533.40	\$1,706.50	1,871.90	9.70%
<b>Gross Margin</b>	\$618.40	\$708.90	\$751.00	5.90%
<b>% of Sales</b>	40.30%	41.50%	40.10%	-142 BP
<b>Overhead</b>	\$559.00	\$609.40	\$687.50	-12.80%
<b>Operating Income</b>	\$59.40	\$99.50	\$63.50	-36.20%
<b>% of Sales</b>	3.90%	5.80%	3.40%	-244 BP
<b>Net Income*</b>	(\$183.40)	(\$150.90)	\$51.40	N/A
<b>% of Sales</b>	N/A	N/A	2.70%	

\* Includes charges of \$144.2 million and \$176.0 million for the change in derivative instruments in 2006 and 2007, and a credit of \$248.2 in 2008.

*(continued on page 8)*

#### Inside this issue:

Options and Resources	2
Heard in the Grocery Aisle	3
Off the Rack	3
Specialty Items	4
Mass Merchant Musings	4
Rating Changes & Outlooks	4
Management on the Move	5
Bankruptcy Blotter	5
Health & Beauty Aids	6
Hi Tech Entertainment	6
The Global World of Sports and Footwear	7
FYI for the DIY	7
First Quarter Scorecard	9

#### Remember...

*A man without a vote is a man without protection.*

## Retailers Post Surprising Sales

(continued from page 1)

"The rebate checks were going to be a wild card this month, but it certainly looks like they kicked in," said Ken Perkins, president of the research firm Retail Metrics. "The fear was that high gas prices were going to siphon off most of the stimulus checks into consumers' gas tanks and, given rising food costs, into their grocery carts."

For May, Wal-Mart's comp store sales rose 3.9%, excluding fuel, as demand for groceries, flat-panel TVs and computers remained strong. Sales at the company's namesake stores rose 4%, while sales at Sam's Club outlets were up 3.6%.

The company attributed the results to its low prices and said sales of home furnishings were up for the first time in more than two years, which the company said might be because consumers were spending their vacation money on their homes.

Other clubs also benefited. Comp store sales at Costco climbed 5%, excluding gasoline, compared with an 8% increase last May. Comp store sales at BJ's Wholesale Club rose 6.8%, excluding gasoline, in May.

May came in better than expected, "Michael P. Niemira, chief economist at the International Council of Shopping Centers, a trade group, said in a statement. "It is very clear that consumers are spending in a conservative manner as the lift largely came from an increase in sales in the wholesale, drug store and discount sectors."

Even so, comp store sales at Target fell 0.7%, compared with a 5.8% increase last May. Analysts said the retailer's focus on discretionary items like apparel, jewelry and home furnishings had deterred customers shopping for groceries and medication.

The demand for discount goods has also affected clothing stores. Off-price retailer TJX reported a 2% increase in comp sales, but sales at higher-end clothing stores lagged behind. Saks, for example, reported an 8.7% drop in sales, compared with a 4.5% increase last year.

The Gap Inc., which owns Banana Republic and Old Navy in addition to its namesake store, said comp store sales tumbled 14%. The largest hit came at Old Navy, where sales fell 25%.

Limited Brands, whose stores include Express, Victoria's Secret and Bath & Body Works, said sales fell 6% in May, compared with a 2% increase last year, as customers cut back on trips to the sopping malls.

Mid-tier department stores Kohl's and J.C. Penney both reported drips in comp store sales. Kohl's said sales fell 7.2%, while Penney attributed its 4.4% drop to weakened sales of big-ticket items like fine jewelry and housewares.

Nordstrom, which moved the beginning of its semi-annual sale up from June, said sales rose 10.9% in May, but the company expects a drop of 18% to 22% in June.

The shopping centers council expects a 2.5% to 3% increase in comp store sales in June as more consumers receive tax rebates. But analysts said the boost in consumer spending will last only as long as the rebate checks do.

## 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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[RETURN TO FIRST PAGE](#)

## Heard in the Grocery Aisle

**Whole Foods** will open a 16,790 square foot store, *Supermarket News* reported. It will be the chain's smallest yet, and will replace a Bell Markets store in San Francisco.

**Sunflower Farmers Market** will open a 30,000 square foot store in Austin, TX, with more stores in the market planned. The \$200 million Boulder, CO-based chain has 14 stores currently, aiming for 21 by the end of the year.

**A&P** paid \$45.7 million cash to settle 4,657,378 Series A Warrants exercised by several Yucaipa funds, rather than issuing additional shares.

**United Food and Commercial Workers' Union (UFCW)** launched a "Two Faces of Tesco" ad campaign on Tesco's home turf, condemning the company's labor policies at Fresh & Easy in the U.S. Fresh & Easy management has refused to meet with UFCW representatives, although Tesco's U.K. workers are unionized.

**Houchens Industries** completed the acquisition of **Buehlers Foods**. The 22 Buehler's Buy-Low grocery stores will continue to operate under that banner.

A **Nielsen** research study found that 2007 supermarket private-label sales grew 9.0% to \$50 billion. Unit sales, however, were down 1.2% making higher prices responsible for all

the perceived gains in private label, and then some!

**Royal Ahold** first-quarter income increased 8.9% to €258 million. Sales fell 1.8%. Operating income was down 11% to \$202 million at Stop & Shop/Giant-Landover, a 0.6% decline vs 2007. At Giant-Carlisle supermarkets, income rose 16% to \$72 million.

**Pierre Foods Inc.** defaulted on its senior credit facility with Wachovia Bank. The company is taking steps to improve liquidity. Also, Pierre is working with Perella Weinberg Partners LP to look at possible restructuring.

**Albertson's** is selling 49 Florida stores to Publix. The asset sale will close in September.

**Food Shoppers** are retreating from healthier foods in favor of bargains, says a new IRI study: *Competing in a Transforming Economy*. The report finds a majority of consumers buying more bulk and frozen foods and fewer prepared meals and organic products, reversing long term trends.

**Giant's** new GM Robin Michel gave insight into turnaround strategy for Giant-Landover in a recent *Washington Post* article. The chain plans to renovate 100 stores over the next three years in an effort to reclaim some of the 5% market share the chain has lost locally.

### Did You Know...?

85% of retailers were victimized by organized retail crime (ORC) in the past 12 months, up from 79% in 2007, a National Retail Federation survey found.

## Off the Rack

**The Talbots, Inc.** cut 9% of its corporate headcount as part of its ongoing restructuring. The Company expects savings of approximately \$14 million from the cuts; severance and other expenses are expected to be \$5.9 million.

**Saks Inc.**, will open a 15,000 square foot Saks Fifth Avenue men's store in Dubai to complement its existing 80,000 square foot full-line store there.

### HAVE YOU HEARD...

The following Trade Commentaries on private Sporting Goods accounts are now available on the Global Credit Services website:

Bass Pro Shops  
Road Runner Sports  
Joe's Sports and Outdoors (FKA G.I. Joe's)  
Sportsmans Warehouse  
The Sports Authority

[RETURN TO FIRST PAGE](#)

## Specialty Items

**Pier 1 Imports, Inc.** has proposed to acquire **Cost Plus, Inc.** in an all-stock deal of 0.6 shares of PIR for each share of CPWM. The offer values Cost Plus, Inc. at approximately \$4.00 per share, a 31% premium based on Friday's close. Pier 1 aims to complete the deal in the third quarter of this year. Cost Plus is reviewing this unsolicited bid.

**Tiffany & Co.**'s new, smaller, 2,000 square foot format will debut in October. The first store will open in Glendale, CA.

**Borders** will cut 156 positions at headquarters, and 118 more elsewhere. No store employees are affected. Borders previously announced a plan to cut overhead by \$120 million.

**A.C. Moore Arts & Crafts** amended its loan agreement with Wachovia Bank, extending the line of credit to May 30, 2009 but reduced the limit from \$35.0 million to \$30.0 million. The limit

for letters of credit was increased from \$7.5 million to \$12.5 million.

Also, **A.C. Moore** has completed its real estate portfolio review. The company now expects to close 7-10 underperforming locations in 2008, and has cut back openings to 8-12, vs. 14 previously announced.

**Whitehall Jewelers** postponed its annual shareholders meeting originally scheduled Jun 11. No reason was given for the postponement, nor has a new date been set.

**Williams-Sonoma** now guides 2008 revenues will be \$3.738 billion to \$3.804 billion, versus previous guidance of \$3.793 billion to \$3.877 billion. Comps for the year are now projected to be (8.3%) to (6.3%), versus previous guidance of (5.5%) to (3.0%). EPS guidance is now \$1.45 to \$1.58 versus previous guidance of \$1.42 to \$1.56.

### Did You Know...?

May weather was 6 degrees cooler than last year from the Eastern North Central to the Middle Atlantic regions, according to Planalytics WeatherCall, which led to slower retail sales on seasonal products. The South and West had a warmer May.

## Mass Merchant Musings

**Wal-Mart** added a classified advertising section linked from walmart.com to a Wal-Mart branded page on established classified website oodle.com. Banner ads on the site are served by Wal-Mart.

**Wal-Mart** has completed its consumer electronics department facelift, with an emphasis on HD and gaming. Look for more HD TVs, Blu-ray players, and a try-out area for video games.

**Wal-Mart** is considering expanding into electronics home installation services, competing with Best Buy's Geek Squad service, *MarketWatch* reported.

**Wal-Mart** and **Yahoo!** have teamed up on web advertising in a multi-year deal. Yahoo! will be Walmart.com's primary on-line marketing channel, and Walmart.com will use Yahoo!'s ad engine.

**Sam's Club** is testing Sam's Club Business Center, a smaller concept that targeted at the club's small business members. It will focus on office supplies and institutional quantities aimed at businesses.

**Costco** is opening a fill center in Sacramento in partnership with **McKesson Corp.**, reports *Drug Store News*.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
PEP BOYS MANNY MOE & JACK	B-	B-	STABLE	NEGATIVE	D-
RESTAURANT CO (INC)	B-	B-	NEGATIVE	STABLE	E
SAKS INC/ FKA PROFFITTS INC	BB-	B+	POSITIVE	NM	C
WYNDHAM WORLDWIDE CORP	BBB	BBB	NM	NEGATIVE	C-
LOWES COMPANIES INC	A+	A	STABLE	POSITIVE	B

[RETURN TO FIRST PAGE](#)

## Management on the Move

**PetSmart** Chief Accounting Officer **Raymond L. Storck** has resigned as the CAO position was eliminated. **Lawrence P. Molloy**, SVP and CFO, has assumed Storck's responsibilities.

**Hot Topic, Inc.** appointed **Michael Crooke** president of the Hot Topic Division. Former president **Jerry Cook** is now COO.

**Sheree Waterson** has joined **lululemon** as EVP of General Merchandise Management and Sourcing. Waterson most recently served as President of Speedo.

**JCPenney Direct** president **John Irvin** has retired. He had been with the company since 2001 and was responsible for the catalog and Internet business.

**Giant-Stop & Shop** named Jim Wonderly VP of Pharmacy and Joel Berman VP of Pharmacy Operations. Both are longtime company veterans.

**Tech Data Corp.** adds Harry J. Harczak, Jr. to its board. Harczak was most recently EVP of Technology Products at CDW.

**Conn's, Inc.** appointed **Timothy L. Frank** CEO Designate, to become CEO upon the retirement

of Thomas J. Frank as Chief Executive Officer. Other appointments were **Reymundo de la Fuente, Jr.** to President – Credit Division and **David W. Trahan** as President – Retail Division.

**Wal-Mart** board member since April and Chairman S. Robson Walton's son-in-law **Gregory B. Penner**, was profiled in the *Wall Street Journal* as being groomed as a possible successor to the family dynasty.

**Carls Furniture** named **Michael Nicotera** VP Merchandising. He replaced **Jayson Friedman**, now Merchandise Manager at Carls' patio division. **George Kaftan** was named VP Marketing.

**Michaels Stores Inc.** names **Shelley Broader** President and COO. Last week we reported her departure from Sweetbay.

**Advance Auto Parts, Inc.** appointed **Carl Hauch** SVP Operations - West. Hauch was most recently a regional VP Operations for Starbucks.

**Walgreens** named **Sona Chawla** to a new position as SVP of E-commerce. Previously, Chawla was VP of Global Online Business at Dell, Inc.

## Bankruptcy Blotter

**Goody's Family Clothing Inc.** filed a voluntary petition for Chapter 11 protection to restructure its business. The chain will close 69 underperforming stores (out of 355 total) and its Russellville, Arkansas DC. Goody's has secured \$210 million in DIP financing.

Depressed consumer spending and the global credit crunch created a double-edged sword that drove more than 5,000 businesses into bankruptcy last month, marking a 25% increase since the start of the year.

**Tiger Capital Group** and **SB Capital** got the green light last week to run closing sales at 120 stores being shuttered by **Linens 'n Things Inc.**, a deal the company valued at \$123 million.

As of last week **Linens 'n Things** reported that 83% of its vendors are shipping merchandise on open credit terms. In addition, the company indicated that excess availability under its \$700 million DIP credit facility was \$140.7 million, as of May 29<sup>th</sup>.

The new owners of **Sharper Image**, the **Hilco Organization** and **Gordon Brothers**, announced that they will be closing the company's remaining 86 locations and liquidate approximately \$50 million in inventory.

**Hancock Fabrics** entered into a commitment letter for exit financing, in addition to its already announced revolving line of credit, taking the form of \$20 million in notes issued to **Sopris Capital Partners, LLP, Berg & Berg Enterprises, LLC, and Trellus Partners, L.P.** Interest on the notes will be LIBOR plus 4.5%.

**Dewahare's**, a 101-year old family-owned apparel chain based in Lexington, Kentucky filed for bankruptcy protection. The petition lists more than \$8.3 million in secured and unsecured debt and \$10.0 million in assets. The company will reorganize closing nine of its 31 locations, with GOB sales to be conducted at the nine locations by **Gordon Brothers**.

[RETURN TO FIRST PAGE](#)

## Health & Beauty Aids

**Walgreen Co.** will pay \$35 million in a negotiated settlement over fraud allegations. The company faced a lawsuit from plaintiffs including the federal government and 42 states that alleged it switched Medicaid patients to higher cost drugs.

Also, **Walgreens'** Take Care Health Systems treated its 500,000th patient since opening in November 2005. The company currently has 172 clinics with plans for 400 by the end of 2008.

And, **Walgreens** renewed its contract with The Nielsen Company who provides category management, business planning and merchandising services.

**CVS Caremark** has been awarded the GE Prescription Drug Benefit Plan contract effective

Jan 1, 2009, *Drug Store News* reported. Medco Health Solutions is the current provider.

**CVS** will open a 12,900 square foot store in St. Louis—it's first in the city. Walgreens operates more than a dozen stores there, and over 100 in the metro area.

**Rite Aid** sales were up 48.5% to \$6.586 billion for the first quarter. Same store sales rose 1.5%, overall, with pharmacy comps up 1.4%, and front-end comps up 1.7%. Prescription revenue accounted for 67.6% of total pharmacy sales.

Also, **Rite Aid Corp.** has made a cash tender offer for its several classes of senior secured notes due 2010 - 2015. The securities have combined outstanding principal amounts of \$710 million.

### Did You Know...?

*It'll be a tough year for Dads. While half of surveyed shoppers said that they intend to spend the same on Father's Day this year as last, 34% say they'll spend nothing on Dad this year, Retail Forward says.*

## Hi Tech Entertainment

**Best Buy** will launch the Best Buy Mobile concept in Canadian malls this fall. The small, stand-alone stores will sell mobile phones for all Canadian networks as well as wireless accessories. The concept will also be used in "shop in shops" inside existing Best Buy stores.

**DVDPlay** will add Blu-ray movies to their DVD rental kiosks starting this month at the same \$1.49 price point. DVDPlay operates over 2,000 kiosks currently in Safeway and Albertson's stores.

**Top PC retailers** saw sales grow 15.6% in 2007, to \$46.07 billion, according to the latest *TWICE Top 25 PC Retailers Report*. Top PC retailers Best Buy (#1) and Dell (#2) were joined on the podium this year by Wal-Mart at #3.

**FedEx Kinko's** is losing the Kinko, and will be renamed FedEx Office going forward, FedEx announced. FedEx will take an \$891 million charge for the change and resultant loss of goodwill.

**Staples, Inc.** increased its offer for Corporate Express N.V. to €9.15. The offer is now contingent on Corporate Express not

purchasing Lyreco SAS. Staples reports that they have 35.6% of Corporate Express shares committed to the tender offer.

Also, **Staples** set prices for the previously announced tender offer for Corporate Express' outstanding Senior Subordinated Notes. Approximately 99% of the noteholders have already given their consent to the offer.

**Office Depot** partners with **bigboXX.com** to provide office products and services in Hong Kong. Office Depot already has operations in Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin and Wuxi. bigboXX.com brings 40,000 existing Hong Kong customers to the relationship.

**Rex Stores Corp.** is reportedly considering strategic options on the heel of a bad quarter, including divesting its retail stores.

**Overstock.com, Inc.** is off the hook, as the SEC declined to recommend any enforcement action against the company or its officers. CEO Patrick Byrne was pleased at the outcome, commenting "Yipikaye."

[RETURN TO FIRST PAGE](#)

## The Global World of Sports and Footwear

**Genesco Inc.** will pay a stock dividend of 0.339931 of a share of The Finish Line, Inc. Class A common stock for each share of Genesco common stock they hold. This is a result of the settlement from the aborted merger of the two companies.

**Zappos** CEO Tony Hsieh gave some insight into the on-line shoe retailer's numbers in a recent *Forbes* interview. 2007 EBIT was \$10 million on gross sales of \$840 million. Revenue after returns was \$528 million, however. Shipping, which Zappos pays in both directions, cost \$100 million.

**Footstar**, which is winding down its businesses for a 2008 retail exit, reduced its workforce by 88 last week. Termination dates range from Jan. 31, 2009 to June 30, 2009.

**lululemon** slightly downgraded 2008 earnings guidance to \$0.68-71 per share (\$49.8 million) from \$0.70-72 because of strategic hires but upped sales guidance to \$380-385 million from \$370-375 million, maintaining a forecast of comp store growth in the mid-teens.

Chinese megachain **USG Sports** is formed by the merger of four companies that trade under various retail formats from large multi-brand

stores to mono-branded outlets for Nike, Adidas, Puma, Umbro and Li Ning. The entity will operate over 3,000 doors in 22 China provinces and is being financially backed by European private equity firm United in Sports. Former Adidas CEO Robert Louis-Dreyfus leads an all-star management team recruited from the likes of Adidas, Nike, Dick's and Wal-Mart.

**National Sporting Goods Association** is forecasting U.S. retail sales of sporting goods, which grew 2.8% in 2007 to hit a record \$53.5 billion, to be roughly flat this year at approximately \$53,369 million. Last year, all three major segments—footwear, apparel and equipment — recorded year - over - year increases. Footwear was 2.7% higher at a record \$17.4 billion, retail clothing sales grew 2.4% to \$10.8 billion and equipment expanded 3.1% to \$25.3 billion.

**Sport Chalet** posted a net loss of \$3.4 million against a profit of \$7.1 million for the year ended Mar 31, 2008 as total sales rose 3.7% to \$402.5 million from \$388.2 million. SPCH ended the 12 months with 1.3% less inventory year-over-year (down 11% from the end of Q3) and an SAP system that launched on the fiscal year's last day. Sales per sq. ft. were \$218 in FY08.

## FYI for the DIY

**Home Depot** and **Lowe's** top the list of on-line home and garden shopping destinations, according to Nielsen Online data for April compiled by *Internet Retailer*. Home Depot had 13.3 million unique visitors, up 23% y-o-y, while Lowe's is closing fast with 12.2 million unique visitors, up 42%.

**Home Depot** said it's getting out of some home installation businesses, which contributed 5% to the top line last year. Management is concerned that the quality of the services, which are provided by third party contractors, may be hurting the chain's reputation.

**Sherwin-Williams** revised 2008 sales and earnings per share guidance downward. Sales are now projected to be slightly lower than 2007, revised from a low single digit increase. EPS range is now \$3.60 to \$4.10, down from \$4.70 to \$4.85. Management blamed the housing market and higher raw material costs.

Also, **Sherwin-Williams** amended their credit facility extending the maturity date from July 20, 2009 to July 20, 2010, with the option of a further one year extension.

**United Rentals** estimates it will have a Q2 charge of about \$14 million due to an SEC inquiry into the company's accounting practices.

**Costco** plans to open a store in Australia in 2009. The location is TBA.

**W.W. Grainger's** Canadian subsidiary, Acklands - Grainger Inc., has acquired the assets of Excel Industriel, also distributor of maintenance, repair and operating supplies. Terms were not disclosed. Excel is expected to contribute \$11 million to Grainger's top line in the next twelve months.

[RETURN TO FIRST PAGE](#)

## Retail Ventures Group: Retailer of the Week

*(continued from page 1)*

**outlook.** While we are raising the rating, we do not want vendors to feel that we are encourage about the prospects for RVI, especially with the decline in operations of DSW Shoes, the continued operating issues with Filene's Basement.

### Operations

Includes charges of \$144.2 million and \$176.0 million for the change in derivative instruments in 2006 and 2007, and a credit of \$248.2 in 2008.

Sales for the fiscal year ended February 2, 2008 increased by 9.7% to \$1.87 billion from \$1.71 billion, or \$165.4 million, with DSW contributing \$126.6 million of the increase and Filene's Basement contributing \$38.8 million. More than offsetting a 0.8% decrease in comp store sales for the year, DSW's sales increase included the impact of a net increase of 36 new DSW stores, 12 non-affiliated leased departments and six Filene's Basement leased departments during the year. The increase at Filene's was mainly the result of a comp store sales increase of 3.6% and a net increase of five stores over the prior year's period.

Unfortunately, neither segment was able to improve its operating income line as a result of the increased sales. Operating income dropped \$36.0 million this year versus last year, with DSW reporting a drop of 19.3%, or \$19.4 million to \$81.3 million, while Filene's reported a drop of \$16.6 million, reporting an operating loss for the year of \$17.8 million. With the sale of Value City, Filene's Basement now takes center stage as the bane of Retail Ventures. Keep in mind that while Filene's Basement is wholly-owned by Retail Ventures, DSW is only majority owned and a separate entity from Filene's Basement, making Filene's more vulnerable as a part of Retail Ventures portfolio.

The tough sledding for both Filene's Basement and DSW continued through the first quarter of the new year as evidenced by first quarter sales just recently released. The 2.6% sales increase reported by DSW for the first quarter was almost totally wiped out by an 8.1% decrease in sales for Filene's Basement. Comp store sales for both segment declined for both segments with DSW down 5.4% and Filene's Basement down 0.2%.

While we are not that concerned about DSW's decline in operations, the segment remains profitable. However, Filene's Basement continues to flounder with little or not improvement in sight. We have become more and more concerned about the operations at Filene's Basement, especially in light of the company's limited resources.

### Liquidity and Cash Flow

In connection with RVI's disposition of 81% ownership of its Value City business segment, Value City was released from its obligations under the \$275 million secured revolving credit facility, which was terminated, which Filene's Basement was a part of. As a result Filene's Basement entered into a \$100 million secured revolving credit facility. It is worthy to note that Filene's Basement is named as the borrower under the facility, which is guaranteed by Retail Ventures and certain of its wholly-owned subsidiaries. However, DSW is not a borrower or guarantor under the Filene's Basement facility, meaning that if Filene's Basement defaults on its loan, DSW will not be impacted or liable. As of February 2, 2008, there was \$27 million of availability under the Filene's Basement Credit Facility with direct borrowing outstanding of \$22.5 million and \$3.4 million in letters of credit, indicating a low borrowing base and limited availability.

DSW has its own \$150 million secured Revolving Credit Facility which contains a borrowing base restriction and a fixed charge coverage ratio is the company utilizes more than 90% of the facility. The facility is secured by a lien on substantially all of the personal property of DSW. As of February 2, 2008, there was \$134.3 million available under the facility with no direct borrowings outstanding an approximately \$15.7 million in letters of credit, indicating full utilization of the facility and more than adequate availability.

### Did You Know...?

*The U.S unemployment rate hit 5.5% in May, up from 5.0% in April. The economy has lost 324,000 jobs so far this year.*

*(continued on page 9)*

[RETURN TO FIRST PAGE](#)

## Retail Ventures Group: Retailer of the Week

(continued from page 8)

As mentioned above, the company as a whole has a fair amount of liquidity as evidenced by a current ratio of 1.8:1 and cash covering approximately 60% of current liabilities. While the company's leverage position has improved it still remains high with debt running at 1.2x tangible net worth.

### Outlook

We have raised the company's Credit Rating to "D-" but caution vendors to be aware of which Retail Ventures company they are doing business with. We are becoming increasingly concerned regarding the lack of profitability in the Filene's Basement segment and are concerned about Filene's currently liquidity and their ability to raise funds in the future.

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## First Quarter Scorecard

\$ in Millions	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<b>Apparel</b>							
American Eagle Outfitters	\$640.3	\$612.4	4.6%	-6.0%	\$43.9	\$78.8	-44.3%
Coldwater Creek Inc.	\$271.1	\$281.3	-3.6%	-9.4%	(\$9.2)	\$12.0	-176.8%
dELiA*s, Inc.	\$63.5	\$57.8	9.9%	2.0%	(\$3.9)	(\$3.3)	-20.9%
Dress Barn, Inc.	\$352.6	\$347.9	1.4%	-3.0%	\$24.9	\$23.1	7.9%
Gottschalks	\$125.1	\$141.8	-11.7%	-10.3%	(\$5.1)	(\$4.7)	-9.2%
J. Crew Group, Inc.	\$330.0	\$287.6	14.8%	8.0%	\$30.5	\$24.6	23.7%
Jo-Ann Stores, Inc.	\$446.1	\$424.2	5.2%	4.5%	\$3.0	(\$1.7)	276.5%
JoS. A. Bank Clothiers	\$145.4	\$129.5	12.3%	6.4%	\$9.8	\$8.4	16.7%
Men's Wearhouse	\$491.1	\$496.1	-1.0%	-6.4%	\$9.9	\$41.0	-75.7%
Stein Mart, Inc.	\$352.2	\$376.1	-6.4%	-9.3%	\$7.0	\$8.1	-13.7%
Wet Seal, Inc.	\$142.4	\$138.0	3.2%	7.5%	\$8.9	\$7.6	17.8%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,151.6	\$1,128.4	2.1%	3.4%	\$34.5	\$28.8	20.0%
Dollar Tree Stores, Inc.	\$1,051.3	\$975.0	7.8%	2.1%	\$43.6	\$38.1	14.4%
Fred's, Inc.	\$464.3	\$442.3	5.0%	2.1%	\$7.3	\$7.4	-2.5%
Sears Canada Inc.	\$1,254.0	\$1,219.0	2.9%	-1.9%	\$63.1	\$14.3	341.3%
Sears Holdings Corporation	\$11,068.0	\$11,747.0	-5.8%	-8.6%	(\$56.0)	\$223.0	-125.1%
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc	\$43.5	\$49.3	-11.8%	-11.1%	(\$4.9)	(\$1.0)	-390.0%
Collective Brands (Payless)	\$932.4	\$728.6	28.0%	-6.5%	\$19.7	\$38.9	-49.4%
DSW Inc.	\$366.3	\$357.0	2.6%	-5.4%	\$10.3	\$23.7	-56.7%
Gander Mountain	\$207.7	\$175.7	18.2%	-6.7%	(\$24.4)	(\$22.8)	-7.1%
Genesco Inc.	\$356.9	\$334.7	6.7%	2.0%	\$129.8	\$2.2	5792%
Lululemon Athletica Inc.	\$78.2	\$44.8	74.5%	28.0%	\$8.5	\$3.5	139.3%
Shoe Carnival, Inc.	\$162.1	\$165.7	-2.1%	-4.9%	\$4.8	\$7.3	-34.7%
Sport Chalet	\$96.8	\$97.8	-1.0%	-8.6%	(\$2.8)	\$0.9	-417.8%
<b>Specialty</b>							
Brookstone, Inc.	\$89.8	\$83.1	8.0%	1.1%	(\$11.7)	(\$11.2)	-5.1%
Finlay Enterprises, Inc.	\$205.1	\$162.9	25.9%	-4.5%	(\$11.0)	(\$7.6)	-44.8%
Kirkland's, Inc.	\$84.1	\$82.3	2.1%	4.3%	(\$2.6)	(\$7.5)	66.0%
Restoration Hardware, Inc.	\$144.7	\$142.1	1.8%	-30.0%	\$19.8	\$13.0	52.2%
Tiffany & Co.	\$668.1	\$595.7	12.2%	3.0%	\$64.4	\$53.8	19.6%
Williams-Sonoma, Inc.	\$781.8	\$816.1	-4.2%	-9.0%	\$10.4	\$18.2	-42.4%
<b>Consumer Electronics</b>							
Conn's, Inc.	\$218.6	\$205.3	6.5%	1.0%	\$10.6	\$12.9	-17.8%
hgregg, Inc.	\$324.2	\$283.4	14.4%	0.8%	\$10.3	\$8.3	24.1%
Rex Stores Corporation	\$47.1	\$48.9	-3.7%	-0.3%	\$1.5	\$7.5	-80.0%

[RETURN TO FIRST PAGE](#)