

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

Reflect on your present blessings, of which every man has many; not on your past misfortunes, of which all men have some.

Basic Do's and Don'ts for The Unsecured Creditor

A succession of retail/wholesale bankruptcies around the country have tightened credit policies at most vendors, but suppliers can still find themselves holding a Chapter 11 notification. Commercial bankruptcy attorneys offer a few tips on how suppliers can minimize their losses when a customer goes belly up.

File a "proof of claim" as soon as possible. This is a simple form, available from the Web site of any federal bankruptcy court, that explains what a debtor owes you and why. "Don't wait to figure out what the deadline is," advises Annie Catmull, a bankruptcy attorney with Walker Wilcox Matousek in Houston.

Don't ignore demands for payment. Under the law, a bankruptcy trustee can demand that you return payments received from a debtor during a 90-period prior to the bankruptcy filing. These demands can be contested, but vendors who ignore them can be sued by the bankruptcy trustee.

Join the committee of unsecured creditors. The unsecured creditors committee has considerable influence over how a company's assets are distributed – and the committee is *(continued on page 2)*

Retailer of the Week: Coldwater Creek

We are reaffirming Coldwater Creek as a "D" moderately high-risk credit with a "negative" outlook. We are still trying to digest just how quickly Coldwater Creek has slipped onto our radar. Just one year ago, this was a company that we had rated an A credit. The past three quarters consisted of downgrades at Coldwater Creek, as the company has been losing money, expanding its store count and buying back stock. Thankfully, we will leave the firm at a "D" credit this time around. The losses, stock buybacks, and higher store count has depleted the firm's once cushy liquidity position. Liquidity is down sharply for the firm, and the operations are expected to remain sluggish over the next few periods, so we may have to deal with the lessened liquidity.

For the third quarter, revenues are expected to stabilize. This would signify another drop in comps as the firm's store count has risen sharply since last year. The guidance says the company will post sales of between \$261 million and \$279 million, and it expects to post a small profit. The firm beat its guidance for the second quarter.

\$ FIGURES IN MILLIONS	08/02/2008 (Q2 YTD FY09)	08/04/2007 (Q2 YTD FY08)	Year-over-Year Change
Liquidity Ratios			
Cash and Equivalents	\$89.2	\$129.9	-51.01%
Cash and Equivalents % Current Liabilities	48.42%	77.23%	-2,881 bps
Working Capital	\$110.1	\$188.9	-41.72%
Current Ratio	1.6x	2.12x	-52 bps
Leverage Ratios			
Total Liabilities / Total Assets	54.07%	47.36%	671 bps

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Basic Do's and Don'ts for The Unsecured Creditor

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represented by its own attorney, paid for by the debtor. The downside? It involves a time commitment, especially at the beginning of a case.

Do some of the legwork. Diana Perenza, a paralegal who is also the creditor manager at Florence Building Materials always attends the initial gathering of the creditors, called a "341 meeting," and orders copies of the court files. Then she decides whether to bring in a bankruptcy attorney. On a recent bad debt of \$11,000, Ms. Perenza advised her company to take a loss after reviewing the contractor's assets, liabilities and drug rehab history. "realized there was nothing to go after," she said. "But it would have cost us \$2,000 in legal fees to find that out."

Walk softly. Once bankruptcy papers are filed, any attempts to collect a debt or take back materials is verboten. But the courts also frown on collection methods they deem "outside the ordinary course of action" in the period before a bankruptcy filing. These can be deemed a preference action. "Outside the ordinary course of action" does not have a clear definition, but "preference" means you jumped ahead of the other creditors, and the court may ask for the money back.

Check your mechanic's liens. Provided they were filed properly, a mechanic's lien can bump you ahead of unsecured creditors – and put you in a good bargaining position. A lot of bankers learned their lessons in the 90's – it's better to work it out than take over a partially build project. Lenders are often willing to extend payments to suppliers to get the job done. The banks don't want mechanics' liens on a project because its mucks it up.

Feedback?

Questions?

Suggestions?

[Click Here](#)

Heard in the Grocery Aisle

Eight former **Ralphs Grocery** managers were indicted on charges of rehiring locked-out workers using false identities. In 2003, the Kroger subsidiary locked out 19,000 So. California employees during a long-running labor dispute. The men face up to 30 years in prison for various offenses, including falsifying documents and lying to investigators. Ralphs paid a \$70 million fine two years ago in connection with the case.

Publix Super Markets Inc. completed its acquisition of 49 Florida Albertsons stores. Also, of the 45 new stores Publix has planned for 2008, 30 have already opened.

Publix is reportedly planning a 970,000 sq ft distribution center in Orlando to supply its Florida stores.

The first four **Marketside** stores open October 4 in Gilbert, Mesa, Chandler and Tempe, Arizona.

Fresh & Easy opened three stores in the Las Vegas area last week. In October, six more openings are planned, bring the chain's store count to 87.

Ten of the 25 **Aldi** stores planned for Florida opened last week. Another ten are slated to open October 27 and the last five on November 10. The stores are about 17,000 sq ft each, less than half the size of a typical supermarket.

Kroger Co. was sued by The U.S. Equal Employment Opportunity Commission for age and race discrimination against a black employee. The suit was filed last Thursday in U.S. District Court in Cleveland, OH.

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.

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Bankruptcy Blotter

Standard & Poor's says the 353 speculative-grade, nonfinancial firms could default between 2008 and 2010, the highest three-year total since S&P first began tracking defaults in 1981. Hardest hit will be media and entertainment, retail and restaurant and consumer products sectors.

Mervyn's LLC got the go-ahead to hire forensic financial accountants as it pursues a big-ticket lawsuit against its private equity investors, including **Cerberus Capital Management**, **Sun Capital Management** and **Lubert-Adler**. The complaint claims the private equity firms stripped Mervyn's of valuable real estate assets to finance the 2004 acquisition. The firms then leased the locations back to Mervyn's at elevated rates. Other defendants in the suit include the banks that financed the acquisition and **Target Corp.**, which sold the firm.

The court has postponed the sale of **Boscov's** until this week, pushing back a scheduled session that was scheduled to conclude last Thursday, September 25th. The U.S. Trustee has filed an objection to the sale of the company to **Versa Capital Management**, claiming that Boscov's seems to be favoring Versa over other bidders.

Attorneys for the Unsecured Creditors Committee are considering a possible lawsuit against **Linens 'n Things**, its auditors **Ernst & Young**, along with the firms that acquired Linens 'n Things in the private equity buy out, **Apollo Management**, **National Realty and Development Corp.**, and a unit of **Silver Point Capital**. In particular, attorneys will be looking at the management and consulting agreements between Linens and Apollo Management.

Additionally, the Unsecured Creditors' Committee and the Ad Hoc Committee of Holders of the \$650 million in notes due 2014 have petitioned the court to allow the two groups to work together in examining the financial affairs of **Linens 'n Things** including the right to subpoena financial and other records.

In other news, **Linens 'n Things** reported an operating loss of \$16.1 million for the period July 27th through August 23rd on sales of \$117.6 million, covering a good deal of the back to school season. After reorganization items of \$17.2 million, the company reported a net loss of \$33.3 million for the period.

A meeting of creditors holding claims in the **Marty's Shoe** Bankruptcy has been scheduled for October 28, 2008 at 2 p.m. in the J. Caleb Boggs Federal Building in Wilmington, Delaware.

Whitehall Jewelers received final permission to access an \$80 million bankruptcy loan, more than two months after the proposed financing sparked opposition from the company's unsecured creditors, who had claimed that the loan would give undue benefits to an affiliate of majority equity holder **Prentice Capital Management L.P.**

Additionally, **Whitehall Jewelers** is seeking court permission to sell 355 store leases as it continues to liquidate its inventory through hundreds of GOB sales. **DJ Realty**, an affiliate of **Gordon Brothers Group LLC**, which is helping to oversee Whitehall's store closing sales, has already started marketing the leases in anticipation of a requested October 30th auction.

Did You Know...?

U.S. existing home sales fell 2.2% in August to a seasonally adjusted annual rate of 4.91 million, according to the National Association of Realtors. Resales have fallen 10.7% in the past year.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
RITE AID CORP	B	B	NEGATIVE	STABLE	E
DENNYS CORP	B+	B+	STABLE	NEGATIVE	E+
ROUNDYS SUPERMARKETS INC	B	B+	NM	STABLE	D
CARROLS HOLDING CORP	B	B+	NEGATIVE	NEGATIVE	E+
STARWOOD HOTELS & RESORTS WORLDWIDE INC	BBB-	BBB-	NEGATIVE	STABLE	D+
ARAMARK SERVICES INC	B+	B+	POSITIVE	STABLE	NR
VENETIAN CASINO RESORT LLC	B+	BB-	NM	NM	NR
LAS VEGAS SANDS INC	B+	BB-	NM	NM	D+

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Management on the Move

The Pep Boys appointed **Michael R. Odell** CEO. He has been serving as interim CEO and on the board since April.

AutoZone, Inc. elected **Luis P. Nieto** as a director. Also, board members **Charles M. Elson** and **N. Gerry House** said they will not stand for re-election at AutoZone's annual meeting December 17.

Whole Foods Market promoted **Michael Besancon** to Senior Global VP of Purchasing, Distribution and Marketing. Besancon was the company's Southern Pacific Regional President.

Rite Aid Corp. named **John T. Standley** President and COO, and appointed **Frank G. Vitrano** CFO and CAO. Both men were most recently at Pathmark Stores: Standley as CEO and Vitrano as President, CFO and Treasurer.

Walgreens named **Kim L. Feil** VP and Chief Marketing Officer. Feil comes from Sara Lee North America, where she was SVP and CMO.

A.C. Moore Arts & Crafts promoted **Michael G. Zawoysky** to EVP and CFO. Zawoysky was

the company's VP of Financial Planning and Analysis and has been acting CFO since June.

Stage Stores, Inc. CEO **Jim Scarborough** will retire on November 3. **Andrew Hall**, currently President and COO, will replace him.

NexCen Brands, Inc. director **Jack B. Dunn IV** has resigned.

The Talbots, Inc. named **Sue Walsh** SVP of Stores for J. Jill. Walsh comes from Williams-Sonoma, where she was VP of Stores for Pottery Barn.

Charming Shoppes, Inc. appointed **Jay H. Levitt** President of the Fashion Bug brand. Levitt was previously President and CEO of May Merchandising and May Department Stores.

Circuit City Stores, Inc. appointed Vice Chairman **James A. Marcum** acting President and CEO after **Philip J. Schoonover** agreed to immediately step down from those positions. **Allen B. King** will take over from Schoonover as Chairman. Marcum was originally nominated for the board by activist shareholder and Schoonover critic, Mark Wattles.

Specialty Items

AutoZone, Inc. sales grew 10.4% to \$2.2 billion in its fourth quarter ended August 30. There was an additional week in its Q4 this year, without which sales were up 4.1%. Comp store sales were up 0.6%. Net income grew 12.2% to \$243.7 million. For the full year, sales were up 5.7% to \$6.5 billion, while comps rose 0.4%. Net income for the year increased 7.7% to \$642 million. Without the effect of the additional week, sales increased 3.7% and net income increased 5.1%.

California furniture chain **Living Spaces** opened a 100,000 sq ft store in Rancho Cucamonga, its fourth. Earlier this year, the retailer opened a 188,000 sq ft store in Irvine.

Bed Bath & Beyond Inc. sales increased 4.9% to \$1.854 billion in the second quarter of 2008. Net earnings were off 18.8% to \$119.3 million and comp store sales decreased by 0.1%. At quarter-end, BBBY had a total of 994 stores.

Williams-Sonoma has reduced the number of catalogs sent out by 25% and has reduced the page count by 31%. The cuts are expected to save \$40 million in marketing costs.

Perfumania Holdings, Inc. lowered earnings guidance for the third quarter to \$9.0-\$10.0 million from a previous projection of \$14.3 million. Comp store sales growth is now forecast at 2.5% rather than 5%.

Did You Know...?

GDP grew at just 2.8% in the second quarter, revised downward from the previous estimate of 3.3%, the Commerce Department reported.

Upcoming Reporting Dates

Company	Event	Date
1-800-Flowers.com, Inc.	Investor Day	Oct 2, 2008
Circuit City Stores	Quarterly Results	Sep 29, 2008
Family Dollar Stores	Quarterly Results	Oct 3, 2008
Limited Brands	Quarterly Results	Oct 8, 2008
Walgreen's	Quarterly Results	Sep 29, 2008

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Health & Beauty Aids

Wal-Mart will open a pharmacy on the campus of The University of Charleston's (WV) pharmacy school. It will be a fully functional pharmacy, as well as providing hands-on training for pharmacy students.

Also, **Wal-Mart** is making a move into PBM space. It's negotiated a contract with Caterpillar Inc. to fill prescriptions for about 2,500 generic drugs for free to CAT's 70,000 employees and retirees.

Rite Aid Corp. revenues fell 1.1% to \$6.50 billion for its fiscal second quarter ended August 30. Same store sales increased 0.6% overall (1.9% front-end, flat pharmacy) and fell 4.1% in Brooks Eckerd stores. Net loss ballooned 219% to \$222.0 million in the quarter. The bottom line included \$36.2 million from refinancing, an income tax expense of \$5.3 million, store closing and impairment charges of \$35.2 million and an increase in depreciation and amortization expense of \$18.4 million. RAD issued revised FY2009 guidance: Sales between \$26.0 and \$26.5 billion (vs \$26.7 - \$27.2 billion guided previously) with same store sales up 1.5% - 3.0% (vs 2.0% - 4.0% guided previously). Net loss is expected to be \$445 - \$535 million (vs \$300 - \$415 million guided previously).

Walgreen Co. sales increased 8.8% to \$14.6 billion for the fourth quarter ended Aug. 31.

Comp store sales rose 2.6% overall, while front-end comps rose 3.7% in the quarter. Earnings increased 11.7% to \$443 million, but would have fallen without a \$79 million benefit from a vacation accrual adjustment. For the full year, sales increased 9.8% to \$59.0 billion, with net income up 5.7% to \$2.16 billion.

The Federal Trade Commission is investigating **Walgreens** proposed acquisition of **Longs Drug Stores**, specifically the effect of the merger on competition in the California, Nevada and Hawaii markets. The FTC also requested information about Longs' mail order business.

Meanwhile, **CVS** issued a release reminding everyone that their offer for **Longs** has cleared all regulatory hurdles, is fully financed and is ready to close.

Ulta Salon, Cosmetics & Fragrance Inc. plans to open about 80 stores next year and another 100 in 2010, with an ultimate goal of 1000 stores by 2017. The company operates 283 locations now.

The Ryan Haight Online Pharmacy Consumer Protection Act of 2008 (H.R. 6353) passed the U.S. House of Representatives unanimously. The purpose of the bill is to eliminate illegal internet pharmacies which sell drugs without a valid prescription. The bill will now go back to the Senate.

Did You Know...?

Ad spending declined by 1.6% in the first half of 2008 compared with 2007, according to TNS Media Intelligence. The second quarter was down 3.7% y-o-y.

General Retail News

Free Shipping will be less prevalent, and more likely to have strings attached this Holiday season, says *AdAge*. Free shipping was offered with no conditions by 37% of retailers last year, according to Shop.org. Fuel costs have raised prices retailers pay for shipping, so retailers may impose conditions such as minimum order size to get free shipping. But it's the perk that's most demanded by shoppers—above BOGOs, gifts, coupons and other specials—and retailers risk losing sales if they don't offer it.

National Retail Federation officials tell a Congressional committee the Internet is creating a new type of retail thief. Online 'e-fencing' is becoming thieves' preferred method for disposing of stolen retail merchandise since they can typically receive 70% of an item's value

versus 30% at a pawn shop. There are currently three Organized Retail Crime (ORC) bills pending before Congress. The Organized Retail Crime Act of 2008, sponsored by Rep Brad Ellsworth (D-IN), would make ORC—both online and offline—a federal crime for the first time. Meanwhile, The Combating Organized Retail Crime Act of 2008, sponsored by Sen. Majority Whip Richard Durbin (D-IL), would require enhanced sentencing guidelines for ORC and would also address online fencing.

Also, the **NRF** is the latest organization to predict a grim U.S. holiday shopping season, forecasting 2.2% growth to \$470.4 billion, below a 10-year average of 4.4% and the slowest holiday sales growth since 2002.

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The Global World of Sports and Footwear

Cabela's says its generating 15-20% annual growth rate in new credit accounts, largely by attracting customers who visit its expanding brick-and-mortar network of 28 U.S. stores. Those new accounts coupled with 5-7% growth in the average credit balance has CAB management forecasting "mid teens" growth for its financial services unit for the foreseeable future. That rate outpaces annual projections for Cabela's \$1 billion dollar direct business (low to mid-single digits) and retail base (flat to low single digits). On the negative side, Cabela's saw a slight uptick in bad debt in FY08 to 2.6-2.7% versus 2.0% a year earlier.

Finish Line sales grew 3.9% to \$353.3 million in the second quarter ended Aug. 30. Net income was \$13.1 million against a loss of \$1.8 million for the period. Operating income was 82% higher at \$21,407,000. Comp store sales rose 4.7% overall (+4.9% in Finish Line +1.3% in Man Alive doors). Management remains "cautiously optimistic" about H2, pointing to a cleaner overall inventory environment than two years ago and seemingly less consumer resistance to higher-priced, "compelling" new footwear styles.

Genesco unveiled a new five-year plan with primary objectives for the five years ending with its FY2013 of 8-10% top line growth annually to reach the \$2.2 billion mark, an operating margin range of 8.5-9.0% versus the 5.0% achieved in the most recent FY, 15% EPS growth annually and free cash flow in excess of \$275 million. By segment GCO projects 30% door growth for the Journeys Group to 1,260 units and 38% additional sq. footage as total rise to approximately \$1.1 billion and group operating margins hit low double digits. At Hat World, sq. footage will expand approximately 30% as the store base hits 1,100 (including Canada) and annual revenues reach \$550

million on low-single comparable store sales gains. Segment operating margin is forecast in the "low double digit" range.

NexCen ended Q2 with 1,895 franchise locations, 61% more than the 1,174 it had at the end of Q207. NEXC royalty revenue grew 94% in Q2 to \$6.8 million. Global sales of The Athlete's Foot were up 8.5% in 2007 to \$383.6 million. NexCen cautioned that it continues to assess and quantify the impact on its Q2 financial results from asset impairment charges, the recent restructuring of its credit facility, a workforce reduction in its New York headquarters and the planned disposition of Bill Blass/Waverly.

Shoe Carnival was hit with a class-action lawsuit over the hourly wages it pays store employees on Sept. 15 in U.S. District Court for the Middle District of FL.

GSI Commerce agrees to settle a two-and-a-half year old, class-action lawsuit involving Timberland and a hired company that was sending unsolicited text messages to cell phones, an alleged violation of the Telephone Consumer Protection Act. GSIC will pay \$7 million to a settlement fund from an insurance policy that has a \$1 million deductible.

REI is opening a second prototype store in Round Rock, TX. In addition to various "green" features, the store has dedicated the mezzanine level to a community center rather than selling space to enhance its education efforts.

Crocs is opening its third own retail store in Toronto, Canada, adding to existing locations in Montreal and Quebec City.

Dick's Sporting Goods is opening a 50,000 sq. ft. store in Alcoa, TN on Oct. 5.

Did You Know...?

Weekly jobless claims shot to their highest level in seven years in the latest week, as people in the hurricane-hit states of Louisiana and Texas filed for benefits. First-time filings for benefits jumped by 32,000, to 493,000 for the week ended September 20th.

FYI for the DIY

Lowe's released its outlook and expansion plans for the year in a statement last week. For FY2008, the company will open about 120 stores, with total square footage growth of 7% to 8%. Sales are forecast to increase about 1%, with a same store sales decline of 6% to 7%. Earnings are expected to be in the range of \$1.48 to \$1.56 per share. For FY2009, the company expects to open 75 to 85 stores (5% sq ft growth), and sales are expected to increase 2.5% to 6.5% on comps of -3% to +1%. Earnings are forecast to be \$1.40 to \$1.65 per share.

Home Depot is planning two new distribution centers for Redlands, CA and Monroe, OH. The facilities will each be about 658,000 sq ft. Construction will begin in early 2009.

The Alameda City Council denied an appeal from local merchants and cleared the way for an Orchard Supply Hardware to open in Alameda, California, in a former Safeway supermarket.

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Off the Rack

Gap acquired women's retailer **Athleta** for \$150 million, to give it a faster entry into the U.S. women's activewear market. The brand will reportedly be leveraged across all of Gap's retail banners from Gap and Banana Republic to Old Navy. Gap didn't reveal the size of the Athleta chain but various data on the company suggest it is in the \$50-60 million range in sales right now, suggesting that the Lululemon premium is still having a big impact on valuations in this market.

Neiman Marcus, Inc. fiscal fourth quarter sales rose 4.9% to \$1.03 billion, though comp store sales decreased 1.4%. For the fiscal year, the company saw revenues increase 4.8% to \$4.6 billion with a comparable sales gain of 1.7%. Net income for the year was up 27.6% to 142.8 million. FY2008 had 53 weeks vs 52 in FY2007, accounting for \$49.8 million in sales.

Macy's, Inc. has partnered with Al Tayer Group LLC to open the first Bloomingdale's stores outside of the U.S. in Dubai, UAE. Two stores—a 146,000 sq ft apparel and accessories store and a 54,000 sq ft home store—will anchor The Dubai Mall, due to be completed in late 2008.

Aeropostale Inc. and **GSI Commerce Inc.** extended their e-commerce agreement through 2018. GSI runs Aeropostale's e-commerce business from the web site through fulfillment.

Cache lowered its guidance for FY2008 as the third quarter so far has been disappointing. The company now forecasts sales for the year of \$278 to \$280 million, down from previous guidance of \$286 to \$290 million. Earnings,

excluding store closing and charges, are forecast to be \$0.24 to \$0.31 per share vs. the previous guidance range of \$0.53 to \$0.56.

Eddie Bauer Holdings, Inc. will hold a special meeting of shareholders on November 21 to vote to extend a 4.75% ownership limitation on its securities. The limitation currently expires on January 4, 2009.

Syms Corp. sales decreased 3.8% to \$59.0 million for the second quarter ended August 30. Same store sales fell 2.5%. Net loss was \$1.3 million (\$0.09 per share) down slightly from a net loss of \$1.4 million (\$0.10 per share) last year.

Christopher & Banks Corp. sales fell 6.7% to \$131.6 million for its second quarter ended August 30, 2008. Same store sales were off 13%. Net income was down 76.5% to \$0.8 million, which included a non-cash asset impairment charge of \$1.2 million.

Gottschalks Inc. sees a \$30 million investment by Everbright Development Overseas Ltd. consisting of \$10 million in newly issued stock and a \$20 million convertible secured note. Everbright will also provide Chinese sourcing and products for sale on consignment.

Men's Wearhouse selected DeVito/Verdi as its advertising agency, handling advertising, public relations, market planning, promotions, and P.O.S. programs.

J. C. Penney Co. will grand open 12 stores across the country on October 3.

Mass Merchant Musings

Target's credit-card portfolio took a hit last month, as the retailer wrote off 9.86% of its \$8.7 billion value in August. That was up from a charge-off rate of 5.66% in August 2007.

Wal-Mart will continue with its plan to roll out 15 cash and carry stores in seven years in India, with its 50% partner Bharti Enterprises. The first store is slated to open in the first quarter of 2009.

Wal-Mart is in discussions with local officials about opening a store in Sundsvall, Sweden, according to a report in Swedish newspaper *The Local*.

A seven year old class action lawsuit against **Wal-Mart** was reinstated by the Massachusetts Supreme Court. The court overruled a lower court judge who decertified the suit by 67,500 associates over meal breaks and being required to work after clocking out. The case will now proceed to trial.

Wal-Mart is now listing on its web site the grocery and health & beauty items it sells in its stores. While there is no e-commerce on these items (yet), customers can check availability in their local store.

Did You Know...?

New orders for U.S.-make capital goods decreased in August by the largest amount since the beginning of the year, signaling that businesses may be getting more cautious in their outlook. New orders fell 4.5% in August, pushed lower by weak demand across the board.

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Hi Tech Entertainment

Best Buy Co. has made an all cash tender offer of \$127 million (\$2.65 a share) for **Napster, Inc.** Napster's board has recommended that their stockholders accept the offer.

Also, **Best Buy** rebranded its extended warranty offerings as Geek Squad Black Tie Protection. There are tiered options offering higher levels of service and coverage.

Circuit City Stores, Inc. expects its second quarter pre-tax loss from continuing operations will be less than its previously issued guidance of \$170 million to \$185 million, excluding any unusual non-cash charges.

Amazon.com has partnered with MySpace's new MySpace Music streaming music feature.

Users will be able to download songs from the AmazonMP3 music store.

Also, **Amazon** has partnered with Google Inc. to give Android users access to the AmazonMP3 store from their cell phones.

Blockbuster will stick with its rental store model, even in the face of video-on-demand and DVDs by mail, reports the *LA Times*. BBI plans to facelift many of its stores, expand offerings and add more kiosks. However, it does have its toe in the on-line water with Movielink, which it acquired last year.

Office Depot, Inc. has entered into a new \$1.25 billion secured credit facility, which replaces the current \$1.0 billion revolving credit agreement.

Retailer of the Week: Coldwater Creek

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OPERATING PERFORMANCE

Revenues for the second quarter ended August 2, 2008 were \$241.4 million, a 4.8% decline from the same quarter last year. Comps have been falling at a rapid clip, and the 13.7% decline in this quarter continued that trend. The company has still been opening stores at a rapid clip, which is why revenues didn't fall further. Retail revenues gained 6.6% to \$189.4 million while direct revenues fell 31.3% to \$52.1 million. The company claims its product line was not properly differentiated, which led to the slide in sales. The gross margin fell 390 basis points for the second quarter, continuing the negative trend for the firm. Higher markdowns were a major factor, while the decrease in comps caused the occupancy costs to rise. The SG&A burden improved by 210 basis points, helping matters. The firm drastically cut its marketing budget when compared to last year. Thankfully, Coldwater Creek returned to profitability. However, the profits were well below last year's levels. The firm posted an operating profit of \$5.7 million, less than half of the \$12 million earned last year. After taxes, the net income was a small \$3.1 million.

Revenues for the first half ended August 2, 2008 were \$512.5 million, a 4.2% decline from the same period last year. Comps for the quarter were alarmingly negative, falling 19%. Retail revenues gained 3.8% to \$376.2 million while direct revenues fell 20.9% to \$136.3 million. The gross margin for the year was down a stunning 780 basis points. The first quarter showed one of the sharpest drops you will ever see, while the second quarter didn't fair much better. Markdowns were up sharply, while the deep drop in comps caused occupancy expenses to rise. The SG&A burden improved 80 basis points to help a little, but the firm still posted a nasty swing on the operating profit line. For the six months, Coldwater Creek has posted an operating loss of \$9.3 million. This swing is from \$29.8 million profits through the first half last year. This has created a huge hole for the firm, and the recent performance has thrust Coldwater Creek into the spotlight.

CAPITAL STRUCTURE

The continued rapid expansion of the store base coupled with the net loss for the year had a negative effect on Coldwater Creek's balance sheet. The company's cash position fell from its once lofty perch, leaving much less liquidity in the process. Cash on hand fell 51% from last year to \$89.2 million, as Coldwater Creek used \$121.3 million to purchase property and another \$25 million to buyback stock last year. This has been harmful on each of the company's liquidity
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Did You Know...?

Builder confidence in the market for newly built single-family homes rose for the first time in seven months in September. The index rose two points to 18, up from its record low of the previous two months.

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Retailer of the Week: Perfumania Holdings

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indicators. This was an "A" rated credit last year based on the absence of debt and the strong liquidity position. Today only half of that is true.

The company still remains debt free, however, providing us with some wiggle room were things to keep slipping. The company has \$41.3 million available on its \$60 million revolver. There was only LCs outstanding on the facility.

One plus going forward is that according to the amendment signed recently on the revolver, it will not be able to repurchase any more stock until April of next year, as we would like to see the company's liquidity beefed up again.

Did You Know...?

Chain-store sales for the week ended September 20th rose 1.3% from the year-earlier period, but dropped 1% on a week-over-week basis for the third straight weekly drop.

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