

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*Regret is an appalling waste of energy. You can't build on it; it is only good for wallowing in.*

## Back To School Problems For Clothiers

With the benefits of their stimulus checks dried up, consumers are focusing even more on necessities like detergent and milk. That's creating big problems for apparel chains at the malls, as the important back-to-school shopping season gets under way.

Even more ominous: The number of newly laid-off people unexpectedly hit the highest level in more than six years, according to a government report last week.

Sales reports for July from the nation's retailers show a widening gap between low-price operators and fashion chains, and analysts say the next couple of months will be critical for clothing stores that are on the cusp.

But discounters such as Wal-Mart will have its challenges as well.

The world's largest retailer, whose July sales results were slightly below Wall Street estimates, said that it's seeing customers increasingly unable to stretch their dollars to the next payday. It also predicted that August's sales pace would be slower than July.

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## Retailer of the Week: Overstock.com, Inc.

We are **reaffirming Overstock as an "E" high-risk credit, while changing the outlook to "stable."** After a number of very progressive quarters, the second quarter was sort of a disappointment for the firm. The company's GCS calculated EBITDA slipped back into the red for the three months, breaking a three quarter streak that the firm was on. The firms operations were certainly much better during this quarter then they were a year ago, but there is still room for improvement. The company's balance sheet remained decent, as the cash and equivalents was still enough to cover up the entire current liability portfolio.

Overstock seems to have found its niche in fulfillment. The company's fulfillment partners grew to 870 at the end of the second quarter, up from just 550 a year ago. This is clearly the area the company needs to exploit for its future success. There is still a long uphill battle ahead, and with Amazon continuing to impress, Overstock will face stiff competition.

### OPERATIONAL PERFORMANCE

\$ figures in millions 6-Months ended	06/30/2008 (Q2 YTD FY08)	06/30/2007 (Q2 YTD FY07)	Year-over- Year Change
<b>Liquidity Ratios</b>			
Cash and Equivalents	\$86.7	\$93.0	-6.80%
Cash and Equivalents % Current Liabilities	122.31%	141.02%	-1,871 bps
Working Capital	\$58.4	\$63.3	-7.74%
Current Ratio	1.82x	1.96x	-14 bps
<b>Leverage Ratios</b>			
EBITDA / Interest Expense	0.85x	negative EBITDA	n/a
Total Debt	\$75.8	\$75.5	0.46%
Total Debt / Equity	920.62%	237.11%	68,351 bps
Total Liabilities / Total Assets	94.79%	81.97%	1,282 bps

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## Back To School Problems For Clothiers

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July is among the least important months of the year for retailers since stores are clearing out summer goods to make room for back-to-school merchandise. So analysts will pay closer to attention to August and September to gauge the fall selling period. Still, the July figures do provide a glimpse of shoppers' willingness to spend.

Many mall-based apparel stores and department stores including teen retailer Abercrombie & Fitch Co., Gap Inc. and J.C. Penney Co. suffered deeper declines in July, while luxury stores like Saks Inc. also struggled with weaker sales.

With some exceptions, the apparel industry has been plagued in recent years with the lack of must-have trends, but a challenging economy is forcing shoppers to cut back even more. And the financial woes are not evaporating anytime soon. Shoppers are struggling with higher food and gas bills, tighter credit, a persistent housing slump and increasing layoffs.

The Labor Department reported that the number of newly laid-off people signing up for benefits rose by a seasonally adjusted 7,000 to 455,000 for the week ending August 2nd, putting claims at their highest level since late March 2002.

Such a harsh environment has contributed to a spate of bankruptcy filings from apparel sellers. Last week Boscov's Department Store LLC filed for Chapter 11 protection, following by a week a Chapter 11 filing by Mervyns LLC which was preceded by the Chapter 11 filing of Steve & Barry's LLC, once a growing force in low-priced fashion.

The fate of other struggling apparel stores will rest on how they fare in the next couple of months. But Michael P. Niemira, chief economist at the International Council of Shopping Centers, believes that if the climate worsens, stores on the brink may not wait until after the holiday season to file for bankruptcy protection. He estimates that the November-through-January period accounts for as much as 40% in profits and about 30% of sales.

Feedback?

Questions?

Suggestions?

[Click Here](#)

## Heard in the Grocery Aisle

**Kroger** has begun talks with UFCW Local 1059 in Columbus, OH, well in advance of the expiration of the current contract on Nov. 9. The local represents 10,000 workers at 87 stores.

**Bashas** is partnering with MediMin, Inc., to open retail health care clinics in Bashas' stores. MediMin's clinics use nurse practitioners and physician assistants with physician oversight.

**Ingles Markets Inc.** sales increased 13.1% to \$835.3 million for its fiscal third quarter. Income fell 19.1% to \$15.97 million

Canadian grocer **Metro Inc.** will rebrand its 158 stores and five banners in Ontario under the Metro name this Fall. The company will spend \$200 million on store facelifts and marketing to support the consolidation.

**Safeway** will sell its house brands, O Organics and Eating Right, to other grocery chains. O Organics is expected to have sales of \$400 million this year, with Eating Right bring in another \$200 million.

**Fresh & Easy** has received more than 10,000 applications for 750 jobs to be filled between now and September.

Sacramento, CA grocery chain **Raley's** is cutting its television commercials completely in favor of radio and print, according to a report in the *The Sacramento Bee*.

**Minyard Food Stores Inc.** warned of up to 2,387 layoffs from the previously announced sale of Carnival and other stores to Grocers Supply Co. Inc., according to the *Dallas Business Journal*. Grocers Supply Co. said the new operators may rehire some of the laid off workers.

**Whole Foods** sales increased 21.6% to \$1.8 billion for their third quarter ended Jul 6; however, profits fell 30.9% to \$49.0 million. The company's quarterly comp growth of 2.6% marked an all-time low. The firm will reduce the number of stores slated to open to about 15 from earlier plans of between 25-30 stores. The new stores will be between 35,000-50,000 sq ft.

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## Bankruptcy Blotter

July was the hottest month for bankruptcy filings since Congress' overhaul of the Bankruptcy Code took effect in October 2005, as 5,664 businesses sought to liquidate or restructure under bankruptcy protection.

Amid the rapid downturn in auto sales, as many as one-third of all auto suppliers in North America are at risk for bankruptcy, according to a new study from consulting firm **Grant Thornton**.

**Boscov's Inc.**, which filed for Chapter 11 bankruptcy protection last week, won court approval to borrow on a \$250 million Dip facility with Bank of America, pending a final hearing on August 28<sup>th</sup>.

In addition to the above, **Boscov's** received court permission to auction off the right to conduct closing sales at 10 of its 49 stores. Liquidator Gordon Brothers will serve as the lead bidder at the August 12<sup>th</sup> auction. Approval of the top bidder is expected at a hearing on August 14<sup>th</sup>.

**Steve & Barry's LLC** won court approval to auction its assets this month, with **Bay Harbour Management** opening bid of \$163 million, subject to higher bids. Competing bidders have until August 14<sup>th</sup> to submit offers before the auction. Court review of the bids and the approval of the winning bidder is expected at an August 19<sup>th</sup> hearing.

**Burnside Avenue Lot Stores Inc.**, which currently operates 24 discount general merchandise stores under the name Lot Stores, sought bankruptcy protection last week. At its peak, the company operated 64 stores, closing more than half of them since last year. The company intends to continue operation at this time.

## Mass Merchant Musings

Discounter **99 Cents Only Stores** reported a loss of \$1.5 million for its first quarter ended June 28, 2008, versus net income of \$3.0 million for the comparable period last year after getting slammed with rising food and energy costs. Total sales for the quarter rose to \$304.9 million from \$293.0 million last year.

**Wal-Mart** suffered a defeat last week when Canada's Supreme Court agreed to hear a challenge of the company's 2005 decision to close a Quebec store that had been the first in

**Whitehall Jewelers** is seeking court approval to employ a joint venture comprised of **Great American Group LLC**, **Hudson Capital Partners LLC** and **Silverman Jeweler Consultants Inc.** to conduct GOB sales at its 373 stores. Whitehall has opted to take the liquidation route following a July 31<sup>st</sup> auction that did not yield any successful offers. Net proceeds from the sales are expected to be about \$68 million, which is what Whitehall owes secured lenders.

**Mervyn's LLC** is seeking court approval to pay approximately \$25 million to its key vendors for goods shipped prior to the start of the bankruptcy case in order to keep merchandise on its shelves for the back-to-school season. Mervyn's would tap a DIP loan from a group led by **Wachovia Corp.** to pay the vendors' pre-bankruptcy claims.

**Andrez D.** and **Karen E. Garza**, former owners and operators of a **Golf Etc.** store in Thornton, Colorado filed for Chapter 7 bankruptcy on July 30<sup>th</sup>. According to the petition, unsecured creditors are owed approximately \$475,000.

**Hancock Fabrics, Inc.** emerged from Chapter 11 protection on August 1<sup>st</sup> following the confirmation of its Plan of Reorganization on July 22<sup>nd</sup>. In conjunction with the Plan, the company successfully closed on a \$100 million exit financing facility provided by **GE Commercial Finance Corporate Lending** and has issued \$20 million of secured notes and warrants in connection with a right offering to certain of its shareholders.

**Delphi Corp.'s** second quarter net loss narrowed to \$551 million versus \$821 million for the second quarter last year, in spite of a 28% decrease in sales to its biggest customer **General Motors Corp.**

North America to obtain union certification. The Court gave no hint of which way it was leaning on the issue, but its decision to hear the case keeps the workers' hopes alive.

**Canadian Tire** lowered its FY2008 earnings guidance to a range of \$4.75 to \$5.05 per share, down from \$5.15 to \$5.40 per share. Management cited an inventory adjustment at Mark's, higher inventory at Canadian Tire, and lower second quarter earnings at Canadian Tire and Mark's.

### Did You Know...?

*The Nielsen forecasts 2.6% growth or more than \$1.57 billion in school and office supply sales in U.S. grocery, drug and mass merchandiser stores during the core Back to School season of mid-July through early September.*

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## Off the Rack

**U.S. sales of apparel and footwear** fell .8% in July, according to MasterCard's SpendingPulse research. Women's apparel was off 3.3%, but men's apparel increased 0.9%. Footwear sales were down 0.9%.

**Ross Stores** bumped their earnings guidance slightly to \$.53 to \$.54 per share for the second quarter vs. \$.51 to \$.53 given prior.

**Aeropostale, Inc.** raised its second quarter earnings guidance to \$0.30 to \$0.31 per share from its previously issued guidance of \$0.25 to \$0.26 per share.

**Christopher & Banks Corp.** will shutter all 36 Acorn stores by the end of 2008, citing poor potential for long-term return. The Company will take \$5.4 - \$8.4 million in cash charges for lease terminations and store closing costs and \$1.6 million in non-cash asset impairment charges, all in their current fiscal year.

**The Children's Place Retail Stores, Inc.** entered into a credit agreement with Wells Fargo and other lenders, for a \$200 million asset

based revolving credit facility. The company also issued \$85 million of secured notes to retire older debt.

Also, **Children's Place** completed the transfer of a substantial portion of the **Disney Store** business and assets to affiliates of The Walt Disney Company.

**TJX Companies** raised its second quarter earnings guidance to a range of \$.44 to \$.45 per share, which included a \$.02 per share impairment charge related to Bob's Stores.

**JCPenney** raised second quarter earnings guidance to a range of \$0.50 to \$0.52 per share from prior guidance of \$0.38 per share. Management credits sell-throughs of sale merchandise as well as cost savings from the company's "Bridge Plan."

**Cato Corp.** closed 47 underperforming stores at the end of July. Costs from the store closures caused the company to adjust earning guidance for the second quarter down to \$.40 to \$.42 versus previous guidance of \$.42 to \$.44.

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## The Global World of Sports and Footwear

**Sport Supply Group** has amended its revolving credit agreement and its board has authorized management to repurchase up to \$15.0 million of its senior subordinated convertible bonds due November 2009. Approximately \$1.5 million of the original \$50 million have been purchased already.

**Gander Mountain** launched a revamped website at GanderMtn.com. The new site offers 10,000 items as well as community features such as a "bragging board" for posting fishing and hunting stories.

**Sportz Outdoor**, a 38,000 sq. ft. specialty outdoor store, has been sold to Duane Kinsley by industry veteran Art Gardenswartz. Kinsley owns a store called Sport Systems, but intends

to retain the Sportz Outdoor location and operation and shutter his store by fall. Kinsley has also acquired [www.runbargains.com](http://www.runbargains.com) and [www.geardirect.com](http://www.geardirect.com) from Gardenswartz.

**Twins Enterprises** opens a 2,300 sq. ft. flagship store under the '47' banner, for the year the business was founded by twin brothers Arthur and Henry D'Angelo, on Newbury Street in Boston.

**Under Armour** opened its third store, 4,600 sq. ft. in the Boston market's Natick Collection venue, Aug. 7.

**All Sports Trader**, an online platform for buying and selling SG and sharing local sports information, launches on the web.

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## Options and Resources

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## Hi Tech Entertainment

**REX Stores** has authorized a share buy-back of an additional 500,000 shares after the company exhausted the 500,000 share repurchase authorized by its board in June.

**Circuit City** has reduced returns of high-tech products by offering web-based tech support, *Internet Retailer* reported. The company has outsourced the support to Plum Choice, which has a network of home-based employees.

**Best Buy** finished rolling out 965 Best Buy Mobile shop-in-shops three months ahead of schedule. There are also 15 stand alone Best

Buy Mobiles in mall locations. BBY claims a 10x year-over-year increase in higher-end, multimedia phone sales at Best Buy Mobile stores.

Also, **Best Buy** has opened a new store in the Mall of America's West Market.

**hhgregg** sales increased 16.2% to \$295.4 million for the first quarter on the strength of new store performance. Comp store sales fell 2.6% and net income fell 26.8% to 2.1 million. HGG is increasing the number of planned new store openings in FY2009 from 15-17 to 18-20.

## Upcoming Reporting Dates

Company	Event	Date
A.C. Moore Arts & Crafts	Quarterly Results	Aug 11, 2008
Abercrombie & Fitch	Quarterly Results	Aug 15, 2008
Barnes & Noble	Quarterly Results	Aug 21, 2008
Bebe Stores	Quarterly Results	Aug 21, 2008
Big Lots	Quarterly Results	Aug 26, 2008
BJ's Wholesale Club	Quarterly Results	Aug 20, 2008
Bon Ton Stores	Quarterly Results	Aug 21, 2008
Brown Shoe Company	Quarterly Results	Aug 27, 2008
Building Materials Holding Corp	Quarterly Results	Aug 14, 2008
Cato Corp.	Quarterly Results	Aug 21, 2008
Chico's FAS	Quarterly Results	Aug 26, 2008
Citi Trends	Quarterly Results	Aug 20, 2008
Dollar Tree	Quarterly Results	Aug 27, 2008
Drugstore.com	Investor Conference	Aug 13, 2008
Drugstore.com	Investor Conference	Sep 4, 2008
Finlay Enterprises	Quarterly Results	Aug 27, 2008
GameStop	Quarterly Results	Aug 21, 2008
Gap, Inc.	Quarterly Results	Aug 21, 2008
Gymboree Corporation	Quarterly Results	Aug 20, 2008
Hibbett Sporting Goods	Quarterly Results	Aug 21, 2008
Home Depot	Quarterly Results	Aug 19, 2008
JCPenney	Quarterly Results	Aug 15, 2008
Jo-Ann Stores	Quarterly Results	Aug 27, 2008
Kirklands, Inc.	Quarterly Results	Aug 28, 2008
Kohl's Corporation	Quarterly Results	Aug 14, 2008
Limited Brands	Quarterly Results	Aug 20, 2008
Nordstrom	Quarterly Results	Aug 14, 2008
Ross Stores	Quarterly Results	Aug 20, 2008
Sears Holdings	Quarterly Results	Aug 28, 2008
Spartan Stores	Annual Meeting	Aug 13, 2008
Stage Stores	Quarterly Results	Aug 21, 2008
Staples	Quarterly Results	Sep 3, 2008
Stein Mart	Quarterly Results	Aug 21, 2008
Tech Data Corp.	Quarterly Results	Aug 21, 2008
The Talbots	Quarterly Results	Aug 27, 2008
TJX Companies	Quarterly Results	Aug 12, 2008
Wal-Mart	Quarterly Results	Aug 14, 2008
Wet Seal	Quarterly Results	Aug 21, 2008

### Did You Know...?

Consumer spending, after adjusting for inflation, fell 0.2% in June as shoppers were hit with the second-biggest increase in prices in nearly three decades. The big rise in inflation ate up a part of the billions of dollars in stimulus payments delivered during the month.

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## FYI for the DIY

**Lumber Liquidators** upped its FY2008 sales guidance to a range of \$480 to \$490 million from \$475 to \$490 million guided previously. Earnings are guided to a range of \$0.73 to \$0.78 from \$0.70 to \$0.78 per share previously.

**Tractor Supply Co.** has doubled its share repurchase program to \$400 million. As of June 28, TSCO had bought back \$178 million of its stock under the program.

The ERISA lawsuit brought against **Home Depot** by former employees has been given

new life by an appeals court ruling. The court ruled that participants who lost money in their 401(k) plans may sue the company to recover losses. The company-managed plan invested in HD stock—a poor investment choice according to plaintiffs.

Some of **Building Materials Holding Corporation's** lenders have formed a group "in order to discuss matters of mutual interest based on publicly available information" related to BHMC's \$340 million term loan.

## Specialty Items

**Blue Nile, Inc.** raised sales guidance for FY2008 after reporting their second quarter. Sales and EBITDA are now forecast at mid-single digit percentage growth, but with a goal of flat earnings per share.

**1-800-Flowers.com, Inc.** revenues increased 0.7% to \$919.4 million for the year ended June 29. Net income grew 23% to \$21.1 million.

Looking ahead to FY2009, the company projects revenue growth of approximately 10% and earnings growth of approximately 20%.

**Movado Group, Inc.** will cut 90 jobs—about 6% of its workforce and 10% of its payroll expense. The cuts are part of an expense reduction plan, and will primarily affect its corporate and shared service departments.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
ORIENTAL TRADING COMPANY INC/ DBA FUN EXPRESS	CCC+	B-	NEGATIVE	NEGATIVE	NR
ASBURY AUTOMOTIVE GROUP INC	BB-	BB-	NEGATIVE	STABLE	E+
BUILDING MATERIALS HOLDINGS INC/BMC WEST	B-	B-	NM	NEGATIVE	E
RADIOSHACK F/K/A TANDY CORP	BB	BB	NEGATIVE	NEGATIVE	C+
WHOLE FOODS MARKET INC	BB	BB+	NEGATIVE	NEGATIVE	C
FIDELITY NATIONAL TITLE CO	A	A	NEGATIVE	STABLE	NR
CSK AUTO CORP NOW PART OF O'REILLY AUTOMOTIVE	NR	B-	NR	NM	E+
INN OF THE MOUNTAIN GODS	B	B	NEGATIVE	STABLE	E+

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## Management on the Move

**Movie Gallery, Inc.** board member **Joe T. Malugen** has resigned. **S. Page Todd**, EVP, Secretary, General Counsel and Chief Compliance Officer has also departed the company.

**Spartan Stores, Inc.** appointed **Dennis Eidson** as CEO effective October 15, 2008. Eidson is currently President and COO.

**Charlotte Russe, Inc.** made several executive moves:

- **Len Mogil**, currently interim CEO, will assume the additional position of interim CFO, replacing **Patti Johnson**, who resigned.
- **Edward Wong**, currently EVP and Chief Supply Chain Officer, has been promoted to COO
- **Sandra Tillett**, currently SVP of Store Operations, has been promoted to EVP of Store Operations
- **Zina Rabinovich**, currently VP and Corporate Controller, has been promoted to SVP and Corporate Controller.
- **Kara Stangl** and **Jennifer Mitchell** have both been promoted to SVP of Merchandising, replacing **Patti Shields** who resigned.

**Wesco Int'l** announced that **David Bemoras** will take over as VP of Operations when **Steven J. Riordan** retires on Sep 1. Bemoras is currently VP, Sales and Marketing of Communications Supply Corporation.

**Retail Ventures, Inc.** announced it will not renew President and CEO **Heywood Wilansky's** employment agreement when it expires on Jan 31, 2009, citing "cost savings objectives."

**Eddie Bauer Holdings, Inc.** named **Pirkko Karhunen** as SVP Design.

**Food Lion** promoted **Carol Herndon** to CFO and CAO. Prior, Herndon was EVP of Accounting and Analysis and Information Technology.

At **dELiA's, Inc.'s** annual meeting, the board elected **Carter S. Evans** as non-executive Chairman.

**Target Corp.** has promoted **Laysha Ward** to president of Community Relations and Target Foundation. Ward has been with Target since 1991.

**Delhaize Group** added former Revlon CEO **Jack L. Stahl** to its board as independent director.

**Hudson's Bay Company** appointed **Bonnie Brooks** President and CEO of the Bay. Brooks comes from Lane Crawford Joyce Group in Hong Kong, where she was President.

**Bon-Ton Stores** has asked **Byron L. (Bud) Bergren** to continue in his role as President and CEO through February 5, 2010.

**Zale Corp.** promoted three:

- **Mary Kwan** was named EVP and Chief Merchandising Officer. Kwan was most recently President and Chief Merchandising Officer for Goody's Family Clothing.
- **Theo Killion** was promoted to President. He was EVP of Human Resources, Legal and Corporate Strategy prior.
- **Steve Larkin** is now EVP, Chief Marketing and E-Commerce Officer. Larkin was Zale's SVP, Marketing & E-Commerce.

### Did You Know...?

*The pending home sales index rose 5.3% in June, the National Association of Realtors reported. The index was still down 12.3% from June 2007, however.*

## General Retail News

The **National Retail Federation** applauded the Jul. 31 introduction of H.R. 6713, the **E-Fencing Enforcement Act of 2008**. According to the trade organization, e-fencing is rapidly becoming the preferred method for disposing of stolen retail merchandise by thieves with criminals receiving as much as 70% of an item's retail value when selling online versus 30% on the Street or at a pawn shop. The Congressional bill, if passed into law, would require on-line auction operators to retain information about

high-volume sellers and provide that information to "a person with standing" once a valid police report is filed.

The largest **U.S. identity theft ring** ever was broken up, as the Justice Department charged 11 hackers with stealing 40 million credit card numbers. The data was stolen from the wireless networks of T.J. Maxx/Marshalls, BJ's, Barnes & Noble, Sports Authority, Boston Market, OfficeMax, Dave & Buster's, DSW and Forever 21.

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## Health & Beauty Aids

Two illegal internet pharmacies have been shut down and charges filed against their principals.

**Medical Web Services** allegedly had proceeds of \$41 million from sales of 12 million diet pills.

**Affpower** had more than \$126 million in revenue from over 1 million orders. Doctors at both companies prescribed drugs for patients they had never seen.

PBM **HealthExtras, Inc.** has acquired Immediate Pharmaceutical Services, Inc.—a prescription mail order fulfillment center—from Discount Drug Mart, Inc. HealthExtras will pay \$40 million in cash for IPS, and expects the transaction to be modestly dilutive to 2008 earnings and accretive in 2009.

**Cardinal Health** revenue for FY2008 ended June 30 grew 5% to \$91 billion. GAAP earnings from continuing operations rose 58% to \$1.3 billion. Non-GAAP EPS was up 11% to \$3.80. For FY2009, Cardinal is forecasting revenue

growth of 6 to 7%, and non-GAAP diluted EPS from continuing operations in a range of \$3.80 to \$3.95.

**Walgreen Co.** has sued **CVS Caremark Corp.** for allegedly preventing WAG from getting the same terms from Blue Cross and Blue Shield of Tennessee. According to the complaint, CVS has the exclusive right to dispense drugs via mail-order for the plan.

**Walgreens** subsidiary Walgreens-OptionCare has formed a joint venture with MedNow, Inc. to provide home-care services.

Also, **Walgreens** is now offering a 90-day supply of over 400 generic medications for \$12 through its Prescription Savings Club.

**Sav-Mor Drug Stores** is now offering discounts on 300 generic drugs: \$4 for a 30-day supply and \$11.99 for a 90-day supply.

## Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<b>Apparel</b>							
Aeropostale, Inc.	\$377.1	\$311.2	21.2%	11.0%	tba	\$14.7	tba
American Eagle Outfitters	\$688.8	\$703.2	-2.0%	-9.0%	tba	\$81.3	tba
Bon Ton Stores, Inc.	\$673.4	\$708.6	-5.0%	-5.7%	tba	(\$15.0)	tba
Cache, Inc.	\$74.0	\$71.0	4.2%	3.0%	\$2.1	\$1.3	61.5%
Cato Corporation	\$231.0	\$219.0	5.5%	2.0%	tba	\$12.5	tba
Charlotte Russe Holding, Inc.	\$193.2	\$180.3	7.2%	-6.5%	\$6.6	\$10.1	-35.2%
Chico's FAS, Inc.	\$405.2	\$436.0	-7.1%	-15.9%	tba	\$38.7	tba
Citi Trends, Inc.	\$115.7	\$96.8	19.5%	6.5%	tba	\$0.6	tba
Dillard's, Inc.	\$1,606.7	\$1,649.0	-2.6%	-4.0%	tba	(\$25.2)	tba
Eddie Bauer Holdings	\$233.0	\$227.0	2.6%	8.6%	(\$0.1)	(\$22.2)	99.7%
Gap Inc.	\$3,500.0	\$3,690.0	-5.1%	-10.0%	tba	\$152.0	tba
Gottschalks	\$133.7	\$145.0	-7.8%	-7.3%	tba	(\$4.8)	tba
Gymboree Corporation	\$202.8	\$179.9	12.7%	1.0%	tba	\$5.8	tba
Hot Topic, Inc.	\$166.8	\$161.7	3.2%	-0.9%	tba	(\$1.7)	tba
J.C. Penney Company	\$4,282.0	\$4,391.0	-2.5%	-4.3%	tba	\$175.0	tba
Jo-Ann Stores, Inc.	\$403.0	\$388.5	3.7%	3.3%	tba	(\$18.4)	tba
Kohl's Corporation	\$3,725.5	\$3,589.2	3.8%	-4.6%	tba	\$269.2	tba
Limited Brands	\$2,284.0	\$2,624.0	-13.0%	-7.0%	tba	\$264.0	tba
Mothers Work, Inc.	\$152.2	\$153.2	-0.7%	2.4%	\$4.1	\$1.0	310.0%
Nordstrom, Inc.	\$2,287.0	\$2,390.0	-4.3%	-6.0%	tba	\$180.4	tba
Retail Ventures, Inc.	\$459.8	\$464.6	-1.0%	-5.1%	tba	\$106.2	tba
Ross Stores, Inc.	\$1,640.0	\$1,445.0	13.5%	6.0%	tba	\$50.9	tba
Saks Incorporated	\$663.1	\$687.9	-3.6%	-4.0%	tba	(\$24.6)	tba
Stage Stores, Inc.	\$372.7	\$359.2	3.8%	-1.4%	tba	\$9.9	tba
Stein Mart, Inc.	\$311.6	\$330.7	-5.8%	-9.7%	tba	\$2.2	tba
Talbots, Inc.	\$528.0	\$572.0	-7.7%	-12.0%	tba	(\$13.3)	tba
Wet Seal, Inc.	\$149.1	\$143.3	4.0%	-4.4%	tba	\$6.8	tba
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,095.9	\$1,075.4	1.9%	2.8%	tba	\$23.4	tba
BJ's Wholesale Club, Inc.	\$2,700.0	\$2,295.0	17.6%	15.5%	tba	\$36.3	tba
Canadian Tire	\$2,949.5	\$2,835.1	4.0%	-0.5%	\$97.7	\$122.5	-20.2%

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## Second Quarter Scorecard

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\$ in Millions. Quarter ended closest to 7/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<b>Mass Merchants</b>							
Dollar Tree Stores, Inc.	\$1,093.0	\$971.2	12.5%	6.5%	tba	\$32.6	tba
Fred's, Inc.	\$447.0	\$424.6	5.3%	4.9%	tba	\$3.1	tba
Overstock.com	\$188.8	\$149.0	26.7%	NA	(\$6.5)	(\$13.8)	52.9%
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc	\$43.6	\$42.0	3.8%	6.4%	tba	(\$8.7)	tba
Big 5 Sporting Goods Corp.	\$209.0	\$217.8	-4.0%	-7.6%	\$1.7	\$5.9	-71.0%
Broder Bros., Co.	\$257.6	\$249.4	3.3%	NA	\$8.5	\$5.2	63.5%
Golfsmith International Holdin	\$130.0	\$125.0	4.0%	0.5%	\$8.6	\$6.8	25.8%
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%
<b>Specialty</b>							
Advance Auto Parts, Inc.	\$1,235.8	\$1,169.9	5.6%	2.9%	\$75.4	\$68.4	10.2%
Blue Nile, Inc.	\$73.7	\$72.1	2.2%	NA	\$3.2	\$3.8	-15.8%
Ethan Allen	\$235.9	\$258.5	-8.7%	-11.1%	\$11.1	\$20.5	-45.9%
Finlay Enterprises, Inc.	\$190.6	\$148.0	28.8%	-4.8%	tba	(\$8.5)	tba
Haverty Furniture	\$168.4	\$187.1	-10.0%	-12.7%	tba	(\$1.4)	tba
Jennifer Convertibles	\$26.8	\$30.3	-11.6%	-19.8%	(\$0.6)	\$1.7	-135.3%
Pet Valu	\$44.3	\$38.6	14.8%	8.8%	\$3.6	\$2.8	29.6%
Tuesday Morning Corp.	\$196.5	\$219.4	-10.4%	-12.7%	tba	\$2.0	tba
<b>Home Centers</b>							
Builders FirstSource, Inc.	\$307.3	\$465.1	-33.9%	NA	(\$45.9)	\$8.4	-646.4%
Fastenal Company	\$604.2	\$519.7	16.3%	12.3%	\$76.2	\$60.3	26.4%
Interline Brands, Inc.	\$311.4	\$313.2	-0.6%	NA	\$11.2	\$12.0	-6.7%
Lumber Liquidators	\$128.0	\$105.7	21.1%	2.7%	\$5.9	\$2.3	156.5%
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%
United Rentals, Inc.	\$831.0	\$962.0	-13.6%	NA	\$37.0	\$67.0	-44.8%
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%
<b>Food</b>							
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%
Publix Super Markets	\$5,900.0	\$5,700.0	3.5%	1.3%	\$295.8	\$306.4	-3.5%
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%
<b>Drug</b>							
Abbott	\$7,314.0	\$6,370.6	14.8%	NA	\$1,322.0	\$988.7	33.7%
AmerisourceBergen Corp	\$17,507.5	\$15,289.7	14.5%	NA	(\$108.0)	\$129.9	-183.1%
CVS Caremark Corporation	\$21,140.3	\$20,703.3	2.1%	3.1%	\$774.8	\$723.6	7.1%
Express Scripts, Inc.	\$4,706.5	\$4,574.8	2.9%	NA	\$190.2	\$152.7	24.6%
Longs Drug Stores	\$1,202.0	\$1,274.5	-5.7%	-1.1%	tba	\$26.6	tba
McKesson Corp.	\$26,704.0	\$24,528.0	8.9%	NA	\$235.0	\$235.0	0.0%
Omnicare, Inc.	\$1,550.2	\$1,549.2	0.1%	NA	\$36.8	\$49.2	-25.2%
PharMerica Corporation	\$486.3	\$173.4	180.4%	NA	\$2.9	(\$0.4)	825.0%
Shoppers Drug Mart	\$2,109.3	\$1,928.1	9.4%	4.6%	\$128.3	\$112.2	14.3%
<b>High-Tech &amp; Electronics</b>							
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%
BMTC Group Inc.	\$225.5	\$216.1	4.3%	NA	\$17.1	\$14.9	14.8%
Ingram Micro Inc.	\$8,816.6	\$8,186.1	7.7%	NA	\$58.9	\$52.4	12.4%
Office Depot, Inc.	\$3,605.1	\$3,631.6	-0.7%	-10.0%	(\$2.0)	\$105.6	-101.9%
OfficeMax Incorporated	\$1,984.6	\$2,132.4	-6.9%	-10.0%	(\$894.2)	\$27.4	-3364.4%
PC Connection, Inc.	\$449.4	\$441.0	1.9%	NA	\$5.1	\$5.8	-12.1%
PC Mall, Inc.	\$331.2	\$263.0	25.9%	NA	\$3.0	\$3.0	1.1%
RadioShack Corporation	\$994.6	\$934.8	6.4%	6.9%	\$41.4	\$47.0	-11.9%
Rent-A-Center, Inc.	\$719.0	\$724.2	-0.7%	0.9%	\$37.7	\$41.3	-8.7%

**Did You Know...?**

The USDA reports that the cost of crops and livestock is up 16% this year vs. last year. Grain prices were up 42% for the year overall.

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## Retailer of the Week: Overstock.com, Inc.

*(continued from page 1)*

Revenues for the second quarter ended June 30, 2008 were \$188.8 million, up 27% over the second quarter last year. The company's fulfillment revenues continued to drive the revenue stream, gaining 41% for the quarter and accounting for 80% of the revenue growth. Overstock closed the quarter with 870 fulfillment partners, up from 550 a year ago. The company's gross margin continued to show improvement as well, growing 40 basis points when compared to last year. The company's direct gross margin was down 370 basis points, but fulfillment continued to shine, gaining 130 basis points. Despite the rise in revenues, operating costs were relatively stable, and this had a positive effect on our view of this firm. Operating costs were once out of control, and seem to have been tamed some for the time being. Operating expenses fell 530 basis points as a percentage of revenues. The second quarter last year contained a \$6.2 million charge for restructuring, while there were no such charges this year. The company was able to spend the same amount on sales and marketing, which seems to have helped the company's revenue stream. For the quarter, Overstock reported an operating loss of \$6.3 million, a nice change from the \$13.5 million operating loss for the same quarter last year. Net loss for the three months was \$6.5 million, much better than we have become used to. The company claims positive EBITDA again, but by Global Credit Services calculation of the number, the figure should be slightly in the red for the current quarter. Even still, it is much better than it was last year. This quarter was disappointing by most standards, as the company seems to have taken a small step backwards after a couple of large steps forward.

Revenues for the six months ended June 30, 2008 were \$389.6 million, up 27% over the first semester last year. The company's direct revenues were up 2.4% to \$91.4 million for the six months, while fulfillment partner revenues jumped 37% to \$298.2 million. The company's gross margin was up 90 basis points for the period, as the gross margin improvements have continued. The company's direct gross margin was down 180 basis points, but fulfillment saved the day again, gaining 150 basis points. The cost reductions have continued through the first six months of the year, as operating expense dollars were actually down when compared to last year. Operating expenses fell 660 basis points as a percentage of revenues. The first half last year contained a \$12.3 million charge for restructuring, while there were no such charges this year. The company was able to spend more on sales and marketing, which seems to have helped the company's revenue stream. For the six months, Overstock reported an operating loss of \$10.4 million, a stark improvement from the \$31.2 million operating loss last year. For the six months, the company's EBITDA totaled \$1.8 million in surplus by our calculation, and there is certainly room for improvement. However, this is up nicely from the \$15.5 million EBITDA deficit for the same period last year. The company carried some nice momentum into the second quarter, but wasn't able to capitalize as much as many had hoped. Net loss for the six months was \$10.4 million, not great but better than the same period last year.

### CAPITAL STRUCTURE

Overstock still maintains a nice stockpile of cash and liquidity. The company had \$86.7 million in cash and marketable securities on the books at the end of the second quarter, down slightly from last year but still enough to satisfy us for the moment. The company's cash position was enough to cover up current liabilities, which gives some comfort for the firm's short-term viability. The working capital and current ratio stand in good shape as well.

The company's revolvers don't provide too much extra liquidity. One of the revolvers had just \$8.4 million available. The other revolver is entirely secured by cash, therefore it doesn't provide anything except letters of credit.

The only debt that Overstock has on the balance sheet is its \$75 million convertible notes. The notes have a conversion price of \$76.23 per share, so odds are they will not be converted. The notes don't mature until December 2011, leaving the company plenty of time.

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