GLOBAL CREDIT SERVICES

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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

Beware of the man who works hard to learn something, learns it, and finds himself no wiser than before.

Adjusting To The Economy

Consumers remain gloomy about the future but feel marginally better this month as they adjust to high gas prices and a faltering economy, according to a Reuters/Zogby poll released last week.

The Reuters/Zogby Index, which measures the mood of the country, climbed slightly to 90.4 from 87.9 in May as five of the 10 measures of public opinion used in the index rose and three remained steady.

Optimism about personal finances and the future, and approval ratings for President George W. Bush and the administration's economic and foreign policies all gained slightly in the last month. But much of the improvement can be attributed to a readjustment of expectations rather than a boost in personal fortunes, pollster John Zogby said. "People are settling in to the idea that these are tough times," Mr. Zogby said. "They are hunkering down."

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Finlay Enterprises: Retailer of the Week

A falling margin percentage forced Finlay Enterprises to incur a materially higher operating loss for the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. Margin dollars were higher due to increased sales coming from revenues from the late 2007 acquisition of Bailey Banks & Biddle. With consumer discretionary spending suffering from macro economic factors, most of the jewelry retail sector is suffering. Crescent/Friedman Jewelers is in the process of liquidating and most recently on June 16, 2008 Whitehall Jewelers announced that its liquidity had become severely limited and its ability to continue operations uninterrupted was unlikely. Other chains such as Zales continue to see losses. Accordingly, we are very gloomy about future prospects and will maintain our "E" credit rating for Finlay Enterprises, mirroring a high degree of credit risk.

BACKGROUND

Finlay Enterprises is in the retail jewelry business in two formats. The first is in which Finlay Enterprises operates the jewelry departments in leading department stores such as Macy's, Bloomingdale's, Dillards, Gottschalks, and Lord & Taylor. As of May 3, 2008, the Company was operating within 674 department store locations with Macy's having 340 of those sites. Macy's has previously announced restructuring activities and the closing of certain locations. In March 2008, Finlay Enterprises signed a new contract with Macy's for only 213 stores through January 2011. Finlay Enterprises will also continue to maintain a relationship with the Bloomingdale subsidiary of Macy's, 34 stores through the end of January 2010.

During the previous fiscal year, Finlay Enterprises lost the Belk Stores and Parisian store contracts. At the end of this fiscal year, Finlay Enterprises will lose the 47 Lord & Taylor stores as that chain has acquired M Fortunoff (which also maintains jewelry stores and departments). Unfortunately with the department store sector suffering from the lacking economic picture, we see little room for expansion in this sector of Finlay Enterprises. We also note that Gottschalks in particular is financially distressed and could be forced to shutter some of its stores.

The second sector of Finlay Enterprises is standalone chains. The three chains in operation are Carlyle & Co., Congress Jewelers and Bailey Banks & Biddle. The latter was acquired late last

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Adjusting To The Economy

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The index is still down nearly 10 points from its July 2007 benchmark score of 100 after nearly a year of public worries about a struggling housing market, rising fuel and food prices, job losses and unstable markets, indicating a pretty significant downturn in public perception over the last year. Most of the gains were statistically insignificant in a poll with a margin of error of 3 percentage points.

"There has been a pretty significant downturn in public perception over the last year," Mr. Zogby said. "The major damage has already been done. The overall public mood is still down."

The biggest gain was in the percentage of Americans who fell good about their personal financial situation, which rose four points to 50% from 46% in May. The number of Americans who are confident their children will have a better life climbed from 59% to 61%, although slightly fewer feel secure in their jobs and safe from foreign threats.

The number of Americans who believe the country is on the right track is at its all-time low in a Zogby poll of 16%, and the approval rating for the U.S. Congress remained at its all-time low of 11%.

The adjustment to starker economic circumstances could be seen in other questions not included in the index. Nearly four of every 10 Americans surveyed said they were considering changing their vacation plans, and nearly one-third plan to eat out less often.

More than half said they intend to drive less. About 10% said they might move closer to work while roughly the same percentage were considering finding a job closer to home.

The index combines responses to 10 questions on Americans' views about their leaders, the direction of the country and their future. Index polling began in July 2007, and that month's results provide the benchmark score of 100.

Feedback?

Questions?

Suggestions?

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Off the Rack

Le Château Inc. received approval from the TSX for a normal course issuer bid, which will take place over 12 months beginning June 19, 2008. The approval covers repurchase of up to 925,148 shares.

Also, at the **Le Château** annual meeting, management reported retail sales were up 6.4% and comps were up 2.0% through the first seven weeks of the second quarter.

Casual Male Retail Group, Inc. is acquiring 15 Dahle's big and tall men's apparel stores in an asset purchase. Seven of the stores will be converted to CMRG banners and the remaining eight will be shuttered. The acquisition will be accretive to CMRG earnings in 2009.

Mothers Work, Inc. made another prepayment of its senior secured term loan due March, 2013. The prepayment of $8 million follows a $5 million prepayment in March. The company's remaining indebtedness under the term loan is now $76.1 million.

Avenue Brands is relaunching the **Bonwit Teller** brand with a flagship store in New York and a second store on its heels in Los Angeles. The chain could expand to around 20 stores in the U.S. according to a spokesperson.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
RIVIERA HOLDINGS CORP	B	B	NEGATIVE	DEVELOPING	D-
AUDIO VISUAL SALES & SERVICE	B	B	NEGATIVE	STABLE	NR

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Bankruptcy Blotter

The number of companies most in danger of defaulting rose sharply for the fourth straight month thanks to still-skittish lenders and a sluggish economy that are making it harder for many debt-laden businesses to stay afloat, according to Standard & Poor's. Through June 11th, 117 U.S. corporations were vulnerable to default on debt worth $118.5 billion.

Linens 'n Things is seeking court approval of a $200 million trade credit program, backed by a $100 million letter of credit under the company's $700 million DIP credit facility. Vendors who wish to participate have to agree to provide favorable trade terms to the company, including giving 45-day payment terms.

In other news, **Linens 'n Things** is seeking court approval of a severance payment plan of $2.6 million dollars to keep needed management and staff on the job until its completes its store closings. The U.S. Trustee overseeing the case opposes the plan on the grounds that the company has not provided sufficient information to justify the plan.

The court has set July 22nd as the date to consider confirmation of the plan of reorganization for **Hancock Fabrics**. Objections are due by July 15th, however, given the 100% pay out there appears to be little likelihood of any issues.

Friedman's Inc. is seeking court approval of a deal to pay $1.15 million to plaintiffs in a five-year-old class action race discrimination lawsuit. Settlement payments will be provided by Federal Insurance Co.

The court authorized the U.S. Marshals Service to start seizing the property of **M. Fabrikant & Sons Inc.'s** former owners, who have been accused of funneling millions of dollars away from the diamond wholesaler to other companies under their control.

Two more home builders that operate in different parts of the country joined the long list of homebuilders who have filed for Chapter 11 bankruptcy. **Oakridge Homes LLC** in California and **M.S. Johnson Construction Inc**., which builds homes in Minnesota, Wisconsin and Florida, both filed last week.

Dormia Inc., the retail arm of bedding manufacturer **Classic Sleep Products**, filed for Chapter 11 bankruptcy protection in Maryland last week. The retailer, which has 20 bedding specialty stores in nine states, plans to keep all locations open for the time being.

Goody's, which filed for Chap.11, will get $0.92 on the dollar, or $20.2 million, on the $22 million worth of merchandise being liquidated by Hilco from the 69 Goody's doors being shuttered.

Hi Tech Entertainment

OfficeMax Inc. plans to reduce management positions throughout its 900 stores including half of its assistant managers and two-thirds of its store supervisors. The company expects to cut about 2,700 employees.

Amazon.com will open a new half-million square foot fulfillment center in Goodyear, AZ. The facility, Amazon's second in the state, will open in the third quarter of 2008.

Circuit City will explore strategic alternatives after first quarter losses widened to $164.8 million from $54.6 million last year. Sales fell 7.4% to $2.3 billion and comps fell 11.3% in the quarter. The company is projecting a second quarter pre-tax loss of $170 - $185 million.

Staples, Inc. has obtained regulatory clearance from the European Commission for its acquisition of Corporate Express N.V.

FYI for the DIY

May housing starts fell to a seasonally adjusted annual rate of 975,000, 3.3% below a revised April 2008 rate of 1.080 million. That figure is 32.1% below the revised May 2007 estimate of 1.436 million starts.

Home Depot Inc. reiterated plans to focus on productivity and store sales rather than new store growth. Selections will also be trimmed to focus on the core DIY and small contractor customer. The company projects that their efforts will result in margin improvements of 110 - 140 b.p.

Huttig Building Products, Inc. will close two stores—Fresno, CA, and Jackson, TN—in the third quarter of 2008. Huttig expects to incur total charges of $0.8 - $1.0 million in Q2-Q3.

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Heard in the Grocery Aisle

Marketside stores may be more up market than previously thought, the *Financial Times* reports, citing job advertisements that hint at an emphasis on premium, fresh and convenient rather than the low prices of parent Wal-Mart.

Fresh & Easy parent Tesco said that the U.S. business is doing well, and marked the end of a three month expansion hiatus by reaffirming plans to open 200 U.S. stores by Feb, 2009. The company's 62nd store will open in Manhattan Beach on July 2.

Fresh & Easy has adopted a more fuel efficient distribution methodology, asking suppliers to make deliveries to the distribution center rather than directly to individual stores. A single truck then delivers to each store from the DC.

Also, **Fresh & Easy** chief Tim Mason commented on pricing and product in a *Financial Times* interview. The chain is 10-25% cheaper than major competitors, but will get away from the strict Every Day Low Prices model with more High-Low promotions. 120 store prepared meals are now available. Private label accounts for 50% of selection, but 75% of sales. See the *FT* website for the full interview.

New Leaf Community Markets is opening a high-end, organic and local produce focused supermarket on the site of a former Albertsons in Half Moon Bay, CA.

The **United Food and Commercial Workers** held a rally last week at an Oregon Fred Meyer store. The non-grocery employees voted for UFCW representation in Nov, 2007, but have yet to reach a contract with the supermarket.

UFCW Local 700 in Indianapolis, Indiana have ratified a new labor agreement with **Kroger**, covering 4,200 workers in 60 stores.

The Delhaize Group will join AMS, a European buying group. The Belgian grocer expects the additional sourcing leverage from the relationship will result in lower prices for private label goods.

Grocery store coupon aggregator **CouponMom.com** and other web sites like Coupons.com, CouponMountain.com and Eversave.com are experiencing over 50% more traffic than last year, reports the *Wall Street Journal*.

B&R Stores will acquire a family-owned Apple Market store in Kearney, NE. Terms were not disclosed.

Loblaw completed its previously announced sale of $225 million in preferred shares.

Kroger Co. has settled a 2001 racial-discrimination lawsuit for $16 million. All black Kroger employees from 1997 to the present are eligible to share in the settlement.

Did You Know...?

U.S. initial jobless claims dropped by 5,000 to 381,000 in the week ending June 14, a two-week low. Continuing jobless claims fell to 3.06 million, the lowest since April.

Health & Beauty Aids

Walgreens Co. has purchased eight previously-leased stores for $34.8 million, located in Hempstead, NY, Sanford, FL, Colorado Springs, CO, Minneapolis, MN, Ocala, FL, Denver, CO, Lynn Haven, FL, and Niagara Falls, NY.

Drugstore.com has partnered with UMB Healthcare Services on a customized on-line store for customers with UMB health savings accounts. The store will feature HSA-eligible products and service.

Rite Aid Corp. has received the requisite consents clearing the way for its cash tender offer for its several classes of senior secured notes due 2010 - 2015. The securities have combined outstanding principal amounts of $710 million.

Kerr Drug has partnered with KDI Health Solutions and HealthTrans on a prescription benefits plan for North Carolina employers, giving participants preferred pricing and services.

RWDSU/UFCW local 338 filed eight unfair labor practices charges with the NLRB against Waldbaum's as the company negotiates a new contract with 90 pharmacists. The pharmacists' last contract extension expired Apr 30.

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Management on the Move

Sam's Club named **Dex McCreary**, Merchandise Director of Wine, Beer and Spirits. McCreary comes from Wal-Mart, Beam Wine Estates and Vincor USA.

Interline Brands, Inc. President/COO **William Sanford** is leaving the company at the end of the year to spend more time with his family.

A.C. Moore Arts & Crafts EVP and CFO **Marc Katz** is resigning. **Michael G. Zawoysky** is Acting CFO and Rodney B. Schriver is Principal Accounting Officer until a replacement is found.

Aaron Rents, Inc. promoted **Robert C. Loudermilk, Jr.** to President and CEO. He previously was President and COO. Former CEO R. Charles Loudermilk, Sr. will continue as Chairman.

Genesco President **Robert Dennis** is assuming the CEO title as well. Hal Pennington is moving to executive chairman.

Brown Shoe Company, Inc. named **Dan Karpel** SVP Finance. Prior, Karpel was VP and Controller at Kellwood Company.

The Talbots, Inc. made several appointments to key positions last week:

- **Gregory Poole** is EVP and Chief Supply Chain Officer
- **John Fiske** is EVP HR and Administration.
- **Avra Myers** is SVP and GMM for J. Jill.
- **Julie Lorigan** is SVP Investor and Media Relations.
- **Carol Stone** is SVP Finance.

Sweetbay Supermarket names **Michael T. Vail** President and COO, replacing Shelley Broader. Before joining Sweetbay, Vail was VP Merchandising for Kash n' Karry.

Golfsmith tapped **Marty Hanaka** as permanent CEO, five months after naming him interim CEO at the 72-store golf specialty chain.

Ace Hardware announced the **Kane Calamari**, an Ace employee from 1990-1998, has rejoined the company as VP Retail Operations. At the same time, Ken Nichols, who had been serving in that role, was promoted to SVP Retail Operations.

Sharper Image SVP of HR **Gary Chant** and EVP Merchandising **Drew Reich**, have left the company.

Kmart's SVP and CMO **Bill Stewart** is leaving the company. Parent Sears Holdings is conducting a search for his replacement.

lucy activewear inc. appointed **Kira Karmazin** as VP of Merchandising and Marketing. Karmazin brings experience from Coldwater Creek, Victoria's Secret, and Gap Inc.

Supervalu has hired **Steve Michaelson** as its new CMO. Michaelson was CEO of web grocer FreshDirect.

Tween Brands, Inc. announced the resignation of **Kenneth T. Stevens**, President, COO and Secretary of the company effective June 27, 2008. No successor will be named as the position of President and COO is being eliminated.

Movie Gallery, Inc. announced the resignation of Bo Loyd as EVP and Chief Merchandising Officer. **Sherif Mityas**, the COO and President of Retail Operations, will assume Mr. Loyd's responsibilities.

rue21, the specialty teen apparel retailer, hired **Mark Chrystal** as SVP of Merchandise Planning and Allocation from **American Eagle Outfitters**.

Upcoming Reporting Dates

Company	Event	Date
Cabela's	Web Presentation	Jun 26, 2008
Christopher & Banks Corp.	Quarterly Results	Jun 26, 2008
Crane Co.	Quarterly Results	Jul 28, 2008
Home Depot	Web Presentation	Jun 24, 2008
Kroger Co.	Quarterly Results	Jun 24, 2008
Kroger Co.	Annual Meeting	Jun 26, 2008
Lowe's Companies, Inc.	Web Presentation	Jun 24, 2008
MSC Industrial	Web Presentation	Jul 1, 2008
Rite Aid Corp.	Quarterly Results	Jun 26, 2008
Shoppers Drug Mart Corp.	Quarterly Results	Jul 16, 2008
Supervalu, Inc.	Web Presentation	Jun 26, 2008

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The Global World of Sports and Footwear

Genesco will pay contingent interest on its 4.125% Subordinated Convertible Debentures due 2023 for six months beginning June 15. The payment will equal $1.6611 per $1,000 principal.

Dick's Sporting Goods believes there is meaningful potential for consolidation remaining in the sporting goods and gold specialty sectors, where the top five retailers control 17% and 23% of the market, respectively, compared to 40% in home improvement, 50% in consumer electronics and 70% in discount chains. DKS reiterated its unchanged long-term plan to build 800 stores in the U.S. and even raised the possibility of expanding overseas in four or five years.

Meanwhile, **Dick's** will convert former Chick's stores to the Dick's banner by the second half of 2009.

Zumiez remains intent on eventually growing its store base north of 800 units with a "hi teens" operating margin, largely as continues to focus on its diverse base of brands, education of sales staff and overall in-store shopping experience. ZUMZ management confirmed the retailer's FY08 guidance that calls for 13-17% revenue growth to a range of $430-445 million and operating margins in the low to mid 9% range.

Nike has sued **Eastern Mountain Sports** for using Nike's 'DRI-FIT' trademark in paid search engine sponsored links designed to drive web traffic to the EMS e-commerce site. Consumers typing 'DRI-FIT' into a search engine and subsequently clicking on an EMS ad on the results page won't find Nike Dri-Fit products on the linked EMS e-commerce page. Instead, browsers are taken to a page offering "Techwick" products, a private label brand owned by the Peterborough, NH retailer.

GSI Commerce extends its long-term e-commerce solutions contract with Polo Ralph Lauren for five more years. Under terms of the extension, Polo Ralph Lauren will continue to support its own customer care center and fulfillment services at a recently constructed 330,000 sq. ft. center in High Point, NC.

Nexcen Brands has struck a deal with its lender BTMU Capital for better access to the cash it generates after paring its workforce 10% over the last month and as it continues to explore options to improve liquidity. One possible scenario being explored: the possible divestiture of its Bill Blass and Waverly brands. NexCen is apparently working on a comprehensive restructuring for its credit facility that will allow it to obtain relief from an accelerated $30 million debt payment due Oct. that is related to its Jan. acquisition of the Great American Cookie Co.

Shoe Pavilion, Inc. has received a written notice from Nasdaq for failing to comply with the $1.00 minimum bid price requirement for continued listing. The Company has until Dec 16, 2008 to regain compliance or face delisting.

Reebok International plans to open its first-ever sporting goods store in August at Patriott Place in Boston. The Foxboro store will be Reebok's only retail location in the world where it sells its sports equipment side by side with its footwear and clothing. It also will be on the second full-price, Reebok-branded U.S. store for the company. The company also has 149 U.S. outlet stores.

The **National Basketball Association**, which will open its second global flagship store next month in Beijing before the start of the Olympic Games, is partnering with **JuneYao Group** to expand rapidly in the market.

Flip Flop Shops, a new concept focused on footwear and sandals, has launched a nationwide expansion effort to recruit franchises. With seven U.S. locations open, Flip Flop Shops is calling for 236 stores across the country within five years.

Did You Know...?

Self-service kiosks are booming, according to an IHL Group study. Sales through kiosks will surpass $607 billion this year in North America, and are projected to hit $1.7 trillion by 2012.

Options and Resources

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Mass Merchant Musings

Costco's first Australian store will be located in Melbourne's Docklands area and will measure 12,000 to 14,000 square meters (130,000 - 150,000 sq ft). The store is slated to open in 2009, pending local government approval of the site.

Big Lots has purchased $712.5 million of its own common equity during the past 12 months, our analysts note. While mostly financed from cash flow, Big Lots has also leaned on its revolver to partially fund these share buybacks.

Wal-Mart has been hit by a lawsuit from **Adidas**, which claims the retailer copied some of its products, using a striped logo similar to the one associated with Adidas products, though Wal-Mart's products displayed two or four stripes compared to Adidas' trademark three stripes.

Wal-Mart Stores, Inc. has trimmed its capital expenditure forecast for fiscal year 2009 to $13.0 to $14.0 billion from the $13.5 to $15.2 billion projected last October.

Wal-Mart-owned **ASDA** will re-launch its catalog and web site at www.asda-direct.co.uk this Fall.

PriceSmart, Inc. will buy back 64,739 shares for $25 per share ($1.6 million) from a shareholder, PSC S.A., pursuant to the terms of a put agreement.

Did You Know...?

Costco and Macy's topped the national Retail Loyalty Index compiled by research firm Colloquy. Costco was tops in the Grocery, Personal Care and Mass Merchant categories; Macy's was the top Department Store.

Specialty Items

La-Z-Boy has launched an e-commerce web site selling a limited selection of room groups and recliners. Order fulfillment and customer service is being handled by the nearest La-Z-Boy Furniture Gallery store.

Whitehall Jewelers has notified the SEC that it will not be able to file its first quarter financial report by the due date of June 18, 2008 as management is currently addressing a liquidity crisis.

Pier 1 said it will take its proposal to acquire **Cost Plus** directly to shareholders following the **Cost Plus** board's rejection reported here last week. In the response, Pier 1 estimated that it could save $50 million in costs by combining the businesses, among other advantages. The offer on the table is 0.6 PIR shares for each CPWM share.

Meanwhile **Pier 1** and **Cost Plus** both turned in big negative numbers, with Cost Plus' $32.0 million loss narrowly edging out Pier 1's loss of $32.8 million. See the scorecard for details. Pier 1 offered guidance for the year of flat or slightly positive comps and a modest net income "before special charges."

Restoration Hardware's acquisition has been completed. The acquiring investment group, including Catterton Partners and Gary Friedman, will pay $4.50 per share in cash for any outstanding shares.

IKEA opened its first New York City store on the Erie Basin waterfront in Red Hook, Brooklyn. IKEA operates 35 stores in the U.S.

Blue Nile Inc. is responding to the slow U.S. economy, so the jewelry retailer is focusing on international expansion plans, *Forbes* reports. Blue Nile's international sales were $17 million in 2007 vs. $8 million in 2006.

Movado Group, Inc. executed a line of credit letter agreement with Bank of America for $20.0 million and an amended and restated promissory note in the amount of up to $20.0 million, also with Bank of America.

Canadian hardware company **Richelieu** acquired **Top Supplies**, a distributor of decorative and functional hardware. Details of the acquisition were not discussed.

Despite a challenging economic climate, **Leader's Casual Furniture** will strengthen its Florida market share by opening a new retail location in Southwest Florida. The company expects its 19th retail outlet to be open before the end of August.

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First Quarter Scorecard

$ in Millions	Sales				Net Income		
	2008	2007	Change	Comps	2008	2007	Change
Apparel							
Abercrombie & Fitch	$800.2	$742.4	7.8%	-3.0%	$62.1	$60.1	3.4%
Aeropostale, Inc.	$336.3	$275.8	21.9%	5.6%	$17.5	$13.8	26.8%
American Eagle Outfitters	$640.3	$612.4	4.6%	-6.0%	$43.9	$78.8	-44.3%
Bebe Stores, Inc.	$151.7	$154.4	-1.7%	-7.6%	$8.4	$12.9	-35.4%
Belk, Inc.	$817.3	$904.5	-9.6%	-8.7%	$5.1	$9.5	-46.0%
Bon Ton Stores, Inc.	$723.0	$760.4	-4.9%	-4.6%	($34.1)	($23.3)	-46.2%
Buckle, Inc.	$160.3	$121.1	32.4%	25.6%	$18.7	$12.2	53.5%
Burlington Coat Factory	$780.9	$774.5	0.8%	-3.1%	$26.8	$31.1	-13.8%
Cato Corporation	$228.8	$227.2	0.7%	-1.6%	$16.9	$18.7	-9.7%
Children's Place	$400.2	$356.0	12.4%	5.0%	$19.5	$14.7	32.6%
Claire's Stores, Inc.	$327.0	$340.6	-4.0%	-8.4%	($35.6)	$28.8	-223.6%
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%
Dillard's, Inc.	$1,713.6	$1,799.5	-4.8%	-6.0%	$2.7	$42.9	-93.7%
Dress Barn, Inc.	$352.6	$347.9	1.4%	-2.8%	$24.9	$23.1	7.9%
Gap Inc.	$3,384.0	$3,549.0	-4.6%	-11.0%	$249.0	$178.0	39.9%
Gottschalks	$127.4	$143.5	-11.2%	-10.3%	($6.6)	($4.7)	-39.1%
Gymboree Corporation	$242.1	$209.3	15.7%	4.0%	$25.0	$20.9	20.1%
Hart Stores Inc.	$31.1	$30.1	3.3%	-6.2%	$0.0	($0.3)	100.0%
J. Crew Group, Inc.	$340.6	$297.3	14.6%	2.4%	$30.5	$24.6	23.7%
J.C. Penney Company	$4,127.0	$4,350.0	-5.1%	-7.4%	$120.0	$238.0	-49.6%
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%
Le Chateau Inc.	$69.5	$62.9	10.5%	-4.6%	$5.6	$3.7	48.8%
Macy's, Inc.	$5,747.0	$5,921.0	-2.9%	-2.6%	($59.0)	$36.0	-263.9%
Men's Wearhouse	$491.1	$496.1	-1.0%	-6.4%	$9.9	$41.0	-75.7%
New York & Company, Inc.	$270.1	$274.2	-1.5%	-6.6%	$6.7	$0.8	737.5%
Nordstrom, Inc.	$1,879.0	$1,953.9	-3.8%	-6.5%	$119.0	$156.8	-24.1%
Retail Ventures, Inc.	$466.3	$465.8	0.1%	-4.3%	$29.2	$2.7	965.7%
Ross Stores, Inc.	$1,556.3	$1,410.5	10.3%	3.0%	$79.5	$67.0	18.6%
Saks Incorporated	$862.4	$792.7	8.8%	8.4%	$18.3	$11.0	66.4%
Stage Stores, Inc.	$353.5	$358.2	-1.3%	-5.4%	$2.3	$9.1	-75.2%
Stein Mart, Inc.	$352.2	$376.1	-6.4%	-9.3%	$7.0	$8.1	-13.7%
Talbots, Inc.	$542.4	$573.6	-5.4%	-9.8%	($4.1)	$5.2	-177.4%
Urban Outfitters, Inc.	$394.3	$314.5	25.4%	10.0%	$42.6	$29.4	44.9%
Wet Seal, Inc.	$142.4	$138.0	3.2%	7.5%	$8.9	$7.6	17.8%
Mass Merchants							
99 Cents Only Stores	$290.5	$277.9	4.5%	1.5%	($4.4)	($1.0)	-340.0%
Big Lots, Inc.	$1,151.6	$1,128.4	2.1%	3.4%	$34.5	$28.8	20.0%
BJ's Wholesale Club, Inc.	$2,306.4	$2,058.0	12.1%	9.6%	$17.2	$13.7	25.5%
Costco Wholesale Corp.	$16,613.7	$14,659.3	13.3%	4.0%	$295.1	$224.0	31.7%
Dollar General Corporation	$2,403.5	$2,275.3	5.6%	5.4%	$5.9	$34.9	-83.1%
Dollar Tree Stores, Inc.	$1,051.3	$975.0	7.8%	2.1%	$43.6	$38.1	14.4%
Duckwall-ALCO Stores, Inc.	$106.0	$106.3	-0.3%	-8.4%	($5.9)	($2.2)	162.2%
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%
Target Corporation	$14,802.0	$14,041.0	5.4%	-0.7%	$602.0	$651.0	-7.5%
Toys R Us Inc.	$2,719.0	$2,581.0	5.3%	-0.4%	($36.0)	($41.0)	-12.2%
Wal-Mart Stores, Inc.	$95,303.0	$86,410.0	10.3%	2.9%	$3,022.0	$2,826.0	6.9%
Sports & Footwear							
Bakers Footwear Group, Inc	$43.5	$49.3	-11.8%	-11.1%	($4.9)	($1.0)	-390.0%
Brown Shoe Company, Inc.	$554.5	$566.3	-2.1%		$7.2	$9.6	-25.3%
Collective Brands (Payless Sh	$932.4	$728.6	28.0%	-6.5%	$19.7	$38.9	-49.4%
Dick's Sporting Goods, Inc.	$912.1	$823.6	10.8%	-3.8%	$20.8	$21.7	-4.3%
DSW Inc.	$366.3	$357.0	2.6%	-5.4%	$10.3	$23.7	-56.7%
Foot Locker	$1,309.0	$1,316.0	-0.5%	-2.9%	$3.0	$17.0	-82.4%
Footstar, Inc.	$117.9	$134.1	-12.1%	-11.0%	($1.5)	$0.8	-287.5%
Forzani Group Ltd.	$304.2	$263.7	15.3%	-2.1%	($2.9)	$0.7	-534.4%

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First Quarter Scorecard

$ in Millions	Sales			Comps	Net Income		
	2008	2007	Change	Comps	2008	2007	Change
Sports & Footwear							
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%
Hibbett Sporting Goods, Inc.	$145.8	$133.8	9.0%	0.0%	$9.4	$10.2	-8.4%
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%
Specialty							
Autozone	$1,517.3	$1,473.7	3.0%	-0.3%	$158.6	$151.6	4.6%
Barnes & Noble, Inc.	$1,158.1	$1,145.4	1.1%	-1.5%	($2.2)	($1.7)	-33.1%
Brookstone, Inc.	$89.8	$83.1	8.0%	1.1%	($11.7)	($11.2)	-5.1%
Cost Plus, Inc.	$211.7	$202.5	4.5%	0.6%	($32.0)	($11.1)	-187.9%
CSK Auto Corporation	$461.1	$473.0	-2.5%	-3.1%	$5.4	$1.7	221.4%
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%
La-Z-Boy	$368.0	$408.1	-9.8%	-5.2%	($4.4)	$7.7	-157.1%
Michaels Stores, Inc.	$847.0	$839.0	1.0%	-2.9%	($20.0)	($23.0)	13.0%
Pep Boys -Manny, Moe & Jac	$498.0	$539.6	-7.7%	-5.6%	$4.7	$3.2	46.9%
Pier 1 Imports, Inc.	$310.0	$356.4	-13.0%	-5.4%	($32.8)	($56.4)	41.8%
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%
Zale Corp.	$476.7	$449.0	6.2%	5.8%	($16.8)	($4.0)	325.1%
Food							
Casey's General Stores	$1,204.3	$1,002.9	20.1%	3.6%	$14.4	$16.6	-13.3%
Penn Traffic Co.	$287.1	$298.0	-3.7%	-1.4%	($12.4)	($7.4)	-67.6%
Village Supermarket, Inc.	$273.4	$255.3	7.1%	4.0%	$4.9	$4.9	0.6%
Drug							
CVS Caremark Corporation	$21,326.0	$13,188.6	61.7%	3.9%	$748.5	$408.9	83.1%
Longs Drug Stores	$1,407.0	$1,297.0	8.5%	1.0%	$23.5	$13.0	80.8%
Ulta	$239.3	$194.1	23.3%	3.9%	$8.1	$9.9	-18.2%
Walgreen Co.	$15,015.7	$13,698.3	9.6%	3.4%	$572.3	$561.2	2.0%
Home Centers							
Fastenal Company	$566.2	$489.0	15.8%	11.8%	$68.1	$54.1	25.9%
Lowe's Companies	$12,009.0	$12,172.0	-1.3%	-8.4%	$607.0	$739.0	-17.9%
Rona, Inc. (C$)	$911.5	$878.5	3.8%	-5.2%	$1.0	$9.0	-88.9%
Sherwin-Williams Company	$1,781.7	$1,756.2	1.5%	-6.5%	$78.0	$111.8	-30.3%
Tractor Supply Company	$576.2	$559.8	2.9%	-6.5%	($1.2)	$5.0	-124.0%
W.W. Grainger	$1,661.0	$1,546.7	7.4%	NA	$114.2	$101.8	12.2%
High-Tech & Electronics							
Best Buy Co., Inc.	$8,990.0	$7,927.0	13.4%	3.7%	$179.0	$192.0	-6.8%
Circuit City Stores, Inc.	$2,301.1	$2,485.5	-7.4%	-11.3%	($164.8)	($54.6)	201.8%
Conn's, Inc.	$218.6	$205.3	6.5%	1.0%	$10.6	$12.9	-17.8%
GameStop Corp.	$1,813.6	$1,279.0	41.8%	27.1%	$62.1	$24.7	151.3%
hhgregg, 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%
Trans World Entertainment Co	$232.6	$286.3	-18.8%	-6.0%	($11.8)	($9.1)	-30.4%

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Finlay Enterprises: Retailer of the Week

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year from Zale Corporation. As of May 3, 2008, there were 35 Carlyle & Co. stores, five Congress sites, and 67 Bailey Banks & Biddle locations. This sector is hoped to make amends for some of the loss of revenues derived from department store locations, and in fact, four Carlyle & Co. stores alone were opened in the first quarter of this year.

The $200 million purchase price of Bailey Banks & Biddle was covered through a newly expanded $550 million senior secured revolving credit facility. However, this deal along with the acquisition of the Congress chain, also funded by debt, has left Finlay Enterprises leveraged with debt.

FINANCIAL PERFORMANCE

INCOME STATEMENT	2008	2009
Department Store Revenues	$135.6 mm	$127.4 mm
Standalone Revenues	$27.2 mm	$77.8 mm
Total Net Sales	162.9 mm	$205.2 mm
Comp Store Sales	-0.081	0.045
Gross Profit	$76.4 mm (46.9%)	$92.1 mm (44.9%)
SG&A Expenses	$81.3 mm (49.9%)	$101 mm (49.2%)
Operating Loss	($5) mm	($8.9) mm
Interest Expense	$6.08 mm	$8.76 mm
Income from Discontinued Dept Store Operations	$149,000.00	0.00%
Net Loss (income tax benefit)	($7.61) mm	($11) mm
Department Stores Locations	$711.00	674
Standalone Stores	3800.00%	107

Did You Know...?

U.S. ad spending grew just 0.6% in the first quarter of 2008, reports Ad Age. *Worse, spending on the top 10 ad categories fell 1.8% in Q1.*

Comp store sales took a turn for the worse as consumer spending has greatly tightened. During the first quarter of this year, the Company lost ten Macy's stores and two Dillards stores due to store closures within these two chains. In standalone operations, there were two closings within Bailey Banks & Biddle and one closing within Carlyle & Co. As stated above, there were four openings during the quarter for that chain.

The margin rate dropped a sizable 200 basis points between the two quarters. Most of that decline was the result of lower priced merchandise sold, particularly within the standalone chains. SG&A Expenses, however, when also viewed as a percentage of sales, dropped seventy basis points. This was attributed to cost controls placed into effect and decreased ad spend.

Higher revolver borrowings to fund the acquisition of Bailey Banks & Biddle in late 2007 caused the increase in interest expense. The net loss for the first quarter of fiscal 2009 was soften due to a higher income tax benefit.

BALANCE SHEET	2008	2009
Cash	$2.95 mm	$5.39 mm
Receivables	$32.1 mm	$30 mm
Inventory	$437.8 mm	$601.3 mm
Current Assets	$478.8 mm	$647.9 mm
Total Assets	$549.1 mm	$746.4 mm
Cash Overdraft	$0	$17.5 mm
Trade Payables	$63.8 mm	$48.4 mm
Revolver Debt (classified as short term debt)	$92.8 mm	$297.6 mm
Long Term Notes due 2012	$200 mm	$200 mm
Total Liabilities	$434.4 mm	$643.6 mm
Current Ratio	2.1:1	1.5:1
Leverage Percentage	79.00%	86%
Working Capital Coverage	9.4 months	6.3 months

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Finlay Enterprises: Retailer of the Week

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The additional revolver debt was tied to covering the $200 million purchase price of Bailey Banks & Biddle and the need to cover invoices due on unsold merchandise. As of May 3, 2008, excess credit availability was nearly $136 million, enough for the short term future. And of course, the Company was carrying a sizable overdraft at the end of the most recent quarter; never a real positive sign.

Finlay Enterprises is even more leveraged now with no foreseeable ability to reduce its debt load by any material amount. The heavy debt load will place even more burden on the Company if it cannot stem losses going into the second half of this year.

OUTLOOK

Finlay Enterprises currently faces two daunting situations. First, is the slowdown in consumer spending on jewelry merchandise, impacting just about every chain store in this sector. The second is the lost of 127 Macy's stores and eventually the 47 Lord & Taylor stores, along with other possible closings within other department store relationships. The standalone chains can hardly make up that difference, particularly given the overall poor revenue and margin environment in this retail sector. The interest expense from all of this debt undertaken to fund expansion places additional pressure on financial performance and resources.

We see the second half as a critical period for the Company. If current rate of losses continues or even escalates, the latter a real possibility, liquidity could soon become an issue. Clients should be mindful of their exposures and be on the lookout for ongoing Global Credit reports and updates.

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