

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

A person only learns in two ways, one by reading, and the other by association with smarter people.

Back-To-College Spending To Fall

U.S. parents with school-aged children will spend more on back-to-school merchandise this year, helped by tax rebates, but spending for back-to-college will fall as students struggle with the spike in gas prices, according to a survey released last week.

Families with children in kindergarten through 12th grade are expected to spend \$594.24 for back-to-school items this year, up from \$563.38 last year, according to the National Retail Federation's 2008 back-to-school survey.

But back-to-college spending is forecast to drop 7% to \$599.38 per person from an average of \$641.56 last year, the survey found.

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Retailer of the Week: Nash Finch Company

Nash Finch Company **remains a high-risk 'E' credit** with a **positive outlook**. The Minnesota-based mutt (a wholesaler/retailer combo) continues to enjoy profit growth in both its distribution and military units. However, the retail segment saw a decline in its bottom-line. The distribution business has signed some smaller supermarkets to offset the loss of the Martin's contract. The military supply division continues to produce solid results as the result of continued troop deployment and a sluggish economy. The firm continues to close stores that are unprofitable; however, the company has begun putting some money in to select locations. Nash Finch's improved balance sheet and a recently obtained bank line should provide vendors with some short-term security.

OPERATING PERFORMANCE: 6 MONTHS ENDED JUNE 14, 2008

\$ in millions, 24 weeks ended	6/14/2008	YOY Var.	6/16/2007
Food Distribution Sales	\$1,194.20	-4.30%	\$1,247.90
Military Supply Sales	\$602	5.20%	\$572.30
Retail Sales	\$268.10	-2.90%	\$276.10
Total Sales	\$2,064.30	-1.50%	\$2,096.20
Food Distribution Operating Profit	\$46	15.90%	\$39.50
Military Supply Operating Profit	\$21.90	11.70%	\$19.60
Retail Sales Operating Profit	\$9	-19.80%	\$11.60
Corporate Overhead Expenses (before interest & asset sales)	\$41.20	-5.80%	\$43.50
Total Operating Profit	\$43	12.90%	\$38.10
Adjusted Operating Profit*	\$43.00	16.50%	\$36.90
Net Profit	\$21.40	43.60%	\$14.90
Food Distribution Operating Margin	3.84%	67 bps	3.17%
Military Supply Operating Margin	3.64%	22 bps	3.42%
Retail Sales Operating Margin	3.39%	(81 bps)	4.20%
Adjusted Operating Margin*	2.08%	32 bps	1.76%

*-excludes a \$1.6 million reversal of an established lease reserve during the first half of 2008. The company also took a \$0.3 million charge related to lease buyout payments in the first quarter of fiscal 2007. The company took no charges during the fiscal 2008.

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Back-To-College Spending To Fall

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"This year, college students have gotten a dose of reality," according to NRF. "Gas prices are way up. Many of them did not get an economic stimulus check because their parents claimed them as dependents, so they are having to find ways to cut back."

Electronics will be hit by the back-to-college pullback. The survey found that college students expect to spend \$211.89 on tech gadgets for the new school year – down 18% from \$258.43 a year ago.

In recent years, college students used money from high school graduation or cash from summer jobs to buy the latest electronics. But with the national average retail price for gasoline surging roughly 40% this year, that cash is going toward filling up the gas tank.

Parents with school-aged children are expected to spend \$151.61 on electronics for back-to-school, up from \$129.24 last year. Spending on clothing is forecast to rise to \$234.51 from \$231.80, while spending on school supplies will increase to \$98.47 from \$94.02 last year.

To help support their spending, the survey found that 10% of parents set aside a portion of their tax rebate check for back-to-school purchases of discretionary items like clothes and jewelry in favor of necessities like food and toiletries.

Retailers are looking at back-to-school and back-to-college season more carefully because it will be a good indicator for the holiday season in terms of what people are buying, what kind of an appetite the customer has – if they're really focused on price, or if they can be persuaded by exclusive labels and celebrity endorsements.

Seventy-three percent of consumers intend to do their back-to-school shopping at discount retailers. Almost 57% said they will head to department stores, 48% will go to clothing stores and 21.4% will go to electronic stores.

To offset high gasoline prices, 24.8% of back-to-school shoppers said they will buy online, up from 21.4% last year.

The survey was conducted for NRF by BIGresearch. The poll of 8,361 consumers was conducted from July 1st to July 8th.

The spending figures for this survey differ from previous year, because they exclude spending on textbooks. Previous year figures were recalculated to account for the changes.

Mass Merchant Musings

Costco issued a profit warning for the fourth quarter, saying earnings will be "well below" Wall Street consensus estimates of \$1.00 per share. Costco has held the line on pricing, and is suffering from lower margins as a result of higher wholesale costs and energy prices even as sales comps stay solid.

Additionally, **Costco's** board authorized an additional \$1 billion of stock buybacks. This brings the total amount authorized to \$6.8 billion, of which approximately \$4.6 billion has been expended.

Looking for a bigger bite of the back-to-college market, Wal-Mart's **Sam's Club** established a

special membership tier, one-year for \$40 with a \$15 gift card included, for people with a valid college ID and college email address. The membership also includes a free second card for students to give their roommates or friends.

Also, **Sam's Club** is piloting a program of tech support from Geeks on Call, similar to Best Buy's successful Geek Squad service. Geeks on Call personnel are not in Sam's Club stores, but will come to the customers home.

Target grand-opened 43 stores on Sunday, July 27, bringing their store count to 1,648 stores in 47 states.

Feedback?

Questions?

Suggestions?

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Bankruptcy Blotter

The corporate default rate in the U.S. rose for the sixth straight month in June. So far this year, there have been 42 corporate defaults affecting some \$33.6 billion in debt, compared with last year's total of 22 defaults on \$8.1 billion in debt, a 91% increase in defaults in just the first six months of this year.

The court approved a request by **Linens 'n Things** for a limited waiver of the budget covenants under its \$700 million Term Loan in order to avoid defaulting on the loan. Sales for the retailer have been lower than expected. Not a good sign going forward.

Steve & Barry's, which is scrambling to find a buyer, could lose almost 300 shipping containers of merchandise sitting in an Ohio warehouse if **AGI Logistics Corp.** succeeds in seizing the goods. AGI claims it has the right to seize the goods because Steve & Barry's failed to pay its foreign suppliers for the merchandise.

In other news, **Steve & Barry's** will seek court approval this week to auction off its assets as a whole or in parts through a series of GOB sales. It is possible that the company will also name a stalking horse bidder.

Interstate Bakeries Corp. won court approval to sell two properties in Southern California for a total of about \$3.6 million. The properties, in Long Beach and Gardenia, were sold to **S.J. Jasaitis** and **Ed Whittemore**, and **Figueroa LLC** respectively.

According to the **San Jose Mercury News**, **Mervyns**, could be the latest casualty of the competitive retail climate. According to the publication, the company is facing bare shelves and a cash crunch as vendors are delaying shipments and key lenders have stopped approving orders.

Shoe Pavilion received a letter from the **Nasdaq** indicating that its stock will be delisted because of its bankruptcy filing. Shoe Pavilion currently does not intend to exercise its right to appeal Nasdaq's determination.

Goody's Family Clothing Inc. received final approval for its \$210 million DIP financing package, which includes \$175 million from

General Electric, \$15 million from **GB Merchant Partners LLC**, and \$20 million from **PGDYS Lending LLC**. Complaints by creditors who accused the company of only catering to its majority shareholder and pre-bankruptcy lenders, to the detriment of unsecured creditors, apparently were not enough to dissuade the court from signing off on the deal.

In other news, a group of creditors, primarily landlords, are hoping to convince the court to turn down **Goody's** request to hold a second auction to dispose of its interest in 67 store leases. The company hopes to hold the auction by July 31st.

Southern Building Products Inc. is proposing to completed its Chapter 11 reorganization by selling off real estate to satisfy the nearly \$6 million claim of its lender. The company will use the proceeds generated from its manufacturing business to repay most creditors in full over time.

Hancock Fabrics Inc. won court approval of its Plan of Reorganization paving the way for the company to exit bankruptcy. The plan call for the company to keep its remaining stores open and repay all of its creditors, even unsecured creditors, in full with the help of \$100 million in financing from **GE Capital Corp.**

Dozens of jewelry manufacturers are trying to keep **Whitehall Jewelers Holdings Inc.** from including \$63 million of consigned merchandise in a sale of its assets, arguing that the retailer does not own that merchandise and therefore does not have the right to transfer ownership. After two failed bids to prevent Whitehall from selling the consigned merchandise in its stores after the retailer's bankruptcy filing, jewelry makers like **Bulova Corp.** and **L.J. International Inc.** are fighting to keep Whitehall from putting up the consigned goods on the auction block.

A group of **Delphi Corp.** creditors claim that investors led by **Appaloosa Management** defrauded the auto-parts supplier by promising to invest \$2.55 billion in the company while simultaneously and covertly working to undermine its exit from Chapter 11. The creditors want the court to throw out its order confirming the company's plan to exit bankruptcy.

General Retail News

The **National Retail Federation** testified before congress that stimulus rebate checks helped the economy significantly, but high gasoline and

grocery prices absorbed most of the money. The NRF wants additional economic stimulus measures to encourage consumer spending.

Did You Know...?

Durable goods orders surged 0.8% in June, the Commerce Department reported. Excluding a 2.6% decrease in transportation, orders rose an impressive 2.0%, far exceeding forecasts.

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The Global World of Sports and Footwear

Surf/skate vendor **Volcom** is acquiring surf retailer **Laguna Surf & Sport**, owned and operated by Eric John, with stores in Laguna Beach and Aliso Viejo, CA. Previously, Laguna had additional stores in Rancho Santa Margarita and Foothill Ranch, CA. Terms of the transaction were not disclosed, but the stores will continue to operate under the same name and management team.

Dick's, Hibbett Sports and Foot Locker were top-ranked in customer service within the sporting goods retail category in the Q2 customer service survey by RealPeopleRatings.com, a unit of Corporate Research Intl. With a scale of 1-10 and 10 being the highest, Dick's scored a 7.49 and was followed in the category by Hibbett (7.38), Foot Locker (7.26), Finish Line (7.14), Champs Sports (7.06) and The Sports Authority (7.01). In the shoe store category, Stride Rite (7.80) was top-ranked followed by Aldo (7.50), Genesco-owned Journeys (7.33), Payless ShoeSource (7.27), Shoe Carnival (7.25), Famous Footwear (7.02) and DSW (6.96).

Dick's Sporting Goods is seeking \$7.25 million in infrastructure improvements for its new headquarters. The company has already received approval for a 10-year, 50% county tax abatement for its new 670,000 sq. ft. complex that will sit on 116 acres near the Pittsburgh Intl. Airport. DKS expects to add more than 700 jobs over the next five years, up from 950 currently, and may eventually expand the new HQ to 1 to 2 million sq. ft. The retailer wants its new complex situated in a Foreign Trade Zone that waives federal import and export duties for company.

GSI Commerce guided that FY2008 revenues would hit \$1 billion with a loss from operations of \$6.5 million to \$9.5 million.

A **regional theft ring** has been uncovered that stole thousands of dollars worth of merchandise

from local outlets of national sporting goods chains such as Gander Mountain, Dick's Sporting Goods and Home Depot, to fulfill "orders" made by ring leaders. During a search warrant raid late yesterday, police in Jackson, OH seized ammunition, hunting and fishing gear and illegal weapons from two sports shops—The Trading Post in Masillon, OH and Ohio Outdoor Sports in nearby Canton that were apparently involved in the ring.

West Marine revised its FY2008 earnings guidance downward to a loss of \$0.32 to \$0.42 per share from income of \$0.02 to \$0.09 per share. The company will also take a restructuring charge of \$0.37 per share. All in, West Marine anticipates an after-tax loss of \$1.78 to \$1.88 per share for the year, with comp store sales down 7.0% to 8.5% and total revenues from \$625 million to \$635 million.

NPD reports the **Global Sports Market** grew 4% in CY07 to \$278.4 billion. The U.S. share of the global market declined to 36% from 40% due to the weakness of the U.S. dollar. Europe, meanwhile, achieved a higher share despite a 2% sales increase due to the strength of the Euro. The fastest growing global markets for sporting goods in 2007 were South Asia and Central Asia (+13%), the Middle East (+16%) and Central and Eastern Europe (+20%). Meanwhile, Western Europe, Scandinavia, Japan and Canada had flat sales growth last year, according to the report.

Golfsmith intends to open a 36,000+ sq. ft. superstore, its 73rd location, in Palm Desert, CA.

Bass Pro Shops intends to open its second CA store, 175,000 sq. ft. in Manteca, on Oct. 15.

Nasdaq will delist **Shoe Pavilion's** stock on July 28, according to a Nasdaq Staff Determination letter. Shoe Pavilion currently does not intend to appeal the determination.

Did You Know...?

The consumer sentiment index rose in July to 61.2 from 56.6 earlier in the month and 56.4 in June, reported the University of Michigan and Reuters.

Options and Resources

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Health & Beauty Aids

Express Scripts closed the previously announced \$248 million acquisition of Medical Services Company's Pharmacy Services Division. The acquisition is expected to be neutral to Express Scripts earnings in 2008 and slightly accretive in 2009.

CVS is relaunching a new CVS.com with new personalization features, including prescription management and personalized medication profiles.

Following approval by state health officials for limited-service medical clinics, some of Massachusetts' largest health insurers will cover visits to the clinics to be opened in **CVS** and **Walgreens** stores later this year.

McKesson Corp. raised FY2009 earnings guidance after a strong first quarter to a range of \$4.00 to \$4.15 a share from continuing operations. Also, according to Canadian media

sources, McKesson may be in negotiations to acquire Quebec pharmacy chain Uniprix Inc.

AmerisourceBergen raised earnings guidance from continuing operations for fiscal year 2008 to a range of \$2.81 to \$2.89 from a range of \$2.77 to \$2.87 per share.

Private equity firm **H.I.G. Capital** is acquiring **AmerisourceBergen's** PMSI subsidiary, a provider of workers' compensation services. The closing of this transaction is expected to occur during the third quarter of 2008. Terms were not disclosed.

Drugstore.com has delayed its second quarter 2008 conference call three days to Thursday, July 31, 2008 at 5:00 p.m. ET (2:00 p.m. PT). The company is in discussions with Rite Aid Corporation and anticipates having a comment on those discussions by the 31st.

Did You Know...?

First-time unemployment claims in the week ending July 19 rose 34,000 to 406,000, the highest level since March 29.

Management on the Move

Charlotte Russe, Inc. named board member **Leonard Mogil** interim CEO, replacing Mark Hoffman, who has retired. The company has begun a search for a permanent CEO.

Haggen Inc. promoted Becky Skaggs to VP of Strategy and Consumer Insights. Skaggs has been with Haggen since 1992.

AnnTaylor Stores promoted **Brian E. Lynch** to President of Corporate Operations, adding e-commerce responsibilities to his role. **Michael J. Nicholson**, EVP and CFO, will add responsibility for IT and global procurement. Also, **Anthony M. Romano**, Chief Supply Chain Officer, has resigned.

Michaels Stores, Inc. named **Elaine D. Crowley** EVP and CFO effective August 18, 2008. Crowley was previously CFO and Treasurer at The Bombay Company, Inc.

Duckwall-ALCO announced that Jane Gilmartin has joined the company as EVP and COO. Gilmartin has served in senior leadership roles with companies such as Bed Bath & Beyond, Linens 'N Things, and Ross Stores, Inc.

Movie Gallery named **Lucinda M. Baier** EVP and CFO. Baier previously held senior management roles at World Kitchen, LLC and Whitehall Jewelers Inc.

IGA named **Heidi Huff**, Manager, Retail and Marketing for IGA USA.

Mothers Work, Inc. promoted **Judd P. Tirnauer** to SVP and CFO from VP Finance. Tirnauer has been with the company since 2001. **Edward M. Krell**, currently COO and CFO, will remain COO.

Michael W. Kramer, Abercrombie & Fitch EVP and CFO is resigning effective August 18.

Off the Rack

Nordstrom will open a Nordstrom Rack at The Commons at Southtowne shopping center in Sandy, UT. The 35,000 sq ft store will open in spring 2009.

Boscov's, is close to bankruptcy, the *New York Post* reported. Approximately half of Boscov's major suppliers have halted merchandise shipments due to a lack of payment. Moreover,

factors such as CIT, GMAC, and Milberg have stopped guaranteeing orders bound for the retailer's stores. The newspaper did not cite its sources. Just three weeks earlier, the Boscov family put \$28 million into the business.

H&M has opened a new 25,000 sq ft duplex in Westfield Southcenter outside of Seattle, WA, its first store in the area.

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Hi Tech Entertainment

Amazon.com issued guidance for FY2008 after they reported a strong second quarter. Revenues are expected to be between \$19.35 billion and \$20.10 billion, up 30% to 35% vs 2007. Operating income is expected to be between \$745 million and \$920 million, up 14% to 40% vs 2007.

Amazon.com is partnering with TiVo to allow consumers to click and place items advertised on TV shows directly into their Amazon shopping cart through TiVo's Product Purchase feature.

Radio Shack's strong second quarter benefited from promotions and sales of digital TV converter boxes (see the scorecard for details).

Management said stores staffed up for the promotions, and to remedy customer service issues. Also, according to an analyst report, RadioShack may test a mobile phone store format this fall.

Staples, Inc. announced the settlement of the post acceptance period for all the outstanding Corporate Express shares and bonds that were tendered in the buyout offer.

Blockbuster is testing its Movielink movie download service with 500 selected customers for now, but will expand the test to more and more customers leading up to an official launch of Movielink in August. Blockbuster bought the video-download firm last year.

Upcoming Reporting Dates

Company	Event	Date
99 Cents Only Stores	Quarterly Results	Aug 7, 2008
Bebe Stores	Quarterly Results	Aug 21, 2008
Big 5 Sporting Goods	Quarterly Results	Jul 31, 2008
Blue Nile	Quarterly Results	Aug 5, 2008
Brown Shoe Company	Quarterly Results	Aug 27, 2008
Cabela's	Quarterly Results	Jul 31, 2008
Crane	Quarterly Results	Jul 28, 2008
CVS Caremark	Quarterly Results	Jul 31, 2008
Drugstore.com	Quarterly Results	Jul 31, 2008
Express Scripts	Quarterly Results	Jul 30, 2008
Golfsmith	Quarterly Results	Aug 5, 2008
HHGregg	Quarterly Results	Aug 6, 2008
Hibbett Sporting Goods	Quarterly Results	Aug 21, 2008
Interline Brands	Quarterly Results	Aug 4, 2008
Mothers Work	Quarterly Results	Jul 29, 2008
Office Depot	Quarterly Results	Jul 30, 2008
OfficeMax	Quarterly Results	Jul 29, 2008
PC Connection	Quarterly Results	Jul 31, 2008
PC Mall	Quarterly Results	Jul 29, 2008
Rent A Center	Quarterly Results	Jul 29, 2008
Spartan Stores	Quarterly Results	Jul 30, 2008
Sport Chalet	Quarterly Results	Jul 30, 2008
Staples	Quarterly Results	Sep 3, 2008
United Rentals	Quarterly Results	Jul 30, 2008
Whole Foods Market	Quarterly Results	Aug 5, 2008

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
DOLLAR GENERAL CORP	B	B	STABLE	NEGATIVE	D
WALGREEN COMPANY INC	A+		STABLE		B-
CARROLS HOLDING CORP	B+	B+	NEGATIVE	STABLE	E+
WYNDHAM WORLDWIDE CORP	BBB-	BBB	STABLE	NM	C-

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Heard in the Grocery Aisle

Stop & Shop will unveil a new logo and livery next month, according to an article in the *Boston Herald*. The Ahold-owned chain is also expanding prepared food offerings and is testing a color-coded recipe ingredients concept called, "Choose and Cook."

Supervalu, Inc. updated their FY2009 guidance. GAAP earnings are now projected to be \$3.00 to \$3.16 per share on sales of approximately \$45 billion. EPS of \$.06 and sales of \$800 million will come from the 53rd week in the fiscal year.

California bill AB 523 would ban the sale of alcohol at **Fresh & Easy** stores and other stores which only offer self-checkout. Right now, self-checkout hardware stops a transaction until a store clerk verifies ID, but the new law would require a staffed checkout line for alcohol.

Market share news from the U.K.: **Tesco's** U.K. market share has fallen to 31.3% from 31.5% last year, for the 12 weeks ended July 13, while Wal-mart's **Asda** banner saw its market share rise to 16.9% from 16.7%, according to TNS World Panel market share data.

Minyard Food Stores Inc. is selling 37 stores and its Carnival brand to Grocers Supply Co. Fiesta Mart will take over 11 of the stores. Minyard will retain 21 Minyards, Sack N Save and Carnival stores which will all be converted to Minyards.

Stop & Shop has sued **Whole Foods**, claiming that Whole Foods' "The Real Deal" logo is identical to Stop & Shop's logo and a Whole Foods' "Real Steal" sign that identifies bargain items is substantially similar.

Did You Know...?

The Composite Index of Leading Economic Indicators dipped 0.1% in June, following a 0.2% decline in May, and a 0.1% increase in April, the Conference Board reported.

FYI for the DIY

Building materials distributor **Bradco Supply** has been acquired by Advent International, a private equity firm. Bradco has approximately \$1.7 billion in annual sales and 154 locations.

Orgill is building a new distribution center in Sikeston, MO. The 795,000 sq ft facility will replace two existing DCs when it opens in August 2009, and will serve the Midwest and mid-South regions.

ABC Supply Co. opened a new 41,000 sq ft location in Savage, MN.

Home Depot is planning a new rapid deployment center for Dixiana, S.C., *Home Channel News* reported.

Five Star Products, Inc. issued 7,000,000 shares of Five Star common stock to NPDV Acquisition Corp. upon the conversion by NPDV of a convertible \$2.8 million promissory note.

Tractor Supply narrowed FY2008 sales growth outlook slightly to a range of \$2.98 billion to \$3.03 billion from its prior guidance range of \$2.98 billion to \$3.04 billion. TSCO expects income in the range of \$2.49 to \$2.55 per diluted share.

True Value hardware stores are doing pretty well, said CEO Lyle G. Heidemann in a *Wall Street Journal* interview. The cooperative is on track to add 1.5 million square feet between

2006 and 2009. He said that their members seeing both core hardware and home improvement sales that compare favorably with the big boxes. True Value reports their second quarter in August.

W.W. Grainger Inc. paid the United States \$6 million to settle allegations that the company sold products to government agencies at a higher markup than allowed by Grainger's GSA contract, and that some of those products came from China and Taiwan in violation of the contract.

Wolseley, the parent company of **Stock Building Supply** and **Ferguson Enterprises**, reported an 8% drop in revenues for its North American division during the 11-month period ended June 30, 2008. Earnings for the division, which also includes Wolseley's Canadian operations, fell 46%.

Harvard's Joint Center for Housing Studies updated their **Leading Indicator of Remodeling Activity (LIRA)** projections of spending on home improvements through Q109. Here's the grim outlook:

Qtr	Total Spending on Home Improvement	y-o-y change
Q308	\$134.1 billion	-7.1%
Q408	\$126.3 billion	-9.2%
Q109	\$122.0 billion	-11.1%

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Specialty Items

Aaron Rents raised earnings guidance for 2008 to a range of \$1.54 to \$1.64 a share from \$1.40 to \$1.55. Revenue guidance for the full year of approximately \$1.7 billion remained the same.

United Rentals' Dutch auction resulted in 27,160,000 shares—or about 31.4% of its outstanding stock—being accepted for purchase at \$22.00 per share. The offer was oversubscribed, and only 37.66% of shares offered were accepted. Also, as a result of the

buyback, United Rentals adjusted the conversion price of several classes of convertible securities.

Cost Plus reported that PIN pads at eight Southern California stores may have been compromised, resulting in customers' account and PIN numbers being stolen. The company is replacing all PIN pads nationwide and has implemented changes in POS procedures.

Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
Bebe Stores, Inc.	\$167.2	\$160.9	3.9%	-5.6%	tba	tba	tba
Cache, Inc.	\$74.0	\$71.0	4.2%	3.0%	\$2.1	\$1.3	61.5%
Charlotte Russe Holding, Inc.	\$193.2	\$180.3	7.2%	-6.5%	\$6.6	\$10.1	-35.2%
Mothers Work, Inc.	\$152.2	\$153.2	-0.7%	2.4%	tba	tba	tba
Mass Merchants							
99 Cents Only Stores	\$304.9	\$293.0	4.1%	-0.5%	tba	tba	tba
Overstock.com	\$188.8	\$149.0	26.7%	NA	(\$6.5)	(\$13.8)	52.9%
Sports & Footwear							
GSI Commerce	\$193.2	\$131.3	47.1%	NA	(\$19.0)	(\$5.0)	-280.0%
West Marine, Inc.	\$226.7	\$247.1	-8.3%	-7.8%	\$4.4	\$20.8	-78.6%
WinMark Corporation	\$8.7	\$7.6	14.5%	NA	\$0.9	\$0.4	116.3%
Specialty							
Ethan Allen	\$235.9	\$258.5	-8.7%	-11.1%	\$11.1	\$20.5	-45.9%
Haverty Furniture	\$168.4	\$187.1	-10.0%	-12.7%	tba	tba	tba
Jennifer Convertibles	\$26.8	\$30.3	-11.6%	-19.8%	(\$0.6)	\$1.7	-135.3%
Tuesday Morning Corp.	\$196.5	\$219.4	-10.4%	-12.7%	tba	tba	tba
Home Centers							
Fastenal Company	\$604.2	\$519.7	16.3%	NA	\$76.2	\$60.3	26.4%
Sherwin-Williams Company	\$2,229.5	\$2,198.2	1.4%	-4.5%	\$171.7	\$202.6	-15.3%
Tractor Supply Company	\$898.3	\$790.9	13.6%	3.4%	\$47.0	\$43.8	7.3%
W.W. Grainger	\$1,756.9	\$1,601.0	9.7%	NA	\$113.2	\$104.8	8.0%
Wesco International	\$1,587.8	\$1,518.1	4.6%	NA	\$60.1	\$59.6	0.8%
Food							
Great Atlantic & Pacific Tea C	\$2,922.7	\$1,679.2	74.1%	3.2%	\$2.2	(\$65.1)	103.4%
Loblaw Companies Limited	\$7,037.0	\$6,933.0	1.5%	0.7%	\$140.0	\$119.0	17.6%
Nash Finch Company	\$1,042.0	\$1,064.0	-2.1%	-3.9%	\$10.1	\$9.6	5.2%
Safeway, Inc.	\$10,120.0	\$9,823.3	3.0%	-0.3%	\$234.3	\$218.2	7.4%
Supervalu Inc.	\$13,347.0	\$13,292.0	0.4%	-0.9%	\$162.0	\$148.0	9.5%
Weis Markets, Inc.	\$603.4	\$578.8	4.3%	4.3%	\$12.8	\$18.2	-29.7%
Drug							
AmerisourceBergen Corp	\$17,507.5	\$15,289.7	14.5%	NA	(\$108.0)	\$129.9	-183.1%
McKesson Corp.	\$26,704.0	\$24,528.0	8.9%	NA	\$235.0	\$235.0	0.0%
Shoppers Drug Mart	\$2,109.3	\$1,928.1	9.4%	4.6%	\$128.3	\$112.2	14.3%
High-Tech & Electronics							
Aaron Rents, Inc.	\$411.2	\$359.0	14.5%	4.1%	\$23.3	\$19.7	18.3%
Amazon.com, Inc.	\$4,063.0	\$2,886.0	40.8%	NA	\$158.0	\$78.0	102.6%
Ingram Micro Inc.	\$8,816.6	\$8,186.1	7.7%	NA	\$58.9	\$52.4	12.4%
RadioShack Corporation	\$994.6	\$934.8	6.4%	6.9%	\$41.4	\$47.0	-11.9%

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Retailer of the Week: Nash Finch Company

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Losing the Martin's contract caused **Food Distribution** revenues to fall 4.3% to \$1.2 billion. Excluding the impact of this customer (previously one of Nash Finch's largest clients), sales for the food distribution segment increased by 1.4%. Having recently anniversaried the loss of that contract, this segment will be on an apples-to-apples comparison beginning in Q3 2008. In an effort to grow both margins and sales, Nash Finch has focused upon inking smaller supermarket chains. CEO Covington noted that the successful integration of new business will be the unit's top priority during the third quarter of 2008. The more disciplined approach to enhancing distribution profit margins allowed this unit to improve its margin by 67 basis points to 3.8%. The Food Distribution division's operating profit grew by 16% to \$45.8 million during the first six months of 2008. Managing transportation costs still remains a high priority, as these expenses cut into profits. Furthermore, fuel surcharges strain relations with customers.

Sales for the **Military Supply** segment grew 5.2% to \$601.9 million in the first six months of 2008. Management attributed this revenue growth to a 1.8% increase volume of 1.8% and a 3.4% rise in commodity prices. Domestic sales growth equaled 6.5%. Overseas revenues increased 2.2%. Better inventory management practices and expense controls allowed the Military Supply segment to boost operating margins by 22 basis points to 3.6%. Segment profit increased 12% to \$21.9 million during this period. This continues to be Nash Finch's most consistent performing segment.

Nash Finch continues to reduce the size of its **Retail** business while improving the quality of existing locations. During the first half of fiscal 2008, Nash Finch closed 4 stores and acquired 2 locations, leaving it with 60 supermarkets. Revenues declined 2.9% to \$268.1 million. CEO Alec Covington stated that this decrease was due to the reduced store count and several large-scale remodeling projects that limited sales. Comparable store sales decreased 2.2% for the year-to-date period, caused by customers trading down to generic and private-label products (see Comparable Store Sales). Nash Finch reported having great success with its Avanza banner, which generated same store sales growth of 13% during the first six months of the fiscal year. On a year-to-date basis, the retail operation saw its retail operating margin fall 81 basis points to 3.4%. Nash Finch's retail operating profit fell by 20%; however, management explained that the decline was the result of some planned one-time expenses aimed at fixing locations. GCS suspects that Nash Finch's new-found interest in sprucing up these stores is part of an effort to find potential buyers.

Corporate Overhead fell 5.8% to \$41.2 million during the first 24 weeks of fiscal 2008. SG&A declined 20 basis points to 6.1% of sales. The decline was attributable to decreased bad debt reserves and complications involving a lease obligation.

LIQUIDITY & FINANCIAL STRUCTURE

At the close of Q2 2008, Nash Finch's newly obtained \$300 million bank agreement had \$141.2 million of availability on it. Direct borrowings against this facility totaled \$142.9 million. Furthermore, Nash Finch had outstanding letters of credit totaling \$15.9 million pledged against the new bank line. As of mid-June 2008, asset-side liquidity was limited, with cash and equivalents totaling \$0.9 million. During April 2008, the existing agreement was obtained to replace Nash Finch's previous term loan and revolver (see Bank Reference).

Cash flow from operations of \$22.9 million more than covered capital expenditures of \$9.9 million. Nash Finch's current debt equaled \$3.9 million. Total debt has experienced a 6% rise on a year-to-date basis to \$296.7 million due to the revolver borrowings on the new agreement being higher than December borrowings against the old facility. The majority of the firm's non-revolver debt is formed by \$150 million of senior subordinated convertible debt, 3.5% due in 2035. The firm's tangible net worth improved 29.3% to \$80.9 million. The company's tangible net worth may not improve significantly as the firm has begun repurchasing shares; during fiscal 2008, Nash Finch has bought back \$14.3 million of its common stock.

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