

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*Part of the inhumanity of the computer is that, once it is competently programmed and working smoothly, it is completely honest.*

## Feds Say Price Pressures To Moderate

Federal Reserve Chairman Ben Bernanke sent a soothing message to global markets last week, saying inflation was on track to moderate in coming months, and triggering a rally in stocks on speculation that means the Fed will keep interest rates low for the near future.

Recent developments in commodity prices and the dollar, combined with slower growth, should lead inflation pressures to ease, Mr. Bernanke told policymakers and leading economists attending the Fed's annual retreat in Jackson Hole. The recent decline in commodity prices and the increased stability of the dollar have been welcome trends, Mr. Bernanke said.

The Fed chairman stressed that the central bank was committed to price stability over the medium term and that the Fed will have to monitor inflation carefully as the outlook remains uncertain.

Inflation data for July was uniformly ugly, with both wholesale and consumer price indexes rising at double-digit rates. But Mr. Bernanke stressed that he was viewing the outlook over several months – or the “medium term.”

Mr. Bernanke said the financial turmoil that began in August of last year has not ended and its effects on the broader economy are becoming apparent in the form of softening economic activity and rising unemployment. “Although we have seen improved functioning in some markets, the financial storm that reached gale force” last August “has not subsided,” Mr. Bernanke said.

On Wall Street, the Dow Jones Industrial Average was having its best day of the week after Mr. Bernanke's comments, up more than 200 points amid hopes that rates won't rise and a rebound in financial stocks. The Fed has maintained its benchmark interest rate target at a “relatively low” 2.0% despite the increase in inflation pressures from a global commodity boom. The strategy is *(continued on page 2)*

## Retailer of the Week: Blockbuster Inc.

We are **reaffirming Blockbuster as an “E” high-risk credit with a “stable” outlook**. It seems that the best news that came out of Blockbuster all quarter is that the firm had decided against the Circuit City bid. The move to abort the bid was greeted with praise by most. The prevailing feeling is that Blockbuster has plenty of its own problems to iron out without taking on another turnaround project. The drama from the situation now seems to be in the rearview mirror, and Blockbuster needs to focus its resources on cleaning up the operations and strengthening its balance sheet.

The second quarter was disappointing for the firm. After a strong first quarter, Blockbuster fell back into the red during the second quarter. The company wasn't able to take the momentum into the new quarter. The second quarter last year had a large gain on the sale of Gamestation, which made this year's results look much worse in comparison. The firm has made money through six months, but there are still plenty of operational improvements needed. The absurdly high advertising budget from last year has been slashed, and it hasn't seemed to do too much damage to the firm's revenue stream.

The balance sheet weakened in the second quarter, largely from the fact that Blockbuster added plenty of debt. The firm's operations have been using cash at a rapid clip recently, and the capex *(continued on page 11)*

## Credit Squeeze Getting Worse

*(continued from page 1)*

based on the Fed's expectation that the prices of oil and other commodities would eventually stabilize, with Mr. Bernanke putting more emphasis on the downside risks to growth, rather than the upside risk to inflation.

The bulk of Mr. Bernanke's remarks addressed the need to an improved regulatory system to reduce the systemic risks facing the economy from market turmoil. The Fed has set up some internal committees to chew over the thorny questions of which agency should regulate which part of the financial market.

Washington has seen years of turf battles by regulators, which in part spurred "regulatory arbitrage" as savvy Wall Street traders created products to avoid oversight by one agency or another. Mr. Bernanke believes that it would be useful for Congress to give the Fed enhanced powers to oversee the payment and settlement system on Wall Street. He spoke of the possibility of setting up "macro-prudential regulation" that would overview the entire financial market.

Experts remain worried that no matter what new oversight structure is put in place, it is not a given that regulators will have the will to enforce the rules. They believe that the lack of regulatory zeal to enforce existing laws played a crucial role in the subprime mortgage crisis by allowing mortgage originators to give loans to homebuyers who had no means to repay.

On the other hand, banks and brokerage firms are worried about the "pro-cyclical" nature of tough rules. They believe some regulators requiring assets to be market to market has created a snowball effect sending markets lower in this tough market environment.

**Feedback?**

**Questions?**

**Suggestions?**

[Click Here](#)

## Upcoming Reporting Dates

Company	Event	Date
American Eagle Outfitters	Quarterly Results	Aug 26, 2008
Big Lots	Quarterly Results	Aug 26, 2008
BJ's Wholesale Club	Investor Conference	Sep 4, 2008
Brown Shoe Company	Quarterly Results	Aug 27, 2008
Burlington Coat Factory	Annual Results	Sep 12, 2008
Charming Shoppes	Quarterly Results	Aug 27, 2008
Chico's FAS	Quarterly Results	Aug 26, 2008
Coldwater Creek	Quarterly Results	Aug 27, 2008
Collective Brands, Inc.	Quarterly Results	Sep 3, 2008
CVS Caremark	Investor Conference	Sep 3, 2008
dELiA*s	Quarterly Results	Aug 28, 2008
Dollar Tree	Quarterly Results	Aug 27, 2008
Drugstore.com	Investor Conference	Sep 4, 2008
Finlay Enterprises	Quarterly Results	Aug 27, 2008
Fred's	Quarterly Results	Aug 28, 2008
Gander Mountain	Quarterly Results	Aug 27, 2008
Gottschalks	Quarterly Results	Aug 28, 2008
J. Crew Group	Quarterly Results	Aug 26, 2008
Jo-Ann Stores	Quarterly Results	Aug 27, 2008
Kirklands, Inc.	Quarterly Results	Aug 28, 2008
Lululemon Athletica	Quarterly Results	Sep 11, 2008
Men's Wearhouse	Quarterly Results	Aug 27, 2008
Sears Holdings	Quarterly Results	Aug 28, 2008
Sport Supply Group	Quarterly Results	Aug 27, 2008
Staples	Quarterly Results	Sep 3, 2008
Talbots, The	Quarterly Results	Aug 27, 2008
Williams-Sonoma	Quarterly Results	Aug 28, 2008
Zale Corp	Quarterly Results	Aug 28, 2008

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## Management on the Move

**NexCen Brands** CEO **Robert D'Loren** has left the company. He's replaced by **Ken Hall**, the CFO of the company, in the CEO post and a search has begun to fill Hall's vacant position.

**Abercrombie & Fitch Co.** names **Michael Nuzzo**, SVP, Finance, the company's principal financial and accounting officer, replacing Michael W. Kramer who resigned.

**Circuit City Stores, Inc.** named director **James A. Marcum**, 49, Vice Chairman of the company.

**Aaron Rents, Inc.** appointed **Steven A. Michaels** to VP Finance of the Aaron's Sales & Lease Ownership division. Michaels was VP, Franchise Finance of the division, prior.

**United Rentals, Inc.**'s board elected **Michael J. Kneeland** President and CEO. Kneeland has been interim CEO since June 2007.

**Charlotte Russe Holding** names current CEO and former EVP, CFO and Treasurer, **Leonard H. Mogil**, interim CFO, pending a permanent replacement.

**Gap Inc.** named **Tom Wyatt** President of Old Navy. Wyatt has been serving as interim President.

**Aeropostale, Inc.** EVP and COO **Thomas P. Johnson**, has been elected to the company's board of directors.

**Family Dollar Stores, Inc.** appointed 18-year company veteran **Lonnie W. McCaffety** VP Store Operations.

**Barnes & Noble, Inc.** exec **Marie J. Toulantis**, CEO of Barnes & Noble.com, has resigned. Her duties will be split between **Tom Burke**, EVP of E-Commerce, and **Kevin Frain**, newly named EVP of E-Commerce Operations.

**Best Buy Co.** director **Mary A. Tolan** has resigned, citing professional reasons.

**Urban Outfitters Inc.** has split the top job at Anthropologie between **Wendy Wurtzburger**, named Chief Merchandising Officer, and **Wendy Brown**, who will be Chief Operating Officer.

**Pacific Sunwear** appointed **William Cobb** to the company's board of directors. Cobb is a former senior executive at eBay.

**RadioShack Corp.** named **Phyllis Proffer** VP Investor Relations. She previously held a similar role at Longs Drug Stores.

**Lowe's** board named **O. Temple Sloan** Lead Director. He will serve as the chair of the board's governance committee. Also, former KPMG Vice Chairman **S. Thomas Moser** is named to Lowe's board.

**Sam's Club** named **Dedra N. Dogan** VP of its People Division. Dogan was Group VP of HR at Winn-Dixie Stores prior.

**Movie Gallery, Inc.**'s board elected CEO **C.J. Gabriel, Jr.** as a Director.

**OfficeMax Inc.** EVP and CFO **Don Civgin** has resigned as of August 29. A search for a new CFO will begin immediately.

**Golf & Tennis Pro Shop** named **Dick Sullivan** CEO. Sullivan's resume includes posts as VP of Marketing for the Atlanta Falcons and SVP of Marketing for Home Depot.

**Kohl's Corp.** appointed current President **Kevin Mansell** President and CEO. Mansell succeeds Larry Montgomery who will remain Chairman of the Board.

**Sears Holdings Corp.** named **Guenther Trieb** SVP and President of Kenmore, Craftsman and DieHard. Trieb was most recently a VP for Procter & Gamble.

Also at **Sears**, Chief Marketing Officer **Maureen McGuire** and EVP and GM of Home Services **Mark Good** have resigned.

### Did You Know...?

*In what might be described as irrational exuberance: 75% of homeowners believe their houses are immune from the woes of the housing market downturn, the consensus of a recent homeowner confidence survey conducted by the Zillow real estate group in the second quarter.*

## Options and Resources

**Feedback and Questions:** Should you have any feedback to provide us or questions to ask, please email us at [inbox@globalcreditservices.com](mailto:inbox@globalcreditservices.com).

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## Heard in the Grocery Aisle

**Tesco PLC** has sold £605 million (US\$1.1 billion) worth of property in leaseback deals with four separate purchasers. The sale included 13 Tesco stores and a distribution center. Tesco has ongoing plans to raise a total of £5 billion through real estate sales to finance overseas expansion.

Also, **Tesco** was ordered by the British Advertising Standards Authority to pull print promotions that showed a shopping cart full of goods as cheaper than other retailers, notably Wal-Mart owned Asda. The cart was full of items Tesco had special discounts on at the time.

**Kroger's** deal with UFCW Local 1059 in Columbus, Ohio has been ratified by the members. The new agreement covers more than 11,000 associates in 87 stores.

**Stater Bros.** sales increased 2.5% to \$932.7 million third quarter ended June 24. Same store sales increased 1.8%, correcting for the Easter holiday. Net income fell 41% to \$9.2 million. Stater Bros. operates 165 supermarkets in So. California.

**Unified Grocers** sales grew 28.6% to 1.017 billion for the third quarter ended June 28. Income expanded 11% to 4.8 million.

The **Organic Trade Association** predicts sales of organic foods and beverages will hit \$24 billion in 2008, and grow 18% annually through 2010, *USA Today* reports.

8,000 **Canada Safeway Limited** employees represented by UFCW Local 1518 ratified a new, five year labor pact.

The **USDA** warned of food prices up as much as 6% this year, including increases of up to 14% for fats and oils, 9% for dairy products, 5.5% for fish and seafood, 6% for fresh fruits and vegetables and 3.5% for beef.

**Ahold USA's Stop & Shop** and **Giant Food** chains are rolling out new logos. Actually, it's the same logo, resembling a colorful, stylized bowl of fruit. The logos are parts of Ahold's plan to enhance the customer store experience at the chains, which will include store facelifts and added in-store technology.

## The Global World of Sports and Footwear

**NexCen Brands** has been able to restructure the payments to lender BTMU eliminating the \$30 million payment due in October. In all, some \$175.7 million in debt has been restructured. The new schedule calls for repayment of the principal in three tranches—\$47.6 million on Jan. 1, 2010, \$41.7 million on Jul. 31, 2011, and \$86.7 million on Jul. 31, 2013. The blended annual interest rate on NexCen's debt is 8.22% and is subject to increases after the end of calendar year 2008. The company also said the loan covenant and terms of default have been substantially tightened.

**Zale Galin Associates**, a retail consulting and executive search firm, has been formed by Matt Zale, one of the early Athletes Foot franchisees and later the developer of the U.S. Athletics retail and sneaker brand, and Scott Galin, the former president of G&G Retail with over 600 stores and \$500 million in sales.

**Bakers Footwear Group, Inc.** has been notified by Nasdaq that the company is back in compliance. The company had fallen under the requirement of maintaining \$5 million in publicly held shares.

**Nike** opened a sportswear-focused store in SoHo, at 21 Mercer Street. It will carry the complete Nike Sportswear Collection including several exclusive products. The store will also have a Nike Sportswear Bespoke section that will allow consumers to custom design their own sneakers by appointment, as with several NikeTowns.

**Cabela's** is in discussions with a developer about opening a 125,000 sq. ft. store in Wyoming, MI outside of Grand Rapids. Cabela's also has a store in Dundee in the eastern part of the state. The developer won a state grant to develop an apple orchard into a retail complex that will create in total 3,668 jobs. Cabela's would be the anchor tenant of the complex.

**Zumiez** lowered its FY2008 earnings guidance to \$0.80 to \$0.82 per share compared to \$0.90 to \$0.93 guided prior.

**Bebe Stores Inc.** reported sales increased 5.4% to \$171.5 million for the fourth quarter ended July 5, 2008. Comp store sales for the quarter decreased 5.6%, and net income fell 18.8% to \$16.0 million.

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## Off the Rack

**Hart Stores Inc.** has closed on the asset purchase of eight SAAN retail stores from PricewaterhouseCoopers Inc.

**Ross Stores** issued earnings guidance for FY2008 after reporting its second quarter. Earnings are projected at \$2.33 to \$2.38 per share, an increase of 23% to 25% vs. last year, based on projected comp store sales gains of 2% - 3% in the second half.

**TJX Cos.** reached a deal to sell Bob's Stores to a private equity groups Versa Capital Management and Crystal Capital. TJX said it would record a \$15 million after tax loss in Q3 from the disposition, but that the sale will generate \$23 million in cash, representing anticipated tax benefits and net proceeds from the sale. TJX updated guidance as a result of the sale to exclude Bob's results, saying that it expected no change in its Q3 results but an improvement for the FY as a result of the disposition. It now expects to generate income of \$2.19-2.24 per share (\$998 million), an increase of 13-16% over the prior year.

**Gymboree Corp.** released FY2008 income guidance after reporting second quarter results. The Company expects net income of \$3.15 to \$3.20 per diluted share.

**Limited Brands** raised its forecast of full-year net income to \$1.45 to \$1.60 per share from its prior guidance of \$1.38 to \$1.58. Both forecasts excluded first half significant items of \$0.20 per share.

**Bebe Stores, Inc.** sales were up 5.4% to \$171.5 million for the fourth quarter ended July 5. Same store sales dropped 5.6%. Net income was down 18.8% to \$16.0 million. The company projected first quarter FY2009 comp store sales

would negative high single digits, with EPS of \$0.12 to \$0.16.

**Stage Stores** updated its FY2008 outlook. Sales are projected at \$1.578 - \$1.596 billion, net income \$43.6 - \$ 49.0 million, and earnings per share \$1.12 - \$1.26.

**Casual Male Retail Group, Inc.** lowered its earnings guidance for FY2008 to \$0.22 to \$0.27 per diluted share, down \$0.03 from prior guidance. Total sales are projected at \$470 to \$475 million for the year.

**Cato Corp.** issued earnings guidance for 2008 of \$.93 to \$1.03 per share. Comp store sales for the year are forecast to be down 3% to flat.

**Stein Mart** has selected 22squared as its advertising agency of record.

**Bon Ton Stores** issued revised FY2008 guidance in their second quarter report. Loss per share is forecast at \$0.45 to \$0.95, not including a \$.72 per share goodwill impairment charge. Comp store sales are expected to decrease 3.5% to 5.0%.

**Gap, Inc.** revised its guidance for store openings. The company now plans to open about 100 stores in FY2008, down from 115. Most new stores will be the Banana Republic banner. Gap still projects 115 store closings this year, but with net square footage remaining roughly flat.

**Pacific Sunwear** revised its outlook for the third and fourth quarters of FY2008. It now projects third quarter income at breakeven to \$.05 per share and fourth quarter income between \$0.34 to \$0.39 per diluted share, assuming same-store sales of negative high-single digits.

### Did You Know...?

*According to the National Association of Home Builders/Wells Fargo Housing Market Index, builder confidence remained steady in August at 16. The index remains at a record low.*

## Mass Merchant Musings

**Wal-Mart** had a three-year union contract imposed on it by the Quebec Labour Relations Board for nine workers at the Wal-Mart Tire and Lube Express in Gatineau, Quebec. This is not related to the appeal of the Jonquiere, Quebec, store closing, which is going before the Supreme Court of Canada.

After reporting strong second quarter results, **BJ's Wholesale Club, Inc.** raised its FY2008 earnings guidance to \$2.10 to \$2.20 per diluted share, up from \$2.04 to \$2.14 per diluted share guided previously.

Also, **BJ's** board of directors has authorized an additional \$200 million for share repurchases, bringing the total available for that purpose to approximately \$291 million. BJ's has spent \$83 million buying back its own stock in the past six months.

**Canadian Tire Corp.** has negotiated another sale and leaseback deal, this time for 12 properties totaling 996,000 sq ft. The sale, for \$174 million, is expected to net Canadian Tire a \$70 million pre-tax gain to be amortized over 15 years.

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## Hi Tech Entertainment

**Conn's, Inc.** has a new \$210 million revolving loan facility, which replaces the company's existing \$100 million credit facility. Conn's now has a total of \$660 million in debt facilities.

North American **TV shipments** rose strongly in the second quarter, climbing 26% vs the first quarter and 28% vs last year, according to NPD's DisplaySearch. LCD and Plasma TV led the gains, up 30% and 35%, respectively.

**Best Buy Co.** is registering its trademarks in Russia, *Reuters* reports. Russian agency Rospatent has already registered Future Shop and is reportedly reviewing the application for the Best Buy trademark.

**Amazon.com, Inc.** will redeem the remaining \$399 million outstanding of its 4.75% convertible subordinated notes due 2009 on September 17, 2008.

**RadioShack Corp.** has consummated the sale of \$375 million in 2.50% convertible senior notes due 2013, which included a \$50 million overallotment. The company estimates net proceeds at approximately \$365.6 million.

**Staples** gave some hints as to its second quarter performance: Overall sales increased about 3% and diluted earnings per share is down approximately 15%. Retail revenue is down 1% with comps down 7%, but delivery sales grew approximately 2%. International was up about 17% (US\$) for the quarter, even with

European comps down 7%. Staples reports September 3.

**Overstock.com** filed a new shelf registration statement which allows the company to sell up to \$500 million debt securities, stock, warrants and other securities.

Also **Overstock.com** has partnered with real estate auction company Williams & Williams to add real estate auctions to OSTK's existing real estate platform.

**HSN, Inc.** completed its spin-off from IAC. Now called HSNi, the catalog and e-commerce retailer's shares will trade on the NASDAQ under the symbol HSNi.

After another bodacious quarter, **GameStop Corp.** raised fiscal 2008 guidance. Earnings are expected to increase to \$2.45 to \$2.50 per share, with comps for the year up 12% - 14% and total sales growing 23% - 25%.

**Barnes & Noble** reduced its full-year comp store sales guidance to a low single digit decrease from slightly negative prior. However, BN is keeping full-year earnings per share guidance in a range of \$1.70 to \$1.90. Also, the company is now planning to open only 20 to 25 stores this year, down from the usual 30 to 35 new doors.

**Hhgregg** opened its 100th store in Mishawaka, Indiana.

## Health & Beauty Aids

**CVS'** bid to take over **Longs Drug Stores** may need some sweetening, as reports say large shareholders aren't convinced the offer reflects the full value of the company. Advisory Research, which owns 9.2% of Longs common stock, has asked Longs for more information about the valuation of the company's real estate assets.

**CVS Caremark** has racked up more than \$275,000 in pricing accuracy fines from the Massachusetts Office of Consumer Affairs and Business Regulation in the last 18 months. CVS was the most penalized retailer in the state according to the article in the *Boston Herald*.

**Walgreens'** Take Care Health Systems opened two new clinics at Walgreens stores in Topeka, KS, making 20 Take Care Clinics in the region.

**My Healthy Access, Inc.**, which operates in-store health clinics at Wal-Mart stores, is negotiating with 6 million member Church of God in Christ Health Initiative to provide healthcare services. The church has over 100,000 members in the Houston area where My Healthy Access operates.

Also, **My Healthy Access** is opening three new clinics this week in Houston area Wal-Mart supercenters.

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## Bankruptcy Blotter

In a new report, Moody's said 6.2% of all rated companies had Caa ratings (very high risk) as of June 30<sup>th</sup>, compared with 4.3% at the end of 2006 and 5.4% at the end of 2007. For the year ended December 31, 2007, more than 75% of Caa-rated companies reported negative free cash flow as well as EBITDA after capital expenditures insufficient to cover interest expense.

Although **Linens 'n Things** has not had much success marketing the bulk of its leases on closed stores, the company was able to sell off four leases for a total of \$850,000. The leases were sold to super market chain **Smart & Final Stores, LLC**.

In other news, **Linens 'n Things** reported that approximately 50 vendors (the company has a vendor base of approximately 1,000 vendors) have signed up for its Trade Credit Program. The program provides for a commitment of \$100 million in letters of credit to vendors who provide product with 45-day payment terms. However, the program provides for up to \$200 million in payables under the terms, thus potentially providing coverage of only 50 cents on the dollar.

And finally, it is being reported that **Linens 'n Things** has devised a plan to exit bankruptcy early next year. The centerpiece of the plan appears to be a return to its original "everyday low pricing" model along with improving the quality of its merchandise and keeping its shelves stocked.

The court approved the sale of **Steve & Barry's** to **Bay Harbour Management** and **York Capital Management**, which have agreed to buy the retailer out of bankruptcy for \$163 million (down from an earlier price of \$168 million) and keep most of its stores open. While negotiations are continuing with landlords, Bay Harbour said it expects to keep about 150 out of the company's 276 stores open.

As a result of the sale of **Steve & Barry's**, at least \$2.75 million will be available for unsecured creditors, a recovery of about 2 cents on the dollar, according to **Lori Fife**, a lawyer for Steve & Barry's.

**Bomby Co.**, which has liquidated its 388 stores, obtained a commitment from the court to sign a confirmation order approving its liquidation plan. According to the company's Disclosure Statement, unsecured creditors will receive 16.4% to 28.9% on their claims.

**Mervyn's LLC** is seeking court approval to conduct store-closing sales at 26 underperforming locations. The company wants to hire **Hilco Merchant Resources** and **Gordon Brothers Retail Partners LLC**, who are promising 117% of the value of the inventory in the 26 stores.

The court signed an order allowing **Gordon Brothers** and **Hilco Merchant Resources** to conduct GOB sales at 10 **Boscov's Inc.** stores. The deal guarantees Boscov's approximately 208% of the inventory in the stores.

**Shoe Pavilion** is seeking court approval to close and vacate nine stores by August 31<sup>st</sup>. The company wants to move inventory to other stores and terminate the leases so that September rent will not need to be paid. The company believes there is no value in the leases.

The **Teamsters** union says it has brokered a deal to save **Interstate Bakeries Corp.** from liquidation just days after saying it had little hope that a bankruptcy-exit plan could be salvaged.

**OK Lumber**, a Fairbanks, Alabama-based Ace Hardware-affiliated lumber dealer, declared bankruptcy. The company has been in business since 1967.

### Did You Know...?

*U.S. leading economic indicators fell 0.7% in July after a flat June, the Conference Board reported, suggesting slow growth at best for the rest of the year.*

## FYI for the DIY

**Home Depot** predicted FY2008 earnings per share from continuing operations would decline by 24 percent, after reporting its second quarter last week. There will be a store rationalization charge for the planned closing of 15 stores and for reducing expansion plans by 50 stores.

**Lowe's** revised guidance for FY2008 after reporting its second quarter: sales for the year

are forecast to be up approximately 1% with comps down 6% to 7% and earnings of \$1.48 to \$1.56 per share. The company plans 7-8% square footage growth in 2008, opening approximately 120 stores.

**National Patent Development Corp.** extended its tender offer for shares of **Five Star Products, Inc.** until August 26, 2008.

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## Specialty Items

Central New York furniture retailer **Goldberg Furniture** will close three of four locations and consolidate into its Syracuse store, local media reported.

**Central Garden and Pet Co.** received a Nasdaq staff determination letter for failing to

file its 10-Q on time. The company has delayed the filing while its audit committee reviews issues raised by an employee.

**Ulta Salon, Cosmetics & Fragrance, Inc.** amended its loan agreement with lenders to exercise a \$50 million accordion option.

### Did You Know...?

Housing starts fell 11% in July to an annualized rate of 965,000, which was still 5,000 higher than the consensus estimate of 960,000 according to MarketWatch.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
SBARRO INC	CCC+	B-	NEGATIVE	NEGATIVE	E+
SONIC AUTOMOTIVE INC	BB-	BB-	NEGATIVE	STABLE	E+
GROUP 1 AUTOMOTIVE INC	BB-	BB-	NEGATIVE	STABLE	E+
YUM! BRANDS INC	BBB-	BBB	STABLE	STABLE	C
RADIOSHACK F/K/A TANDY CORP	BB	BB	STABLE	NEGATIVE	C+
BUILDING MATERIALS HOLDINGS INC/BMC WEST	CCC+	B-	NM	NM	E
ORIENTAL TRADING COMPANY INC/ DBA FUN EXPRESS	CCC+	B-	NEGATIVE	NEGATIVE	NR
ELDORADO RESORTS LLC	NR	B	NR	STABLE	NR
COX ENTERPRISES INC	BBB-	BBB-	STABLE	POSITIVE	NR
ASBURY AUTOMOTIVE GROUP INC	BB-	BB-	NEGATIVE	STABLE	E+
SIMMONS/WIGGINS ENTPS LLC	B	B	NM	NEGATIVE	NR
SBARRO INC	CCC+	B-	NEGATIVE	NEGATIVE	E+
RESTAURANT CO (INC)	CCC+	B-	NEGATIVE	NEGATIVE	E
STEWART & STEVENSON HQ	B	B	POSITIVE	STABLE	NR
STEWART & STEVENSON	B	B	POSITIVE	STABLE	NR

### HAVE YOU HEARD...

The following Trade Commentaries on private Food & Drug accounts are now available on the Global Credit Services website:

United Supermarkets  
 Grocers Supply Company  
 McLane Company  
 Save Mart Supermarkets  
 Drug Fair Group  
 Associated Wholesalers Inc. (AWI)

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## 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>							
Abercrombie & Fitch	\$845.8	\$804.5	5.1%	-4.0%	\$77.8	\$81.3	-4.3%
Aeropostale, Inc.	\$377.1	\$311.2	21.2%	11.0%	\$21.1	\$14.7	43.2%
American Apparel	\$133.0	\$95.7	38.9%	23.0%	\$6.8	\$4.8	41.7%
American Eagle Outfitters	\$688.8	\$703.2	-2.0%	-9.0%	tba	\$81.3	tba
AnnTaylor Stores Corp.	\$592.3	\$614.5	-3.6%	-10.8%	\$29.3	\$31.7	-7.7%
Bon Ton Stores, Inc.	\$673.4	\$708.6	-5.0%	-5.7%	(\$33.8)	(\$15.0)	-125.3%
Cache, Inc.	\$74.0	\$71.0	4.2%	3.0%	\$2.1	\$1.3	61.5%
Casual Male Retail Group	\$113.5	\$113.5	-0.0%	0.3%	\$1.9	\$2.5	-23.7%
Cato Corporation	\$231.0	\$219.0	5.5%	2.0%	\$12.1	\$12.5	-3.3%
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%	\$2.8	\$0.6	353.9%
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.	\$3,499.0	\$3,685.0	-5.0%	-10.0%	\$229.0	\$152.0	50.7%
Gottschalks	\$133.7	\$145.0	-7.8%	-7.3%	tba	(\$4.8)	tba
Gymboree Corporation	\$205.7	\$182.4	12.8%	1.0%	\$8.0	\$5.8	37.9%
Hot Topic, Inc.	\$166.8	\$161.7	3.2%	-0.9%	(\$0.5)	(\$1.7)	74.0%
J.C. Penney Company	\$4,282.0	\$4,391.0	-2.5%	-4.3%	\$117.0	\$182.0	-35.7%
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%	\$236.0	\$269.2	-12.3%
Limited Brands	\$2,284.3	\$2,624.1	-12.9%	-7.0%	\$102.0	\$264.4	-61.4%
Macy's, Inc.	\$5,718.0	\$5,892.0	-3.0%	-2.1%	\$73.0	\$74.0	-1.4%
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%	\$143.0	\$180.4	-20.7%
Pacific Sunwear	\$312.7	\$311.8	0.3%	-1.0%	\$2.8	(\$10.5)	126.7%
Retail Ventures, Inc.	\$459.8	\$464.6	-1.0%	-5.1%	tba	\$106.2	tba
Ross Stores, Inc.	\$1,640.4	\$1,444.6	13.6%	6.0%	\$71.3	\$50.9	40.1%
Saks Incorporated	\$669.2	\$694.1	-3.6%	-4.0%	(\$31.7)	(\$24.6)	-28.7%
Stage Stores, Inc.	\$372.7	\$359.2	3.8%	-1.4%	\$9.7	\$9.9	-2.2%
Stein Mart, Inc.	\$311.6	\$330.7	-5.8%	-9.7%	(\$8.0)	\$2.2	-463.6%
Talbots, Inc.	\$528.0	\$572.0	-7.7%	-12.0%	tba	(\$13.3)	tba
TJX Companies	\$4,621.3	\$4,313.3	7.1%	4.0%	\$200.2	\$59.0	239.3%
Urban Outfitters, Inc.	\$454.3	\$348.4	30.4%	13.0%	tba	\$31.9	tba
Wet Seal, Inc.	\$149.1	\$143.3	4.0%	-4.4%	\$10.1	\$6.8	50.0%
<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.	\$2,651.3	\$2,248.2	17.9%	15.5%	\$36.5	\$36.3	0.6%
Canadian Tire	\$2,949.5	\$2,835.1	4.0%	-0.5%	\$97.7	\$122.5	-20.2%
Dollar Tree Stores, Inc.	\$1,093.0	\$971.2	12.5%	6.5%	tba	\$32.6	tba
Duckwall-ALCO Stores, Inc.	\$129.6	\$119.0	8.9%	-2.1%	tba	\$0.4	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%
Target Corporation	\$15,472.0	\$14,620.0	5.8%	-0.4%	\$634.0	\$686.0	-7.6%
Wal-Mart Stores, Inc.	\$101,598	\$91,990	10.4%	4.6%	\$3,449.0	\$2,952.0	16.8%
<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	(\$0.7)	(\$4.4)	84.1%
Cabela's	\$526.0	\$451.2	16.6%	-1.6%	\$7.3	\$11.3	-35.4%
Foot Locker	\$1,302.0	\$1,283.0	1.5%	-0.5%	\$18.0	(\$18.0)	200.0%
Footstar, Inc.	\$153.2	\$173.4	-11.6%	-10.3%	\$30.4	\$21.5	41.4%
Golfsmith International	\$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%
Hibbett Sporting Goods, Inc.	\$130.3	\$114.4	13.9%	5.0%	\$4.8	\$4.7	2.4%
Shoe Carnival, Inc.	\$158.5	\$154.8	2.4%	-1.0%	\$1.0	\$0.2	485.0%

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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>Sports &amp; Footwear</b>							
Walking Company, The	\$56.0	\$55.9	0.3%	-1.2%	(\$2.2)	(\$0.2)	1059%
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%
Zumiez Inc.	\$92.3	\$82.0	12.5%	-1.7%	\$2.7	\$3.1	-12.5%
<b>Specialty</b>							
A.C. Moore Arts & Crafts	\$126.4	\$124.4	1.6%	-4.8%	(\$4.3)	(\$0.6)	-663.0%
Advance Auto Parts, Inc.	\$1,235.8	\$1,169.9	5.6%	2.9%	\$75.4	\$68.4	10.2%
Amscan Holdings, Inc.	\$371.5	\$279.2	33.1%	NA	\$14.7	(\$2.5)	688.0%
Barnes & Noble, Inc.	\$1,123.8	\$1,244.2	-9.7%	-4.7%	\$15.4	\$18.1	-14.7%
Blue Nile, Inc.	\$73.7	\$72.1	2.2%	NA	\$3.2	\$3.8	-15.8%
Brookstone, Inc.	\$97.4	\$99.9	-2.5%	-4.3%	(\$8.7)	(\$6.5)	-34.0%
Cost Plus, Inc.	\$221.0	\$209.2	5.6%	1.2%	(\$26.6)	(\$18.0)	-48.1%
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%	(\$2.3)	(\$1.4)	-64.3%
Jennifer Convertibles	\$26.8	\$30.3	-11.6%	-19.8%	(\$0.6)	\$1.7	-135.3%
Leon's Furniture Limited	\$224.7	\$190.4	18.0%	NA	\$11.6	\$9.9	17.2%
Linens N Things	\$468.1	\$593.3	-21.1%	-18.3%	tba	tba	tba
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>							
Ace Hardware	\$1,066.9	\$1,022.6	4.3%	NA	\$33.4	\$38.8	-13.9%
Builders FirstSource, Inc.	\$307.3	\$465.1	-33.9%	NA	(\$45.9)	\$8.4	-646.4%
Building Materials Holding	\$384.6	\$656.0	-41.4%	NA	(\$31.9)	\$19.4	-264.4%
Calloway's Nursery, Inc.	\$20.3	\$18.1	12.2%	6.5%	\$1.9	\$1.3	46.2%
Fastenal Company	\$604.2	\$519.7	16.3%	12.3%	\$76.2	\$60.3	26.4%
Five Star Products, Inc.	\$31.4	\$35.9	-12.5%	NA	\$0.1	\$0.6	-82.7%
Greybar Electric	\$1,420.7	\$1,339.5	6.1%	NA	\$28.4	\$27.7	2.5%
Home Depot, Inc.	\$20,990.0	\$22,184.0	-5.4%	-7.9%	\$2,042.0	\$2,557.0	-20.1%
Interline Brands, Inc.	\$311.4	\$313.2	-0.6%	NA	\$11.2	\$12.0	-6.7%
Lowe's Companies	\$14,509.0	\$14,167.0	2.4%	-5.3%	\$938.0	\$1,019.0	-7.9%
Lumber Liquidators	\$128.0	\$105.7	21.1%	2.7%	\$5.9	\$2.3	156.5%
Rona, Inc. (C\$)	\$1,473.3	\$1,469.1	0.3%	-4.4%	\$80.1	\$86.2	-7.1%
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>							
Arden Group	\$116.6	\$119.8	-2.7%	-2.7%	\$6.6	\$6.5	1.7%
Great Atlantic & Pacific Tea	\$2,922.7	\$1,679.2	74.1%	3.2%	\$2.2	(\$65.1)	103.4%
Loblaws 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	\$5,894.8	\$5,699.0	3.4%	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%
Drugstore.com, Inc.	\$122.8	\$110.4	11.2%	NA	(\$2.3)	(\$3.0)	-23.3%
Duane Reade Holdings	\$451.4	\$431.9	4.5%	4.7%	(\$12.1)	(\$20.1)	-39.8%
Express Scripts, Inc.	\$4,706.5	\$4,574.8	2.9%	NA	\$190.2	\$152.7	24.6%
Longs Drug Stores	\$1,332.7	\$1,274.5	4.6%	-1.1%	\$27.5	\$26.6	3.3%

### Did You Know...?

U.S. producer prices rose by a bigger-than-expected 1.2% in July driven by higher prices for energy, food and other products. Economists were looking for an increase of just 0.3% in July.

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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>Drug</b>							
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%
GameStop Corp.	\$1,804.4	\$1,338.2	34.8%	20.0%	\$57.2	\$21.8	162.4%
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%
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%
Tech Data Corporation	\$6,166.0	\$5,613.3	9.8%	NA	\$23.7	\$7.2	229.2%
Trans World Entertainment	\$215.2	\$267.3	-19.5%	-7.0%	(\$19.2)	(\$10.1)	-90.1%
Zones, Inc.	\$158.3	\$192.2	-17.6%	NA	\$3.6	\$4.4	-17.8%

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## Retailer of the Week: Blockbuster Inc.

(continued from page 1)

bill has been rising as well. The result was a busy quarter for the firm's revolver. Blockbuster had been quickly paying off the heavy debt load, but that changed during the three months. For the first time in a while, the debt position began to rise. Liquidity is still fairly low, and the mandatory principle payments on the term loans will continue to make it difficult to change this. The firm's EBITDA has been plenty to cover up interest payments, but if debt continues to rise we may see that change.

\$ figures in millions, 6-Months ended	07/06/2008 (Q2 YTD FY08)	07/01/2007 (Q2 YTD FY07)	Year-over-Year Change
<b>Liquidity Ratios</b>			
Cash and Equivalents	\$140.1	\$147.9	-5.27%
Cash and Equivalents % Current Liabilities	11.73%	14.27%	-254 bps
Working Capital	\$142.7	\$141.8	0.63%
Current Ratio	1.12x	1.14x	-2 bps
<b>Leverage Ratios</b>			
EBITDA / Interest Expense	3.41x	1.55x	186 bps
Total Debt	\$798.0	\$763.5	4.52%
Total Debt / Equity	119.07%	117.10%	197 bps
Total Liabilities / Total Assets	75.28%	74.51%	77 bps
Total Liabilities / Tangible Assets	105.98%	107.24%	-126 bps

### OPERATING PERFORMANCE

Revenues for the second quarter ended July 6, 2008 were \$1.3 billion, up 3.3% from the second quarter a year ago. For the quarter, total rental revenues were up 1% to \$973.2 million, while merchandise sales were up 13.5% to \$323.8 million. For the quarter, the company's worldwide same store sales and by-mail revenues were up 9%. For a detailed revenue discussion, please  
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## Retailer of the Week: Blockbuster Inc.

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see the Comp Store Sales report. Gross margins for the quarter were down 10 basis points. The firm's margins were down domestically, while international margins helped pick up the slack some. The drop in gross profit was due to a drop in margins on merchandise sales. After the first quarter showed a huge drop in operating expenses, the second quarter reversed that trend. SG&A was up 70 basis points as a percentage of revenues. The SG&A was up sharply internationally. The numbers were skewed for the quarter as in this quarter last year, the firm gained \$81.3 million from the sale of Gamestation. Without the gains last year, it would have more comparable. Domestically, the firm's costs were down sharply. The result widening of the operating loss to \$19.8 million from \$9.9 million last year. If we exclude the results from the sale of Gamestation, however, the company's operations actually performed better this quarter than they did a year ago. The domestic segment turned an operating profit of \$21.1 million compared to an operating loss of \$44.8 million last year. For the three months, Blockbuster posted a net loss of \$44.7 million. This was considerably worse than the \$34.2 million the company lost in the same period last year. It is hard to get a firm grasp on how Blockbuster performed during the quarter, mainly due to the sale of Gamestation last year. Without the sale last year, the results this year would have been much better in comparison. One thing is certain. After a strong first quarter this year, we were looking for a much better follow up.

Revenues for the six months ended July 6, 2008 were \$2.7 billion, down 1.4% from the first half a year ago. For the six months, total rental revenues were up 1.6% to \$2.05 billion, while merchandise sales were down 6.5% to \$633.6 million. For the period, the company's worldwide same store sales and by-mail revenues were up 4.9%. For a detailed revenue discussion, please see the Comp Store Sales report. Gross margins for the quarter were up 70 basis points. The firm's international margins were the star of the show from a margin standpoint in the first half driven by the rental revenue growth abroad, which carries higher margins. The firm's cost structure improved nicely in the first half as well, falling 220 basis points as a percentage of revenues. International was again affected by the gain on the sale of Gamestation last year, but the company's advertising budget plummeted, leaving much more for the bottom line. Given that the firm's revenues didn't seem too affected by the drop in advertisement, it seems that the programs were largely unsuccessful anyway. The result was a wild swing from a \$29.3 million operating loss for the first half last year to \$50.4 million in operating profits this year. The second quarter gave some of the progress back, but through six months, Blockbuster looks much better than it did a year ago. For the six months, Blockbuster reported a net loss of \$2.1 million, a nice improvement from the \$86 million loss for the same period last year. The company's EBITDA improved significantly when compared to the interest expense as well, as the number easily handled the interest through the first half.

### CAPITAL STRUCTURE

Blockbuster's liquidity has been declining continually over the past year. The company had been using its cash to pay down debt, but even that trend changed over the last three months. Both the liquidity and the leverage indicators slumped during the quarter, as it is safe to say that the firm didn't carry its first quarter momentum into the second quarter.

Blockbuster closed the second quarter with \$140.1 million in cash on the books. The cash position is down from \$147.9 million at the close of the second quarter last year. Given the sharp increase in debt during the quarter, we are more concerned about the lower liquidity than we have been in the past. The company needed the debt to fund its operations for the three months, which is not what we like to see from a company at this level. The working capital was \$142.7 million and the current ratio was just 1.12, both being lower than we would like.

Blockbuster does have \$106.3 million available on its revolver, down sharply from the \$223.3 million that was available just three months ago. The firm borrowed heavily on the facility during the quarter, necessary to support the \$63.4 million that was used by the operations and the \$20.8 million in capex charges during the three months.

Over the past year, Blockbuster's total debt position rose from \$763.5 million to \$798 million. The company's debt position had been falling nicely each quarter, it seemed, until this quarter completely reversed a lot of the progress that was made. There is an additional \$65.9 million in debt that is classified as current over the next year, most of which will come due early next year.

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