

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*You can only be young once but you can be immature forever.*

### Credit Lines in Jeopardy

Commercial lines of credit are in the crosshairs of banks as they seek to reduce liquidity risk and keep their loan portfolios from ballooning. Banks are downsizing companies' revolving lines of credit and exercising their "participation rights", the option to pull out of loan syndications.

Data from bank call reports filed with the Federal Reserve show that banks with large losses in residential mortgage lending and the related securities markets are cutting their idle commercial lines of credit. At Wachovia Corp., unused commercial credit commitments to U.S. companies dipped 10% in the second quarter compared with one year ago, to \$151 billion. Merrill Lynch's commercial bank reported that unused lines dropped by 25% to, \$31.3 billion, in comparison with last year. Similar trends have occurred at National City, Lehman Brothers Commercial Bank, and others.

New issuance of commercial revolvers has also fallen off a cliff. In the first half of 2008, \$288.2 billion of lines were originated, almost 50% less than were issued in the first half of 2007, according to data from Reuters Loan Pricing Corp.

Especially at risk of losing their revolving credit lines or having them reduced: companies that tap a fraction of their lines of credit at any given time. That's a large population: more than 40% of  
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### Retailer of the Week: Bon Ton Stores

We are **reaffirming Bon Ton Stores as an "E" high-risk credit with a "negative" outlook.** The struggles at Bon Ton Stores were persistent in the second quarter of the year. The company saw its comps continue to come under pressure from the struggling economic environment, forcing the top line to fall again. The firm's gross margin was thrust into the spotlight as well, as the company was forced to markdown more merchandise to fight off the stale revenue stream. Even this did not seem to work well. The operating loss was affected further by a \$17.8 million goodwill impairment charge, which was non-cash in nature. This did not affect the firm's liquidity. Even despite the struggles, the company's operations have provided \$27.6 million in cash through the first half of the year and the firm seems to have done a nice job bringing inventory levels down to more acceptable levels. The net loss hurts, to be certain. The EBITDA was still positive, however, but has fallen further than we would like to see. The company is in need of a strong back half of the year. Last year at this time, we had similar worries for Bon Ton Stores and were fairly satisfied with the performance in the latter half.

August comps fell 10.3% for the company. Revenues for the month fell 9.3% to \$207.1 million.

We continue to have mixed feelings when discussing the balance sheet. The company still has a very low cash liquidity, a trend we are becoming used to at this firm. The cash has always been used to keep the revolver as clean as possible. There was still \$238 million available on the facility at the end of the quarter. Being that this is the low point when discussing inventory levels, we should see the borrowing base begin to increase as the company prepares for the holiday season by building its inventory. The company is still slowly chipping away its pile of debt. The total debt on hand was \$1.12 billion at the end of the quarter, down from \$1.2 billion at the same point last year. This still creates quite a burden, but that burden is being lightened slowly.

Bon Ton Stores is expecting to be profitable in the last six months of the year but still post a net  
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## Credit Lines in Jeopardy

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finance chiefs responding to an August CFO survey on banking said their companies currently had no outstanding balance on their line of credit.

Banks simply don't make money on credit lines, and may even lose money if the credit lines are a substitute for more productive loans. Returns increase only when amounts are drawn, when banks also issue a term loan, or when opening a line leads to sales of other profitable services to the customer, like cash management. As a remedy, banks have tried to raise fees for unused credit lines above a typical 25 basis points, but fierce competition has often stymied those efforts.

Even capital-constrained banks cannot simply yank lines of credit to large corporations without repercussions, says consultant John Walenta, a partner in the corporate and institutional banking practice at Oliver Wyman. But they can seek modifications—like downsizing the line—especially if a company is close to violating a covenant. Middle-market companies and small businesses may be the most at risk for such modifications when it comes to revolving credit lines. With those customers, a line of credit more often is simply a “demand note” – the bank has the contractual right to demand full repayment and pull it at any time.

The terms and conditions banks are requiring for lines of credit now are just not what CFOs have been used to in the last few years, says Bob Graves, co-chair of the banking and finance practice at Jones Day. “They are much tighter, more onerous, and more expensive,” Mr. Graves said. “The CFO has to swallow hard and say, ‘What’s this worth to me.’”

**Feedback?**

**Questions?**

**Suggestions?**

[Click Here](#)

## Bankruptcy Blotter

The number of companies defaulting on their debt in the first eight months of the year is more than four times higher than last year. A total of 53 companies across the globe defaulted on debt worth \$35.3 billion through August of this year, the most in five years.

**Levine Leichtman Capital Partners Deep Value Fund LLP**, which holds \$43.5 million of **Linens n' Things** \$650 million junior secured notes, filed a motion with the court demanding certain information to better understand equity owner **Apollo Management's** role in the company's “quick demise” into Chapter 11 after receiving a “clean audit opinion” from **Ernst and Young**.

In other news, **Robert Holmer**, EVP Merchandising for **Linens 'n Things** resigned his position effective October 3<sup>rd</sup>. **Scott Silver** was promoted to the position of EVP, Chief Merchant earlier this month.

Effective September 6<sup>th</sup>, **Boscov's** had approximately \$93.1 million in direct borrowings outstanding and \$27.4 million in letters of credit under its \$250 million DIP facility. Availability under the facility at that date was \$32.6 million.

Separately, **Boscov's** won 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 in spite of opposition from the Justice Department, which complained that the plan would give bonuses to the executives for simply performing tasks their jobs require.

For the month of July, **Goody's Family Clothing** reported revenue of \$69.1 million and a net loss of \$20.2 million. As of the end of July, the company had \$13.7 million in cash and \$134.3 million of inventory.

The court ruled that **Sharper Image** gift card holders may unite and share an attorney in an effort to ensure they receive some sort of repayment from the retailer's liquidation. An estimated \$10 million in gift cards are outstanding.

Reaching the eleventh hour in its long-running bankruptcy case, **Interstate Bakeries Corp.** wants to extend the terms of its DIP loan by an additional \$79 million to \$379 million, as it seeks to finalize the details of its reorganization plan backed by investment firm **Ripplewood Holdings**.

Unrelated, **Interstate Bakeries** won court approval to sell a former bakery in Los Angeles for \$4.15 million to **Steve Lee** in an auction held last month.

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## Management on the Move

**AnnTaylor Stores** appointed **Paula J. Zusi** EVP and Chief Supply Chain Officer. Zusi held a senior sourcing role at Liz Claiborne prior.

**Circuit City Stores** named VP and Controller **Michelle O. Mosier** Principal Accounting Officer, succeeding Philip J. Dunn who has left the company.

**Staples, Inc.** appointed **Elizabeth A. Smith** to its board. Smith is President of Avon Products.

**Cardinal Health** director **George H. Conrades** will resign when his term expires at the company's 2008 annual meeting.

**Le Château Inc.** appointed **Max Mendelsohn** to its board. Mendelsohn is a partner in the law firm McMillan LLP.

**Gander Mountain** President and CEO **Mark R. Baker** has resigned to join Scotts Miracle-Gro. GMTN Chairman David C. Pratt will fill in until a replacement is found.

**Cost Plus, Inc.** named **Kenneth T. Stevens** to its board of directors. Stevens was President and COO of Tween Brands, Inc.

**Team Express/Baseball Express** is being led by **Jamie Morey**, VP of Merchandising following the recent departure of **Donna Bhatia**, president and CEO.

**JoS. A. Bank Clothiers** detailed its leadership succession plan, to go into effect December 21, 2008. **Robert N. Wildrick** will become Chairman, **R. Neal Black** will become CEO and **Andrew A. Giordano** will become Chairman Emeritus. Also, **James H. Ferstl** and **Henry Homes, III**, have been elected to the JOSB's board.

**Best Buy International** made several executive moves:

- **David Berg** was named COO. He was previously EVP for International Strategy and Corporate Development.
- **Tasso Koken** was named SVP for International Merchandising and Global Sourcing, a new position. Koken was SVP Merchandising.
- **Keith Nelsen** was named SVP Commercial, which includes general counsel responsibilities.
- **Alejandro Montoya** was named VP International Strategy, a new position.
- **Paul Antoniadis** was named CEO of Best Buy Brands, a division of Best Buy Europe. Antoniadis was SVP of International Retail Operations prior.

### Did You Know...?

*The U.S. trade deficit widened by 5.7% to \$62.2 billion in July, due primarily to oil imports, the Commerce Department reported.*

## Off the Rack

**Nordstrom** is planning a new Nordstrom Rack location in Fremont, Calif. The 35,000 sq ft store will open in fall 2010.

**Burlington Coat Factory** revenues rose 4.2% to \$707.1 million for the first quarter ended August 30. Comp store sales ended their streak in the red, ticking up slightly by 0.2%.

**Macy's, Inc.** will open three new Bloomingdale's stores. A 105,000 sq ft store will open in 2010 at Santa Monica Place in Santa Monica, CA. An 82,000 sq ft store will open in Georgetown Park in Washington, D.C. in 2011. And a 150,000 sq ft store will open in San Jose/Santa Clara, CA in 2011. The two smaller stores will feature the "SoHo" store design concept.

## Hi Tech Entertainment

**Rex Stores** reported strong revenue gains from its ethanol business, but retail revenues fell 11.3% in the second quarter. The company is now breaking out its retail vs energy business and continues to pursue a strategic review of its retail segment.

The **National Office Products Alliance** came out with a recommendation that all state governments open sole-source contract awards

to small businesses. Recent audits in North Carolina and California have found overcharging and other violations of sole-source contracts with Office Depot.

**Movie Gallery** has agreed with lenders to convert up to \$250 in term loans to equity, at the rate of \$10 per share of common stock. The transaction is expected to close October 6.

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## Health & Beauty Aids

**Walgreen** announced a \$3.0 billion offer for **Longs Drug Stores** that includes cash and debt assumption. This \$75 per share offer comes after CVS had placed a \$71.50 a share bid in August. This move, which would be a major departure from the norm for the druggist, could enhance Walgreen's market share in the western United States. The purchase is still pending shareholder approval, which seems likely since many equity holders had been clamoring for a higher bid from CVS. It is also possible that CVS may raise its bid for Longs, though as of press time, CVS said it was standing pat.

**Longs Drug Stores** and **CVS Caremark** have reached an agreement to settle with plaintiffs of purported class action lawsuits filed in California relating to CVS' acquisition of Longs. Longs will provide additional information related to the solicitation/recommendation statement. Other terms were not disclosed.

**CVS Caremark Corp.** has sold \$350 million in floating rate senior notes due 2010 to a group

of lenders. Proceeds will be used for the Longs Drug Stores acquisition.

Also, **CVS** subsidiary MinuteClinic opened four clinics in CVS stores in Columbia and Greenville, South Carolina, its first in the state.

**Walgreens' Specialty Pharmacy** division has been awarded a new multi-year contract as one of two preferred providers by Premera, which serves 1.7 million members in Washington, Alaska, Oregon and Arizona.

**Walgreens' Take Care Health Systems** opened four clinics in the Phoenix area. Along with four clinics in Tucson stores, Take Care operates eight clinics in Arizona.

**Dalrada Financial Corp.** is buying certain assets, including a consumer database, from Leading Edge Benefits. Dalrada will offer medical products and services from Leading Edge discount programs to its existing business customers as well as targeting uninsured individuals.

## FYI for the DIY

An index of sales contracts on previously owned home fell 3.2% in July from the prior month, according to the Association of Realtors. The index, which is considered a leading indicator of existing home sales, was down 6.8% from the prior year.

**Huttig Building Products** will close its Fredericksburg, Virginia, distribution center. The company will complete the closure in the fourth quarter and expects to take charges of between

\$600,000 to \$800,000 from the closure, including \$100,000 for employee severance costs.

**Home Depot** is emphasizing everyday low prices rather than special offers, according to a *Reuters* report. The home improvement retailer also sees sales upside in energy saving products. Management says customers are putting a high premium on value.

## Upcoming Reporting Dates

Company	Event	Date
Barnes & Noble	Investor Conference	Sep 16, 2008
Christopher & Banks	Quarterly Results	Sep 25, 2008
Circuit City Stores	Quarterly Results	Sep 29, 2008
Coldwater Creek	Investor Conference	Sep 17, 2008
Dress Barn	Quarterly Results	Sep 17, 2008
Family Dollar Stores	Quarterly Results	Oct 3, 2008
Home Depot	Investor Conference	Sep 17, 2008
Ingram Micro Inc.	Investor Conference	Sep 16, 2008
Kroger Co.	Quarterly Results	Sep 16, 2008
Loblaw Companies	Investor Conference	Sep 16, 2008
Pier 1 Imports	Quarterly Results	Sep 18, 2008
Rite Aid	Quarterly Results	Sep 25, 2008
Toys R Us	Quarterly Results	Sep 17, 2008
Wal-Mart Stores	Investor Conference	Sep 15, 2008

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## The Global World of Sports and Footwear

Stolen merchandise from a **Big 5 Sporting Goods** distribution center in Fontana, CA in Jan., was found in a police raid on a Rancho Cucamonga, CA warehouse on Sept. 5. Stolen merchandise from TJ Maxx was also uncovered in the bust. The suspects in the ongoing investigation are three brothers who operate a business under the name, EFJ, according to the Contra Costa Times. The Big 5-owned merchandise, bound for a store in Riverside, CA, originated in a Memphis, TN DC.

**Philbrick Sporting Goods** of Dover, NH is locked in a trademark infringement suit with eNom, the giant domain registrar that files for more than seven million domain names annually. Philbrick, which says it has declined a \$50,000 settlement, alleges the WA-based defendant with using a domain name, www.philbrickssports.com, related to its business as an advertising platform. That effort detracted from the retailer's own website (www.philbrickssports.com) and, according to the complaint, "took undue advantage" of the store's goodwill.

The **International Council of Shopping Centers** (ICSC) reported sales in athletic shoe stores climbed 4.4% in June, a period of clearance sales before the back-to-school season, reaching seasonally adjusted sales per sq. foot of \$340. The sector outpaced GAFO sales (-2.3%, \$411) and SG/Bike stores (-1.7%, \$259) during the month, according to data compiled by the International Council of Shopping Centers (ICSC). Regionally, the South and West are faring worse than the densely-populated Northeast and Midwest.

**Winmark Corp.** has amended the lease for its corporate offices to allow the Company to cancel the lease and vacate the premises anytime after December 1, 2008 with 90 days notice.

### Specialty Items

**Ethan Allen Interiors** announced that it plans to expand its business in Europe. Gregor Noelle has been tapped to head international operations, specifically to sell European retailers on ETH's shop-in-shop concept.

**United Rentals, Inc.** reached a settlement with the SEC over the company's historical accounting practices, agreeing to pay a \$14 million penalty. The settlement has been submitted for court approval.

VF Corp-owned **Lucy** is opening three stores this fall under a new concept that is also being implemented at three West Coast stores (Palo Alto, Manhattan Beach and Santa Monica) under renovation. The three new doors, which will bring the chain's total to 65, are in Roseville, CA (Fountains at Roseville), Florida (Aventura Mall) and Maryland (Annapolis Towne Center).

**Lululemon** earning guidance for the year is \$0.68-70 per share (\$48.6 mm) on sales of \$380-385 million that includes a high single-digit comp store gain on a constant dollar basis. In Q3, it will open the majority of the 22 stores left in its expansion plan for 2008. LULU also said it had fixed an e-commerce strategy that will give it internal control of web development and customer service while outsourcing the fulfillment aspect.

**NexCen** has received multiple bids for its Bill Blass apparel brand and Waverly bedding/window covering business. Late last month, the parent of The Athlete's Foot trademark, underwent a massive restructuring of its bank credit facility and saw its CEO Robert W. D'Loren resign following months of debt pressures brought on by its acquisition of the Great American Cookie. NEXC shares, which were trading near \$8 last Oct., are trading in the \$0.27 range these days.

**Adrenalina** is partnering with the **Zoo York** brand through its multiple marketing and retail efforts that include its television program, three stores and lifestyle magazines. A 12,000 sq. ft. Adrenalina store is under construction in Tampa.

**Eastern Mountain Sports** (EMS) is joining the retail/entertainment showcase alongside Gillette Stadium in Foxboro, MA next month with the opening of a 14,500 sq. ft. store in the complex.

**Leon's Furniture** has received approval from the TSX for its stock buyback program. The plan covers up to 3,526,448 shares, or 4.99% of the outstanding equity. Leon's most recent program, which ended August 28, saw the company buy back 494,200 shares at an average of \$12.10 pre share.

**Pet Valu, Inc.** has completed its acquisition of 15 Berrys...Your PetsChoice stores in Ontario, Canada.

#### Did You Know...?

*An early look at holiday cargo delivered at the nation's top ports shows that this year's volume is running about 4% behind 2007 levels, suggesting a tough holiday season.*

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## Mass Merchant Musings

**Wal-Mart's** Walmex unit loses a lawsuit in Mexico's Supreme Court brought by an employee over a coupon program the retailer runs for associates. Employees were partially paid with debit cards which can only be used at the store. The program was painted as a "company store" arrangement, illegal under Mexican law.

**99 Cents Only Stores** announced prices would rise to 99.99 cents in a publicity stunt citing

"dramatically rising costs and inflation." In the store's history, no item price has ever exceeded 99 cents.

**Meijer Inc.** is testing an online shopping and personal shopping service called Grocery Express at its Grand Rapids, MI store. Customers can order products online at [www.meijergroceryexpress.com](http://www.meijergroceryexpress.com), and they will be picked and packed and delivered to their car in the store's parking lot.

## General Retail News

**August retail sales**, adjusted, were 1.3% higher than Aug. 2007, according to monthly U.S. Commerce Dept. data, but they were off 0.3% from the July level. The sporting goods, hobby, book and music store segment reported

a 2.3% increase in year-over-year adjusted sales to \$7.567 billion from \$7.398 billion. Meanwhile, clothing & clothing accessories stores had a 1.2% adjusted y-o-y sales gain in Aug. to \$19.088 billion.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
PROGRESSIVE FARMERS	AA+	AA+	NEGATIVE	STABLE	NR
BARE ESCENTUALS INC	B+	B+	POSITIVE	STABLE	NR

### HAVE YOU HEARD...

The following Trade Commentaries on private Sporting Goods accounts are now available on the Global Credit Services website:

Modell's Sporting Goods  
Ski Market Ltd.  
Joe's FKA GI Joe's  
Retail Concepts  
Specialty Sports Venture  
Road Runner Sports  
Bass Pro Inc.  
Sports Authority  
Academy Sports & Outdoors Ltd.  
City Sports Inc.  
Edwin Watts Golf Shops  
Sportsman's Warehouse  
Green Mountain Corp.

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## Heard in the Grocery Aisle

**Stop & Shop** has dropped its lawsuit against **Whole Foods** over its "Real Deal" mark, after Whole Foods agreed to stop using the slogan.

**Marketside** stores are being planned for the San Diego area, the *Financial Times* reported, one near an existing Tesco Fresh & Easy. The first four stores from the Wal-Mart subsidiary will open in the Phoenix, AZ market soon.

**Penn Traffic** has a new eight-year procurement deal C&S Wholesale Grocers, Inc. PTFC anticipates a \$17 - 22 million improvement in availability by the end of this fiscal year from the new arrangement.

**Whole Foods Market** launched a new website emphasizing more community features, such as blogs, recipes and multimedia, as well as easier interaction with company personnel.

Also, **Whole Foods** opened its first store in Hawaii at Kahala Mall.

A month ago, **Safeway** announced it was making private label brands O Organic and Eating Right available to other supermarket chains. Now Safeway says the two brands have a potential revenue of \$1 billion in the next two to four years, according to a *Brandweek* article.

### Did You Know...?

Initial jobless claims were down 6,000 to 445,000 for the week ended Sept. 6, the Labor Department reported.

## Options and Resources

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## Retailer of the Week: Bon Ton Stores

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loss for the year. The company is expecting the net loss to fall somewhere between \$19.7 million and \$28 million for the year including the goodwill write-down. Excluding the goodwill write-down, the loss is expected to be between \$7.6 million and \$16 million. This would put the estimated profits for the last half of the year in the range of \$19.7 million and \$28 million.

\$ FIGURES IN MILLIONS	08/02/2008 (Q2 YTD FY09)	08/04/2007 (Q2 YTD FY08)	Year-over-Year Change
<b>Liquidity Ratios</b>			
Cash and Equivalents	\$18.1	\$21.9	-17.5%
Cash and Equivalents % Current Liabilities	4.11%	5.08%	-97 bps
Working Capital	\$427.4	\$474.6	-10.95%
Current Ratio	1.97x	2.1x	-13 bps
<b>Leverage Ratios</b>			
EBITDA / Interest Expense	0.39x	0.78x	-39 bps
Total Debt	\$1,121.3	\$1,200.0	-6.6%
Total Debt / Equity	376.83%	394.30%	-1,747 bps
Total Debt / Tangible Equity	821.41%	1146.00%	-32,459 bps
Total Liabilities / Total Assets	85.37%	85.51%	-14 bps
Total Liabilities / Total Tangible Assets	92.71%	90.50%	221 bps

### OPERATING PERFORMANCE

Revenues for the **second quarter ended August 2, 2008** were \$673.4 million, a 5% decline from the same period one year earlier. Comp store sales were down 5.7% for quarter. The best  
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## Retailer of the Week: Bon Ton Stores

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performing categories during the period was children's apparel, while moderate sportswear and dresses were reportedly at the bottom. For the quarter, **Bon Ton Stores saw its gross margin fall 220 basis points**, creating a less than desirable hole to dig out of. Increased markdowns were needed to fight off the sour retail environment during the quarter. The firm's comps still suffered. The firm's SG&A suffered as well, rising 50 basis points as a percentage of revenues. Bon Ton Stores did reduce expenses on a dollar basis but wasn't able to keep up with the falling revenue stream. In the quarter, **the company also took a \$17.8 million goodwill impairment charge**. This charge was non-cash in nature and didn't affect the firm's liquidity. For the three months, **Bon Ton Stores experienced a \$32.2 million loss from operations, a nasty swing from \$4.5 million in operating profits for the same quarter last year**. If we back out the goodwill impairment, it looks a little better at \$14.4 million. However, the second quarter gross margin issues are something the firm needs to correct. For the quarter this year, **the EBITDA stayed positive at just \$16.5 million but wasn't nearly enough to cover up the \$24.4 million interest expense**. The net loss of \$33.8 million was more than double the \$15 million that was lost in the same quarter last year.

Revenues for the **first half ended August 2, 2008** were \$1.37 billion, a 5% decline from the same period one year earlier. Comp store sales were down 5.1% for during the recently concluded period. The best performing categories for the semester were cosmetics and children's apparel, while moderate sportswear and dresses were reportedly at the bottom. For the six months, Bon Ton Stores saw its **gross margin fall 800 basis points** as a positive first quarter was more than offset by the sharp drop in the second quarter. The firm's comps still suffered for the semester despite the increased markdowns. The firm's SG&A suffered as well under the weight of falling revenues, rising 90 basis points as a percentage of revenues. Bon Ton Stores did reduce expenses on a dollar basis but wasn't able to keep up with the falling revenue stream. During the first half, the company also took a \$17.8 million goodwill impairment charge. This charge was non-cash in nature and didn't affect the firm's liquidity. **For the six months, Bon Ton Stores saw a \$57.8 million loss from operations**. This was a brutal decline from the \$14.3 million operating loss during the first half last year. If we back out the goodwill impairment, it looks a little better at \$40 million. For the semester this year, the **EBITDA stayed positive at just \$21.3 million but wasn't nearly enough to cover up the \$48.8 million interest expense. The EBITDA was down from \$45.5 million for the first half last year**. The net loss of \$67.9 million was wider than the \$44.3 million that was lost in the same period last year.

### CAPITAL STRUCTURE

The following sentence has been relevant for the past few quarters. The last year has been a mixture of changes for Bon Ton Stores. It has been a combination of ups and downs for the retailer, as the company is carrying less liquidity on the books but has seen its debt fall. Operations are certainly struggling but the firm has not been burning through cash at an alarming rate.

As of August 2, 2008, there was just \$18.1 million in cash on the books, just 4.11% of current liabilities. The company has always carried low cash balances in the past, using the extra cash to pay down the revolver debt. The low cash liquidity has been made less of a concern by the **\$238 million that is left available on the revolver. At this point last year, there was just \$229 million available**, giving a little extra cushion heading into the holiday season. This number should start to come up as the firm expands its inventory base in preparation for the holiday season. The working capital and the current ratio show the liquidity to be ample, held up mainly by the \$710 million in inventory. The inventory is down from \$757.3 million at the same point last year, as the company has done a nice job managing its inventory in a difficult environment.

While liquidity was down, the debt levels showed some improvement. Bon Ton Stores has made the decision to attempt to reduce the debt load instead of keeping spare cash on the books. **Total debt fell over 6.5% when compared to last year, falling to \$1.12 billion**. Most of the drop in debt was on the revolver. The debt load clearly remains a concern for Bon Ton Stores. None of the debt will be coming due for a couple years.

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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%	\$59.8	\$81.3	-26.4%
AnnTaylor Stores Corp.	\$592.3	\$614.5	-3.6%	-10.8%	\$29.3	\$31.7	-7.7%
Belk, Inc.	\$829.3	\$879.6	-5.7%	tba	\$8.2	\$7.5	9.3%
Bon Ton Stores, Inc.	\$673.4	\$708.6	-5.0%	-5.7%	(\$33.8)	(\$15.0)	-125.3%
Buckle, Inc.	\$169.8	\$124.3	36.6%	tba	\$22.3	\$11.8	89.0%
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%
Gordman's	\$101.0	\$94.5	6.9%	1.0%	\$0.0	(\$1.6)	102.7%
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%
Hart Stores Inc.	\$41.0	\$41.1	-0.2%	tba	\$1.5	\$2.1	-31.3%
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%
JoS. A. Bank Clothiers	\$152.7	\$134.3	13.7%	6.8%	\$8.9	\$8.2	8.1%
Kohl's Corporation	\$3,725.5	\$3,589.2	3.8%	-4.6%	\$236.0	\$269.2	-12.3%
Le Chateau Inc. (C\$)	\$88.7	\$83.6	6.1%	1.0%	\$9.8	\$6.3	55.6%
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%
New York & Company, Inc.	\$295.7	\$285.0	3.8%	-2.0%	\$8.7	\$3.5	148.6%
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%
Reitmans Limited	\$289.5	\$291.9	-0.8%	-4.5%	\$35.4	\$32.1	10.3%
Retail Ventures, Inc.	\$459.8	\$464.6	-1.0%	-5.1%	\$17.7	\$106.2	-83.3%
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%
Too, Inc (Tween Brands)	\$223.1	\$213.7	4.4%	tba	(\$6.7)	\$2.1	-419.0%
Urban Outfitters, Inc.	\$454.3	\$348.4	30.4%	13.3%	\$57.0	\$31.9	78.9%
Wet Seal, Inc.	\$149.1	\$143.3	4.0%	-4.4%	\$10.1	\$6.8	50.0%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,105.2	\$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 General Corporation	\$2,609.4	\$2,347.6	11.2%	10.1%	\$27.7	(\$68.8)	140.3%
Dollar Tree 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%	\$3.3	\$2.6	25.5%

### Did You Know...?

U.S. import prices dropped in August by 3.7%-the largest one-month decline since 1988, the Labor Department reported.

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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>							
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%
Toys R Us Inc.	\$2,771.0	\$2,605.0	6.4%	5.1%	\$13.0	(\$42.0)	131.0%
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%	(\$2.3)	(\$8.7)	74.1%
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%
Brown Shoe Company, Inc.	\$569.2	\$576.6	-1.3%	-2.9%	\$2.2	\$9.8	-77.4%
Cabela's	\$526.0	\$451.2	16.6%	-1.6%	\$7.3	\$11.3	-35.4%
Collective Brands (Payless)	\$911.7	\$699.3	30.4%	0.2%	\$8.1	\$24.9	-67.5%
Dick's Sporting Goods, Inc.	\$1,086.3	\$1,013.4	7.2%	-3.7%	\$41.1	\$47.9	-14.2%
DSW Inc.	\$357.2	\$348.7	2.4%	-6.9%	\$11.0	\$6.5	68.1%
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%
Forzani Group Ltd. (C\$)	\$295.6	\$292.4	1.1%	-4.2%	\$1.5	\$5.4	-72.2%
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%
Lululemon Athletica Inc.	\$85.5	\$57.9	47.6%	18.0%	\$11.1	\$5.1	117.6%
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 49 (C\$)	\$45.0	\$42.4	6.1%	3.9%	(\$1.8)	(\$0.6)	197.3%
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%
Central Garden & Pet	\$492.9	\$466.8	5.6%	tba	\$15.7	\$15.5	0.8%
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%
Movado Group, Inc.	\$129.7	\$139.5	-7.0%	NA	\$8.1	\$12.3	-34.1%
Pep Boys -Manny, Moe & Jac	\$500.0	\$552.1	-9.4%	-8.0%	\$5.4	\$4.2	28.6%
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%
<b>Home Centers</b>							
Ace Hardware	\$1,066.9	\$1,022.6	4.3%	NA	\$33.4	\$38.8	-13.9%

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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>Home Centers</b>							
Builders FirstSource, Inc.	\$307.3	\$465.1	-33.9%	NA	(\$45.9)	\$8.4	-646.4%
Building Materials Holding Co	\$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%	8.8%	\$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%
Casey's General Stores	\$1,565.7	\$1,279.3	22.4%	4.7%	\$28.8	\$29.8	-3.4%
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%
Penn Traffic Co.	\$306.9	\$318.0	-3.5%	tba	(\$3.4)	(\$4.9)	30.6%
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%
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%
Ulta	\$249.1	\$200.4	24.3%	3.7%	\$3.7	\$2.2	68.2%
<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%
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%
Rex Stores Corporation	\$67.4	\$47.9	40.7%	-3.9%	\$1.2	\$5.8	-79.3%
Staples, Inc.	\$5,074.7	\$4,290.4	18.3%	-7.0%	\$150.2	\$178.8	-16.0%
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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