GLOBAL CREDIT SERVICES

Volume 5, Issue 35

August 25 - September 1, 2008

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

Failure isn't a crime. Failure to learn from failure is the crime.

Luxury Market Loses Its Luster

The $270 billion industry thought it was recession-proof. But its growth is slowing, and anxiety is higher than a pair of Jimmy Choo pumps.

In its own refined way, the venerable luxury business is showing signs of weakness. Besides the discounts at the Gucci Group's YSL shop in New York, retailer Saks Fifth Avenue started its end-of season sales far earlier than usual this year. In London, remarks one garmento, "you could shoot a cannon down Jermyn Street," home to a handful of bespoke shirt makers. And Italian high-end clothier Brioni concedes that some American customers who used to purchase five suits a year are downsizing to three.

Luxury is still faring better than general retailing, but after five years of strong growth, the business is hunkering down to withstand a triple onslaught: fast-rising costs for everything from diamonds to freight; a consumer retrenchment in the core U.S., European and Japanese markets; and, for the predominantly European producers, a sharp appreciation in the value of the euro against the dollar and other currencies.

Consultant Bain & Co. now expects that the $270 billion luxury market will grow about 2% this year once exchange rates are factored in; that's still in positive territory, but sharply down from the 6.5% growth in 2007. A survey by the Italian trade group Altagamma in June shows that operating margins at many brands were flat or falling.

And luxury is losing its luster on Wall Street: Deutsche Bank in July slashed its earnings forecasts for the entire sector; it rates none of the luxury stocks a buy. Most troubling is the news from luxury's biggest distributors, upscale department stores such as Saks and Neiman Marcus. Under huge pressure to improve their own flagging performance, they are curtailing orders for next year, demanding steeper rebates, and discounting unsold merchandise far more quickly than they used to.

Just a few months ago executives of the world's leading luxury companies insisted that their

(continued on page 2)

Retailer of the Week: Huttig Building Products

Huttig is a distributor of building materials used principally in new residential construction and in home improvement, remodeling and repair work. In the current economic slump and challenging environment, the company continued to focus on controlling expenses, improving operating efficiencies, reducing inventories, generating cash, and gaining market share in the second quarter, fairly successfully. Progress was made in each of the areas mentioned above, particularly with respect to inventory reduction, cash generation (mainly as a result of the inventory reduction) and market share growth. During the quarter, the company reduced inventory levels by $14 million, while generating over $20 million of cash from operations. The company's second quarter sales decline of 18.4%, year-over-year, was well below the 30% decline in housing starts indicating continuing market share gains, particularly in building products where sales were level with the prior year quarter.

With the diligent efforts to reduce costs, increase in market share and generation of cash from operations in the second quarter, we are maintaining our current "E" Credit Rating with a "Stable" Outlook in spite of the continuing increase in net losses versus prior year. The generation of cash from operations, particularly the reduction in inventory allowed the company

(continued on page 10)

Luxury Market Loses Its Luster

(continued from page 1)

businesses were recession-proof. Bernard Arnault, the founder and chief executive of France's LVMH, which owns brands ranging from Givenchy to Dom Perignon, was speaking for the entire industry when he told a conference in Moscow last winter that luxury would be less affected than other sectors, and added, "I am quite confident we can get through this crisis."

But there's little question that the broader economic slowdown – and persistent pessimism – in the U.S. and elsewhere will hurt luxury's growth prospects and perhaps force some brands and retailers to rethink the very essence of luxury.

Just as luxury retrenched after the excesses of the 1980s and dotcom eras – even high-end consumers rejected over-the-top jewelry and outré fashions in favor of understated cashmere sweaters and insignia-free garb – the luxury mania of recent years, too, may be on the way out. The toning-down already ahs begun: At Yves Saint Laurent, for example, one of the big hits at the moment is a ready-top-wear collection called Edition 24 that is not only less expensive than its other collections but also – gasp! – deliberately designed to last more than one season.

It's one early answer to what's shaping up as an existential question for the top brands: Even after the global economy stabilized, will anyone want $2,000 handbags, $5,000 watches, and $300 sunglasses? Or is there a risk that "luxury" will go the way of yuppies and become a fad that many would prefer to forget? This could be a crisis of values.

Feedback?

Questions?

Suggestions?

Click Here

Specialty Items

Tuesday Morning Corp. sales decreased 10.4% to $196.5 million for the fourth quarter ended June 30, with comp store sales down 12.7%. For the full year, TUES sales were down 4.2% to $885.3 million. Comp store sales fell 7.6% for the year, and net income fell by half to $14.5 million ($.35 per diluted share) vs. $30.0 million last year. The company issued guidance for FY2009: sales of $868 million to $878 million, comp store sales of negative mid single digits, and diluted EPS in the range of $0.21 to $0.27.

Jo-Ann Stores, Inc. raised its outlook for FY2009. Earnings are now forecast at $0.95 to $1.05 per share vs. $0.75 to $0.85 previously guided. Comp store sales growth is forecast at 2.0% to 3.5%.

Tiffany & Co. now expects full year earnings to increase to $2.82 - $2.92 per share, up from previous guidance of $2.80 - $2.90 per share on worldwide sales growth of approximately 9%.

Zale Corp. lost $4.9 million in the fourth quarter of fiscal 2008 compared to income of $0.7 million. This year's number includes a net $3.4 million of one-time benefits vs. Q4 2007. For the full year, revenues fell .7% to $2.14 billion. Comp store sales for the year also decreased .7%. Net income fell 81.8% to $10.8 million on the year. For FY2009, ZLC guides earnings at $1.10 to $1.25 per share, or $2.35 to $2.50 per share adjusted for total warranty sales.

Williams-Sonoma issued guidance for FY2008, forecasting a 7.8% to 9.5% decline in revenues and an earnings decline of 34.7% to 41.5%. Earnings are forecast at $1.03 to $1.15 per share. For 2009 management plans a reduction in square footage growth from 7% in 2008 to 4% to 5% in 2009 and a reduction in capital spending from $200 to $220 million in 2008 to $145 to $170 million in 2009. Unspecified inventory reductions are also planned.

Petsmart issued FY2008 guidance forecasting: Sales up high-single to low-double digits; comp store sales up mid-single digits; earnings of $1.51 to $1.59 per share; capex of $285 million or lower; net new store growth of 100 to 104 with 45 net new PetsHotels.

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.

How to Advertise in this Publication: If you wish to advertise in our weekly newsletter please contact us via email at serdenis@gcszone.com.

Subscribe to our Newsletter: Click here to subscribe to *Retail Sector Weekly*.

RETURN TO FIRST PAGE

Management on the Move

Home Depot promoted **Marvin Ellison** to EVP U.S. Stores. Ellison was President of HD's Northern Division.

Office Depot named **Mike Newman** as EVP and CFO. Newman was SVP and CFO at Dallas-based Platinum Research Organization.

GameStop Corp. reshuffled senior management:

- **Daniel A. DeMatteo** is named CEO. He was Vice Chairman and COO.
- **R. Richard Fontaine**, current Chairman and CEO, will continue as Executive Chairman.
- **J. Paul Raines** is named COO. Raines comes from Home Depot, where he was EVP of U.S. Stores.

Duckwall-ALCO Stores named **Ted Beaith** SVP and Chief Information Officer. His resume includes Shoppers Drug Mart, Brookshire Brothers and Southwest Supermarkets before joining CapGemini as a senior retail practice manager.

L.L. Bean's VP of E-commerce, **Chris Wilson**, has been re-elected to the **Shop.org** board.

CDW Corp. named **Virginia L Seggerman** VP and Controller. Prior, Seggerman was SVP and CAO at Equity Office Properties Trust.

Saks Fifth Avenue appointed **Eric Jennings** VP and Fashion Director of Men's, Home, Food & Gifts. Previously, Jennings was a Brand Director for Hickey Freeman.

Cato Corp. promoted **John Howe** to EVP and CFO. Howe joined Cato in 1986 and worked his way through the finance department to his most recent role as SVP and Controller.

The Golf Network named former Charles Schwab CEO **David S. Pottruck** as its CEO. TGN has also hired BayHill Partners' co-founder **Mark McGourty** as COO.

Do It Best hired **Joe Caldwell** as the company's E-commerce Manager.

NexCen Brands outside director **Jack Rovner** has resigned from its board.

Pep Boys appointed **William Shull** SVP Stores. Shull has 25 years of retail experience, including 13 years at AutoZone.

Delhaize appointed **Mark Messier** VP of Supply Chain. Messier VP of Retail Services at Delhaize subsidiary Food Lion prior.

Target Corp. promoted **Michael Francis** to EVP and Chief Marketing Officer from EVP Marketing.

Did You Know...?

U.S. home prices declined in June according to the Case-Shiller home price index. Prices in 20 key cities fell 15.9% vs. 2007.

Hi Tech Entertainment

Computer and electronics retailer **Newegg** stopped charging sales tax to its New York customers on August 21, joining other on-line retailers taking a stand against the state's on-line sales tax. Both Amazon and Overstock have filed suit against New York over the law.

Conn's, Inc.'s qualifying special purpose entity (QSPE) has renewed the $100 million 364-day commitment of its existing 2002 Series A variable funding note. Conn's now has an aggregate $660 million of financing facilities.

Also, **Conn's** revised its earnings guidance for FY2009 to a range of $1.80 to $1.90 per share.

Amazon has hired ad agency Doner to manage its $25 million account, *AdAge* reports.

Mass Merchant Musings

Big Lots increased FY2008 guidance for income from continuing operations to $1.90 to $2.00 per diluted share. Operating profit rate for the year is projected to be 5.5% to 5.7%.

Wal-Mart is transforming more than 1,700 of its garden centers into Game Time Headquarters fan shops, focused on local college or professional football teams. The shops will feature licensed apparel, merchandise and tailgating supplies.

Dollar Tree forecast for FY2008 sales is $4.61 to $4.68 billion, assuming low-to-low-mid single digit comp store sales. Earnings is forecast at $2.33 to $2.43 per share.

RETURN TO FIRST PAGE

Bankruptcy Blotter

The high cost of fuel and difficulty accessing needed credit continue to batter both businesses and individuals, bringing last quarter's new bankruptcy filings to their highest point in the past two-and-a-half years. Between April 1st and June 30th, 276,510 individuals and businesses sought bankruptcy protection, the highest quarterly total since 667,431 companies and consumers raced to file in the last three months of 2005 before new, more restrictive bankruptcy laws took effect.

While the bankruptcy filing rate for those under 55 has fallen, it has soared for older Americans, as the older the age group, the worse the bankruptcies become. People 65 and up become more than twice as likely to file and the filing rate for those 75 and older has more than quadrupled.

The court has signed off on round three of store closings at **Linens 'n Things**, bringing to 182 the total number of outlets shuttered in the company's struggle to survive the consumer spending downturn. The approved closings represent approximately 30% of the company's 589 locations in operation at the time of filing for bankruptcy protection.

Separately, **Linens 'n Things** filed its Plan of Reorganization and Disclosure Statement with the court, hoping to emerge from bankruptcy in early 2009. The filing provides for senior lenders to be paid in full, holders of the company's Senior Notes to convert the majority of their debt into substantially all of the ownership of the reorganized company, and unsecured creditors to receive warrants to purchase common stock in the new company.

The court provided final approval to **Mervyn's LLC's** $465 million DIP loan. However, the deal limits how much Mervyn's can draw on the financing as most of the loan will ultimately be used to pay down existing bank debt, which totals about $330 million, leaving questions about the adequacy of the availability of new funds under the facility.

Boscov's Inc. won final approval of its $250 million DIP bank facility. The company, which is in the process of shutting down 10 locations, plans to emerge from bankruptcy in the first quarter of 2009.

In other news **Boscov's** is seeking court approval to pay six senior executives up to $1.45 million in bonuses tied to the company's successful reorganization or sale by early 2009. The company's unsecured creditors' committee supports the bonus plan.

The court gave **Goody's Family Clothing Inc**. permission to send its Chapter 11 plan of reorganization out to creditors for a vote even though the plan still leaves many questions, such as the future ownership of the company, unanswered. Un the plan, unsecured creditors will recover 5% to 10% of the $125 million to $160 million in claims through a pro rata share of a $2 million cash reserve and a pro rata share of a note worth $154 million in equity.

Shoe Pavilion Inc. is seeking approval to extend the time in which the company can accept or reject leases from December 10, 2008 until February 10, 2009, hoping to use the time to negotiate rent reductions and other lease modifications. A hearing is scheduled for September 15th.

The unsecured creditors committee in the **Burnside Avenue Lot Stores Inc.'s** bankruptcy are demanding detailed financial records to back up the company's proposal to close nine of its discount general merchandise stores. The company currently operates 24 stores on the east coast under the trade name Lot Stores. Previously provided information has proven to be faulty.

Did You Know...?

Consumer spending fell 0.4% in July according to the Commerce Department. Personal income fell 0.7% in July, the biggest drop since August 2005.

General Retail News

A multi-million dollar **retail theft ring** was busted in South Florida, according to a story in the *Miami Herald*. The organized retail crime group had operated since September 2003, as is estimated to have trafficked in about $7.9 million in drugs and health and beauty aids stolen from Walgreens, Target, CVS and other retailers. The U.S. attorney has charged seven men in the conspiracy.

The **National Retail Federation** said U.S. sales will stay slow into next year. The group predicts total growth for 2008 at 3.5% vs. 3.7% last year. The NRF forecast back-to-school spending of $594 per family this fall, vs. $563 last year. College students will spend a bit more, at $599 vs. $641 in 2007.

RETURN TO FIRST PAGE

The Global World of Sports and Footwear

Forzani Group subsidiary Intersport North America has licensed the Airwalk and Vision Street Wear footwear brands from Collective Brands. The Vision territory is for all footwear in the Western Hemisphere. RMP continues as the Airwalk licensee in Canada, and Forzani's license will cover the U.S. Airwalk will remain distributed in **Payless** stores, but Forzani plans to expand distribution to other mass channels with a segmented product line. The Vision line will be aimed at traditional specialty stores.

Dick's Sporting Goods and **GSI Commerce** inked a new 15-year contract, extending their e-commerce partnership for www.dickssportinggoods.com that began in 2001. GSI Commerce says sales at the retailer's site have grown more than ten-fold since it first opened for business.

REI intends to open a 28,000 sq. ft., two-story store at the Tuscon (AZ) Mall in spring 2009.

The Golf Network is set to expand into more than 100 U.S. retail locations in the Sep.-Oct. timeframe and to more than 400 doors in early 2009. The San Francisco company is already working with Dunham's SG, Golf Etc., Golf USA, Pro Golf and ParMasters on the planned rollouts. Only recently, TGN closed on its Series A funding from an investment group led by Red Eagle Ventures.

Brown Shoe guided lower after reporting its second quarter. The company now expects earnings of $1.12 to $1.29 per share for the full year, down from $1.29 to $1.53 per share prior guidance. Sales are expected to be in the range of $2.38 to $2.40 billion, down from its earlier forecast of $2.43 to $2.48 billion.

Sport Supply Group revenues were 8.9% higher at $61.1 million versus $56.1 million in their fourth quarter ended June 30, as gross margins grew 70 b.p. to 36.1%. Net income was $1.8 million versus a loss of $309,000. For the full year, Sport Supply recorded a net profit of $9,733,000 against $3,860,000 on 6.1% revenue growth to $251,394,000. The company's current FY09 outlook projects 5-10% top line expansion, further gross margin improvement of 50 b.p. and an EPS range of $0.85-.95 ($11.1 mm).

Modell's is opening two new 18,000+ sq. ft. stores in Cambridge, MA (Fresh Pond Shopping Center) and Staten Island (South Shore Commons) this weekend.

Gander Mountain court victory against Cabela's was upheld by a panel of the U.S. Court of Appeals for the Eighth Circuit. Gander is free to use its trademarks in all respects including direct marketing to consumers. Gander intends to expand its direct business sales through both catalogs and the Internet.

Mizuno and **Asics** are trimming their plans for opening retail stores in China due to rising competition and economic issues, reports *Asia Pulse*. Mizuno, according to the newspaper, has lowered its ambitious goal of having 1,200 doors open in China by the end of its fiscal year on March 31, 2009 and will focus on shuttering unprofitable locations. The company is forecast to have fewer than 900 shops in the market by its year-end versus 871 last year. As for Asics, it has postponed its goal of having 300 stores and ¥3 billion in market sales until 2009. Descent will have 245 stores open in China by year-end versus its earlier projection of 270.

Did You Know...?

U.S. consumer confidence index rose to 56.9 from a July reading of 51, the Conference Board reported. The percentage of consumers expecting business conditions to worsen over the next six months fell to 25.8% from 32.4%.

Heard in the Grocery Aisle

Penn Traffic Co. has settled with the Ohio Bureau of Workers' Compensation. The Ohio Bureau will release all potential claims against the company in exchange for $1.37 million in cash and 290,491 shares of the company's common stock.

A&P is continuing with its previously announced price impact format change for Pathmark and Superfresh stores with two openings in Philadelphia last week.

Bodega Latina is rebranding the seven **Gigante** stores it acquired in June under its El Super banner. Bodega Latina now owns 16 stores in the So. California and Phoenix, Arizona markets.

From **Royal Ahold's** second quarter report, U.S. subsidiary Stop & Shop / Giant-Landover had sales of $4 billion, up 1.7%, while Giant-Carlisle's sales were 11.5% higher at $1.1 billion. Same store sales were up 2.2% at Stop & Shop, down 1.5% at Giant-Landover, and up 7.0% at Giant-Carlisle.

Aldi will open a $40 million, 500,000-square-foot distribution center to service 25 new stores in the Tampa, St. Petersburg and Orlando areas, reports *Progressive Grocer*.

RETURN TO FIRST PAGE

FYI for the DIY

National Patent Development Corp. has completed its cash tender offer for all outstanding shares of Five Star Products, Inc.'s stock. NPDV now owns 93% of FSPX shares. Effective August 28, Five Star is a wholly owned subsidiary of National Patent Development Corp and will no longer be required to file reports with the SEC.

Orgill Inc. secured a new two-year unsecured bank facility providing for borrowings of up to $75 million. The company also contains an accordion feature allowing for borrowings up to $100 million. The facility is spread equally between Bank of America, Tennessee Bank and Regents Bank and expires June 2010.

Interline Brands, Inc. has acquired **Eagle Maintenance Supply, Inc.**, a $17 million janitorial supplies distributor. Terms were not released, but Interline management expects the acquisition to be earnings neutral this year and slightly accretive in 2009.

Handy Hardware showed a 40% increase in warehouse sales during its fall market in San Antonio, held August 14th to 16th. Attendance at the market, Handy's first-ever held outside of Houston, was also up 8%. Through July Handy Hardware's sales are up 7%, including an 18% jump in July.

Fastenal Company has reached a preliminary agreement in a class action suit over overtime provisions related to meal and rest breaks for assistant general managers. The company will pay $10 million to cover claims and legal fees.

Off the Rack

Charming Shoppes, Inc. reached a deal to sell its Crosstown Traders catalog business to Golden Gate Capital's Orchard Brands for $35 million in cash. The sale includes eight catalogs and associated web sites. CHRS will provide distribution and customer service for a limited period. In a separate transaction, Charming Shoppes sold the Crosstown Traders credit card receivables for approximately $40 million in cash to Alliance Data Systems Corporation. Net of debt, the two transactions will have pre-tax cash proceeds of approximately $43 million.

J. Crew Group revised down its FY2008 earnings guidance to $1.44 to $1.54 a share vs. its previous guidance of $1.70 to $1.75 a share. For the second half of the year, the company's now expects flat to slightly negative comp store sales.

Men's Wearhouse updated its earnings guidance for the fiscal year to $1.50 to $1.60 per share from continuing operations (excluding Golden Brand closure costs estimated at $0.12). Comp store sales are forecast to decrease mid single digits for TMW, decrease high single digits at K&G, decrease low single digits at Moores.

Fred's issued earnings guidance for FY2008 of $0.54 to $0.58 a share including store closing costs.

Old Navy may be looking for a new ad agency to help it spend its $200 million marketing budget, reports *AdAge*.

Coldwater Creek Inc. revising its FY2008 guidance after a better than expected second quarter. Sales are forecast to be $1.111 billion to $1,152 billion, with earnings of ($.01) - $.10 per share.

Retail Ventures, Inc. and **DSW Inc.** have reached an agreement where DSW will provide shared finance and human resources services to RVI. RVI used to provide these shared services to DSW. DSW will charge RVI $4.55 million for the services from March 17, 2008 through January 31, 2009. However, DSW will pay RVI a management fee of $3.76 million for management services over the same period.

"Pop-up" stores selling fashion brands are appearing on university campuses this fall, the *Wall Street Journal* reported. Vendors and retailers trying the concept include flip-flop maker **Havaianas**, Limited's **Victoria's Secret Pink** and sustainable-clothing brand **RVL7**. The pop-up kiosk can be both a marketing tool and a revenue generator.

H&M will open its first store in Japan in Tokyo's Ginza on September 13. The company plans aggressive expansion in Japan, according to management.

Dillard's Inc. has acquired the remaining 50% of construction company CDI Contractors which it did not already own.

Also, **Dillard's** has shut down its in-store travel agencies.

RETURN TO FIRST PAGE

Health & Beauty Aids

CVS is introducing a new high-end beauty store concept called "Beauty 360" with tests on both coasts this year. The stores will be located next to existing CVSs.

PBM **HealthTrans** has teamed up with **Duane Reade** in the New York metropolitan area and **Rite Aid** in New York State, Connecticut, New Jersey and Pennsylvania to offer a pharmacy benefits network to regional employers.

PDX and **Rx.com** have partnered with **Google Health** to make the prescription data that they manage available to Google Health users. PDX has records for over 55 million patients through its 11,000 member pharmacies.

Did You Know...?

Existing-home sales increased 3.1% to a seasonally adjusted annual rate of 5 million units in July from 4.85 million units in June, the National Association of Realtors reported.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
BROWN SHOE COMPANY INC	BB-	BB	STABLE	NEGATIVE	C
MRS FIELDS FAMOUS BRANDS	NR	CCC+	NR	NEGATIVE	11

Upcoming Reporting Dates

Company	Event	Date
Advance Auto Parts	Investor Conference	Sep 4, 2008
Alimentation Couche-Tard	Quarterly Results	Sep 2, 2008
Barnes & Noble	Investor Conference	Sep 3, 2008
BJ's Wholesale Club	Investor Conference	Sep 4, 2008
Burlington Coat Factory	Annual Results	Sep 12, 2008
Circuit City Stores	Quarterly Results	Sep 29, 2008
Collective Brands, Inc.	Quarterly Results	Sep 3, 2008
CVS Caremark	Investor Conference	Sep 3, 2008
Dick's Sporting Goods	Investor Conference	Sep 3, 2008
Dollar General Corp.	Quarterly Results	Sep 3, 2008
Drugstore.com	Investor Conference	Sep 4, 2008
Great Atlantic & Pacific Tea Co	Investor Conference	Sep 3, 2008
Hibbett Sports	Investor Conference	Sep 4, 2008
Home Depot	Investor Conference	Sep 3, 2008
Insight Enterprises	Investor Conference	Sep 5, 2008
J. Crew Group	Investor Conference	Sep 4, 2008
Lowe's Companies	Investor Conference	Sep 4, 2008
Lululemon Athletica	Quarterly Results	Sep 11, 2008
Movado Group	Quarterly Results	Sep 4, 2008
Pep Boys	Investor Conference	Sep 4, 2008
Pep Boys	Quarterly Results	Sep 9, 2008
Pier 1 Imports	Investor Conference	Sep 3, 2008
Safeway Inc.	Investor Conference	Sep 4, 2008
Saks Incorporated	Investor Conference	Sep 4, 2008
Staples	Quarterly Results	Sep 3, 2008
Supervalue Inc.	Investor Conference	Sep 3, 2008
Tech Data Corp	Investor Conference	Sep 4, 2008
Tractor Supply Company	Investor Conference	Sep 4, 2008
Ulta Salon, Cosmetics & Fragrance	Quarterly Results	Sep 4, 2008
Wallgreen Co.	Investor Conference	Sep 4, 2008
Wallgreen Co.	Investor Conference	Sep 5, 2008

RETURN TO FIRST PAGE

Second Quarter Scorecard

$ in Millions. Quarter ended closest to 7/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
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%	$59.8	$81.3	-26.4%
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%
Charming Shoppes, Inc.	$648.6	$694.4	-6.6%	-10.0%	($3.7)	$20.9	-117.7%
Chico's FAS, Inc.	$405.2	$436.0	-7.1%	-15.9%	$6.7	$38.7	-82.7%
Children's Place	$338.0	$290.5	16.4%	9.0%	$0.0	($28.1)	100.0%
Citi Trends, Inc.	$115.7	$96.8	19.5%	6.5%	$2.8	$0.6	353.9%
Coldwater Creek Inc.	$241.4	$253.5	-4.8%	-13.7%	$3.1	$8.7	-63.9%
dELiA*s, Inc.	$58.1	$52.4	10.9%	5.2%	($5.0)	($5.1)	2.0%
Dillard's, Inc.	$1,646.5	$1,689.1	-2.5%	-4.0%	($38.3)	($25.2)	-52.0%
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%	($4.4)	($4.8)	8.3%
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. Crew Group, Inc.	$336.3	$304.7	10.4%	-0.4%	$18.1	$20.6	-12.1%
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%	($11.7)	($18.4)	36.4%
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%
Men's Wearhouse	$545.3	$569.3	-4.2%	-8.0%	$32.8	$54.2	-39.5%
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%	($25.0)	($13.3)	-88.0%
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%
Mass Merchants							
Big Lots, Inc.	$1,105.2	$1,084.9	1.9%	2.8%	$26.0	$23.4	11.2%
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.	$1,093.1	$971.2	12.6%	6.5%	$37.6	$32.6	15.3%
Duckwall-ALCO Stores, Inc.	$129.6	$119.0	8.9%	-2.1%	tba	$0.4	tba
Fred's, Inc.	$447.1	$424.6	5.3%	4.9%	$1.0	$3.1	-66.2%
Overstock.com	$188.8	$149.0	26.7%	NA	($6.5)	($13.8)	52.9%
Sears Canada Inc.	$1,420.3	$1,443.9	-1.6%	1.8%	$61.1	$42.3	44.4%
Sears Holdings Corporation	$11,762.0	$12,260.0	-4.1%	-6.2%	$65.0	$173.0	-62.4%
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%
Sports & Footwear							
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%

(continued on page 9)

Did You Know...?

The U.S. economy grew at 3.3% in the second quarter of 2008, revised upward from the 1.9% growth initially estimated last month.

RETURN TO FIRST PAGE

Second Quarter Scorecard

(continued from page 8)

$ in Millions. Quarter ended closest to 7/31/08	Sales 2008	Sales 2007	Sales Change	Comps	Net Income 2008	Net Income 2007	Net Income Change
Sports & Footwear							
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%
Gander Mountain	$252.9	$216.5	16.8%	-11.7%	($4.9)	($9.7)	49.7%
Genesco Inc.	$353.1	$328.0	7.7%	4.0%	($10.3)	($4.2)	-145%
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%
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%
Specialty							
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%	($12.3)	($8.4)	46.4%
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%
Kirkland's, Inc.	$87.7	$87.4	0.3%	2.8%	($1.7)	($9.2)	81.5%
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
Michaels Stores, Inc.	$796.0	$788.0	1.0%	-2.6%	($25.0)	($44.0)	43.2%
Pet Valu	$44.3	$38.6	14.8%	8.8%	$3.6	$2.8	29.6%
PetSmart, Inc.	$1,241.9	$1,116.7	11.2%	4.0%	$37.2	$47.1	-21.0%
Tiffany & Co.	$732.4	$662.6	10.5%	-1.0%	$80.8	$40.5	99.5%
Williams-Sonoma, Inc.	$819.6	$859.4	-4.6%	-11.7%	$18.4	$26.0	-29.2%
Home Centers							
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%
Huttig Building Products	$195.4	$239.5	-18.4%	NA	($2.5)	$1.1	-327.3%
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%
Food							
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%
Loblaw Companies Limited	$7,037.0	$6,933.0	1.5%	0.7%	$140.0	$119.0	17.6%

(continued on page 10)

Did You Know...?

U.S.-made durable goods orders rose 1.3% in July, the Commerce Department reported. June orders were revised upward to 1.3% from 0.8%.

RETURN TO FIRST PAGE

Second Quarter Scorecard

(continued from page 9)

$ in Millions. Quarter ended closest to 7/31/08	Sales 2008	Sales 2007	Sales Change	Comps	Net Income 2008	Net Income 2007	Net Income Change
Food							
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%
Drug							
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%
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%
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%
BMTC Group Inc.	$225.5	$216.1	4.3%	NA	$17.1	$14.9	14.8%
Conn's, Inc.	$179.0	$190.6	-6.1%	-1.4%	$9.7	$10.2	-4.9%
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%

Retailer of the Week: Huttig Building Products

(continued from page 1)

to pay down approximately $17 million in debt, bolstering the balance sheet. Our credit rating is further validated by Global Credit Services' proprietary credit score.

OPERATIONS

($ in Millions)	For the Second Quarter Ended 6/30/08	6/30/07	Change	For the Six Months Ended 6/30/08	6/30/07	Change
Sales	$195.4	$239.5	-18.4%	$362.2	$461.9	-21.6%
Gross Margin	$36.7	$45.7	-19.7%	$68.8	$87.5	-21.4%
% of Sales	18.8%	19.1%	-30 BP	19.0%	18.9%	+5 BP
Overhead	$39.6	$43.8	9.6%	$78.0	$89.9	13.2%
Operating Income	($2.9)	$1.9	N/A	($9.2)	($2.4)	-283.3%
% of Sales	N/A	0.8%		N/A	N/A	
Net Income	($2.5)	$1.1	N/A	($12.3)	($2.3)	-434.8%
% of Sales	N/A	0.5%		N/A	N/A	

(continued on page 11)

RETURN TO FIRST PAGE

Retailer of the Week: Huttig Building Products

(continued from page 10)
Sales from continuing operations for the second quarter were $195.4 million, down $44.1 million or 18.4%, versus the second quarter last year. Sales were impacted by a 30% drop in housing starts to an average annualized rate of approximately 1.02 million, compared to approximately1.46 million in the second quarter of 2007. Sales decreased in all product categories, except building products. General building product were relatively flat with the prior year at $88.4 million. Millwork sales decreased 28% to $84.0 million, while Other wood products, mostly commodity products, decreased 27% to $16.8 million and engineered wood sales were down 40% to $6.2 million.

Exacerbating the sales shortfall, gross margins for the quarter declined approximately 30 basis points due mainly to the liquidation and write down of inventory at closed branches. In addition, margins were negatively impacted by a less favorable mix of millwork sales, a slightly higher mix of lower margin direct sales and lower vendor rebates earned. However, these factors were almost entirely offset by higher selling margins across all product categories.

Mitigating the sales and margin shortfalls, management reduced overhead by 9.6%, covering about half of the $9.0 million decline in gross margin, leaving the company with an operating loss of $2.9 million, a decline of $4.8 million versus operating income of $1.9 million for the second quarter last year.

Management rightfully anticipates that housing starts will continue to decrease for the balance of 2008 and continues to examine its cost structure, looking for additional opportunities to reduce expenses and increase efficiencies. To that end, the company announced on August 5th that its was closing its Springfield, Missouri branch. The branch is relatively small and operates in a particularly difficult housing market. Management anticipates incurring between $1.6 and $1.8 million in operating charges related to this branch closure during the third and fourth quarters of 2008. However, the company expect that approximately $0.4 million of these charges to be cash payment, including the building lease rentals being paid out over the remaining term of the lease in 2008 and 2009.

LIQUIDITY AND CASH FLOW

While the company's balance sheet is nothing to write home about, it does look as though the company will be able to sustain itself over the next several quarters barring significantly more deterioration in the housing market. As of the end of the second quarter the company's current ratio, a good measure of liquidity, was at 1.4:1, solid though not spectacular and slightly better than what it was at the end of the second quarter last year. Working capital still covers approximately 3.1 months of expenses and is further augmented by a $160 million revolving credit facility, which has been amended to provide more borrowing base capacity (see our most recent bank reference for details).

The company maintains a fairly stable leverage position with total debt running at approximately 60% of tangible net worth. Our main concern centers on the company's ability to generate sufficient cash flow going forward. It would appear that the company has taken all of the fat out of the business and wrung as much working capital out of the business as it possibly can.

OUTLOOK

This year will, in all probability, separate the well-run from the also-rans in the construction supply market and in retail in general. It is going to take considerable management and financial skill for some companies to be able to wend their way through the difficult market this year. At this point we believe that Huttig is sitting on the edge, though we also believe management has shown some skill and has reacted favorably to adverse conditions. While we believe the company can surely go on for the next several quarters, we are concerned as to how the company will be able to generate sufficient cash flow to continue beyond the next several quarters. We will continue to monitor closely.

RETURN TO FIRST PAGE