GLOBAL CREDIT SERVICES

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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

The most successful people are those who are good at Plan B.

Revolver At Their Heads

It's not just banks hoarding cash these days.

Corporate titans, including those with stellar ratings, are drawing on revolving bank-credit lines to secure rainy day funds until the credit markets calm down.

Corporate treasurers fear bank credit will dry up if banks continue to be mired in their own financial difficulties. That makes companies more cautious in planning for the near term, with the unhappy consequence of slower growth hitting an already stressed economy.

It also presents a vexing problem for banks. Revolving credit lines are part of a typical financing plan for most banks' corporate customers. But it is expected that the lines, though offered, will not be used, the analogy being that flood insurance is cheaper and more widely available for those who live at the very top of a mountain.

Now bankers are scrambling to limit how much money they will have to lend through these pre-existing credit lines, which they are obligated to do, just as their own balance sheets are stressed by limited ability to borrow from fellow banks.

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Retailer of the Week: **Circuit City**

We are **rating Circuit City as an "E-" high risk credit with a "negative" outlook.** Based on a significantly diminished liquidity position and an extremely challenging retail environment, we feel that the risk at Circuit City is increasing.

The operations at Circuit City continue to struggle. The revenue stream for the firm has certainly been feeling the pain from increased competition and a challenging retail environment. Comp store sales at Circuit City have been falling sharply, with same store sales in the red for seven consecutive quarters. The revenue struggles have been magnified by the intense competition from the major players such as Best Buy and Radioshack, from regional players such as Conn's and HH Gregg, and from cost effective players such as Walmart and Amazon. The struggles at Circuit City run deep and have been relevant for years. The company has seen past turnaround efforts fail, and the new management at the firm has an uphill battle to regain traction. The losses have continued to widen and the short-term prospects at the firm are muddied.

The once solid balance sheet at Circuit City has been seriously weakened from the series of large losses in recent periods. The structure has been compromised, leading to a much softer cushion for potential future losses. The liquidity has fallen sharply from a year ago from both a true cash calculation and from a working capital calculation. Cash on hand covered up just a very small portion of the current liabilities, and the drop in the current ratio and working capital prove the large losses are eating away valuable liquidity.

The new management at the firm certainly have their work cut out for themselves. On September 22, ex-CEO Philip Schoonover "stepped down" from his position. In his place stepped James Marcum. Mr. Marcum is the hand picked successor of activist shareholder Mark Wattles. The exit of Schoonover marks the end of an era at Circuit City. Schoonover was in charge of the failing business and was the architect of numerous failed turnaround plans. Mr. Marcum steps in with

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Revolver At Their Heads

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The stress is so severe that some lenders are trying to exit the exposures. GMAC, the financing affiliate of General Motors, tried to sell a $2.3 billion package of credit lines earlier this month but pulled that auction last week because of market conditions. The bundle of loans, of which $830 million has already been drawn down, included credit lines for Ride Aid, Sears Holdings, Goodyear Tire and AK Steel, among others. The bid levels were too low and for only a fraction of the portfolio.

Trouble in the short-term lending markets is the culprit. Corporations sell commercial paper, a short-term IOU, to fund day-to-day activities like payroll. But because of the fear in the credit markets, including concern that debts won't be repaid, the commercial paper market has all but frozen. Issuance fell $95 billion for the week through October 1st, according to data from the Federal Reserve, bringing the three-week decline to $218 billion.

The drop-off can be traced to the mid-September weekend Lehman Brothers collapsed. Lehman was one of the biggest commercial paper dealers, and its collapse sent shock waves through the short-term debt markets, limiting the ability of companies to raise short-term cash.

The Federal Reserve and the Treasury has been battling this trend on two fronts. Earlier, the Treasury agreed to insure money market funds, the main buyers of commercial paper, from losses up to $50 billion. The Fed offered to expand its emergency lending program to help commercial banks finance the purchase of asset-backed securities from the funds.

Then, last Tuesday the Fed said it would create a special entity to buy commercial paper directly from eligible issuers. The program targets commercial paper with three-month terms, favored by corporate treasurers. The credit market issues have forced companies still issuing commercial paper to issue it overnight or in terms shorter than 90 days.

The Fed may really be buying banks time to get their acts together. Buying up commercial paper straight from issuers basically puts the Fed in the commercial lending business.

Feedback?

Questions?

Suggestions?

Click Here

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
MACYS INC (FKA FEDERATED DPT STORES)	BBB-	BBB-	NEGATIVE	STABLE	C-
WALGREEN COMPANY INC	A+	A+	STABLE	NM	A-
HD SUPPLY INC	B		STABLE		NR
OFFICE DEPOT INC	BB	BB+	NEGATIVE	NM	D
DEL MONTE CORP	BB-	BB-	STABLE	NEGATIVE	NR
RESTAURANT CO (INC)	B-	CCC+	NEGATIVE	NEGATIVE	E-

Options and Resources

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The Global World of Sports and Footwear

Brown Shoe Company, Inc. now expects its third quarter sales to be $633 to $638 million, assuming a same-store sales decrease of 4.5% to 5.5% at Famous Footwear division. Wholesale division sales are expected to decrease 4.0% to 5.0%. Earnings guidance was lowered to $0.17 to $0.20 per share.

GSI Commerce will acquire Innotrac, a provider of e-commerce fulfillment and customer services, for $22 million in cash and GSIC common stock valued at approximately $30 million. The deal for INOC, which generated $128.2 million in revenues for the 12 months ended June 30, will close in H1/09, subject to court approval due to a settlement agreement between Innotrac and the court-appointed receiver of the IPOF Fund, which holds a 35% stake in the GA company. Innotrac currently operates seven fulfillment centers across five states and an eighth facility for customer service situated in Colorado.

Pacific Sunwear is now forecasting Q3 EPS at the lower end of its $.00-.05 a share range. Q3 sales fell 4% to $254.3 million from $265.1 million with sales for the five-week Sept. period ended Oct. 4 down 4% to $91.2 million.

Cabela's is eliminating 10% of corporate workforce at the retailer's Sidney, NE headquarters, due to the "unprecedented economic conditions" in the U.S. CAB said two-thirds of the reduction will come from not filling open positions, the remainder from a headcount reduction. Cabela's employed 15,000 at the end of 2007, including 7,600 full-time staff, according to the company's annual report. CAB employs approximately 400 in Sidney.

The **NHL Powered by Reebok s**tore in Manhattan, which opened last Oct., is forecast to more than double its projected sales figure for 2008, according to Reebok and the National Hockey League. With the NHL slated to begin the 2008-09 season this week, the top 10 best-selling teams at the store over the last year have been: New York Rangers, Pittsburgh Penguins, New Jersey Devils, Detroit Red Wings, NY Islanders, Philadelphia Flyers, Toronto Maple Leafs, Buffalo Sabres, Boston Bruins and Washington Capitals.

Dick's Sporting Goods reached a consent agreement with the Federal Trade Commission to settle charges that DKS' Golf Galaxy subsidiary violated federal law by illegally agreeing with a potential competitor, Golf Canada (previously known as Golf Town), to allocate the market for golf merchandise in the U.S. and Canada. Golf Canada is headed by former Jumbo Sports CEO Stephen Bebis.

West Marine, Inc. sales fell 4.4% to $180.2 million for the third quarter ended September 27. Comp store sales decreased 4.7%.

General Retail News

Retail Forward says that 4 out of 10 holiday shoppers will be looking for less expensive or store brands and 9 out of 10 will be "looking for deals" before making a purchase, suggesting value and promotions will undoubtedly be key marketing buzzwords for retailers. Additionally, many holiday shoppers are expected to shop with a "only things that I need" mindset and only make product purchases to meet certain situations. An estimated 37% will spend less this holiday season than last. Meanwhile, as of last month, those planning to spend "much or somewhat less" was fairly consistent across income levels—39% of those making under $22,500, 38% of Middle Market consumers ($22.5K-$85K) and 32% of Up Market ($85K+) shoppers.

Gift Card Sales are projected to drop 5% to $25 billion this holiday season, according to Archstone Consulting's 2008 Holiday Gift Card Survey. Pre-paid Visa, MasterCard and AmEx cards will continue to be the most desired, as they can be used anywhere. Also, sales of gift cards through outside locations are expected to grow by 30 percent versus 2007.

Retail Container Traffic is expected to decline 6.5% to 15.43 million TEUs in 2008 from 16.5 million TEUs in 2007, according to the monthly Port Tracker report from the NRFand Global Insight.

The **European Union** is planning a new law to protect on-line shoppers in its 27 members nations, according to the *International Herald Tribune*. The legislation would require more standardized disclosure on web sites, as well as:

- guaranteed delivery within 30 days
- a 14-day "cooling-off" period for customers to change their minds
- a full refund if goods are not delivered within seven days
- banning some "get-out" clauses which allow bait and switch
- no "gotcha" add-ons at checkout

Did You Know...?

The pending home sales index rose 7.4% in September compared to August, and 8.8% y-o-y, the National Association of Realtors reported.

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Off the Rack

Neiman Marcus' web site sales are squeezing out its traditional catalog business, and the luxury retailer will cut back on the number of catalogs it mails next year. Web site sales as a percentage of total direct revenue hit 75.5% in the fiscal year just ended, from 69.7% in 2007 and 62.1% in 2006.

Mothers Work, Inc. sales decreased 3.9% to $130.5 million for the fourth quarter ended September 30. Comp store sales increased 2.8%. For fiscal year 2008, sales decreased 2.9% to $564.6 million. The company attributed the decline largely to lower Sears leased department sales. Comp store sales increased 0.2% for the year. Mothers Work guided that fourth quarter earnings would be between a loss of $(0.77) and $(0.83) per share.

Old Navy appointed Crispin Porter & Bogusky as lead ad agency for its $200 million account. Previously, Chandelier Creative had the Old Navy account.

Von Maur is opening a new 142,000 sq ft store in Overland Park, Kansas this fall, the chain's 24th location.

Canadian retailer **Hart Stores Inc.** is opening nine new stores this month, eight in the province of Quebec and one in Ontario.

Nordstrom, Inc. now expects third quarter comps to decrease 9% to 11%, compared to a decrease of 4% to 6% guided at the end of the second quarter. Earnings are forecast at $0.32 to $0.37 per share, down from $0.49 to $0.54 per share guided previously.

Macy's Inc. lowered fiscal 2008 earnings guidance to approximately $1.30 to $1.50 per share, excluding one-time charges, down from previous guidance of $1.70 to $1.85 per share.

Fred's Inc. cut its third quarter income guidance by 2 cents to $.14 to $.16 per share.

Bebe Stores, Inc. sales fell 0.7% to $157.3 million for the first quarter ended October 4. Same store sales decreased 10.8%. First quarter earnings are now predicted to be $0.09 to $0.13 per share, below prior guidance of $0.12 to $0.16 per share.

American Eagle Outfitters, Inc. narrowed its third quarter earnings guidance to $0.31 to $0.34 per share, from previous guidance of $0.31 to $0.36 per share.

Charming Shoppes, Inc. revised third and fourth quarter guidance downward. For Q3, the loss is now projected at $0.35 to $0.37 per share, compared to a loss of $0.09 to $0.11 per share guided previously. For Q4, CHRS management now expects a slightly greater diluted loss per share from continuing operations compared to Q4 last year.

Saks, Inc. also pulled back on estimates, suggesting that comp store sales for the second half of the fiscal year will be even worse than previous guidance of flat to a low-single digit decline.

Kohl's predicted that third quarter earnings would be at the low end of its previous guidance of $0.51 to $0.56 per share.

Men's Wearhouse lowered third quarter GAAP earnings estimates to $0.22 to $0.26 per share down from $0.34 to $0.38 guided previously.

J.C. Penney revised third quarter guidance downward. It now expects comp store sales to decrease low-double digits, and earnings to be $0.50 to $0.60 per share, down from previous guidance of $0.70 to $0.75 per share.

Ross Stores indicated that earnings per share for the third quarter would be toward the lower end of the $.42 to $.44 guidance. For the fourth quarter management widened the guided EPS range of $.78 to $.81 to $.76 to $.81.

Stage Stores lowered third quarter comp store sales guidance to down high single to low double digits from down 1% to 3%. Third quarter earnings are projected to "significantly miss" the low end of original earnings guidance, which was a loss of $0.01 per share.

TJX Companies, Inc. lowered its third quarter earnings guidance to $.55 to $.58 per share, and full year earnings guidance to $2.26 to $2.31 per share, assuming comp store sales growth of approximately 2%.

Did You Know...?

First-time unemployment benefits claims fell 20,000 last week, to 478,000, the Labor Department reported. But 3.56 million people continue to collect unemployment benefits, a five-year high.

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Bankruptcy Blotter

Moody's reported that the default rate for speculative grade, or junk debt, companies is expected to rise sharply to 4.2% by the end of 2008 and spike further to 7.9% a year from now. The default rate climbed to 2.8% in September, the highest it's been in more than four years and almost double the rate from a year ago.

Failing to find a 'white knight" to date, **Linens 'n Things** will hold an auction on October 14th for the liquidation of the company with the stalking horse bid coming from a joint venture of liquidators comprised of **Hilco Merchant Resources, Gordon Brothers, Hudson Capital Partners, SB Capital Group, Tiger Capital Group** and **Great American Group**.

Mervyn's announced the elimination of a "significant number of jobs, including many unfilled positions" from its headquarters. The cuts are expected to be made in most of the functional areas of the company's management. In addition jobs are being cut in some of its stores and distribution centers. The company did not specify the number of cuts.

In other news, **Forever 21** submitted a bid to acquire around 150 of the remaining Mervyn's locations for an undisclosed amount. Forever 21 had previously tried to buy Mervyn's when **Target** sold the chain.

As part of its Reorganization Plan, **Goody's** secured $15 million in secured financing from Prentice Capital, in addition to a $175 million bank facility from **GE Capital** and **Bank of America**.

The court approved the Reorganization Plan for **Goody's Family Clothing** providing unsecured creditors to recover 5% to 10% of their claims, estimated to be between $125 and $160 million.

Boscov's reported a net loss for the month of August of $6.9 million on sales of $60.7 million. The assets of the company are to be auctioned on October 20th, with the stalking horse bidder designated as **Versa Capital Management**.

Shoe Pavilion named **Gordon Brothers** the stalking horse bidder to liquidate the inventory for the company's remaining 64 stores. The auction, which is to be conducted on October 16th, is expected to generate at least $9.8 million for Shoe Pavilion.

Whitehall Jewelers Holdings Inc. won court approval to put its 355 remaining store leases on the auction block on October 30th. Final approval of the auction is tentatively set for November 18th.

The court approved an agreement between **Interstate Bakeries Corp**. and **Ripplewood Holdings** to pump $130 million into the company as part of its Reorganization Plan, paving the way for Silver Point Finance LLC and Monarch Master Funding Ltd., to provide exit financing. Under the deal, the company will pay $5 million into a trust set up for the benefit of unsecured creditors with the possibility of more based on profitability going forward. The trust will also receive the right to pursue certain lawsuits for the benefit of creditors, such as preferential payments.

Did You Know...?

The RBC CASH Index of consumer confidence dropped drastically in October to 37, compared to 69.2 in September.

Mass Merchant Musings

Target Corp. said that third quarter earnings may be slightly below analysts estimates of $.52 per share. However, management maintained that full year earnings will meet or exceed last year's $3.33 per share.

Also, **Target** grand opened 45 stores yesterday, bringing their total number of doors to 1,685 in 48 states.

Wal-Mart will pay $199,000 to settle EPA claims that the retailer violated the Clean Air Act by selling a party string which used R22 propellant. R22 was banned as an ozone-depleting chemical.

Wal-Mart de Mexico SAB sales rose 10% to 57.7 billion pesos ($4.66 billion) for the third quarter, with same store sales up 3.7%. But net income fell 2% to 3.27 billion pesos ($264 million) on higher expenses and lower financial income.

Costco Wholesale Corp. sales increased 12.6% to $22.626 billion for its 16 week fourth quarter ended August 31. Comparable sales increased 9%. For fiscal year 2008, sales were up 12.5% to $70.977 billion and comps rose 8%. Net income for the year was up 18.5% to $1.283 billion.

99c Only Stores sales rose 9.2% to $317.8 million for the second quarter ended September 27. Excluding the to be divested Texas operations, sales rose 9.2% to $276.4 million. Comp store sales rose 4.7%.

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Health & Beauty Aids

Walgreens owned Take Care Health Systems opened five clincs at Walgreens stores in Fort Lauderdale, FL, bringing to 41 clinics their total for the state.

Duane Reade's former CEO and CFO were indicted on charges of securities fraud for exaggerating the chain's income from 2000 through 2005. Anthony Cuti and William Tennant were charged in United States District Court and could face up to 20 years in prison.

Jean Coutu Group Inc. saw revenues rise 5.0% to C$567.5 million in the second quarter ended August 30. Comp store sales rose 3.6% (+5.7% pharmacy, -0.5% front-end). While operating profit also gained 5.0% to C$56.8 million, the company's share of Rite Aid's loss was C$73.1 million, resulting in a C$39.1 million net loss in the period, vs a C$8.3 million profit last year.

Walgreen announced that it was abandoning its plans to purchase Longs. Walgreen made the decision to drop the bid because it did not think that a protracted fight for control would be good for the company. CEO Jeffrey A. Rein also cited a weakening economy as another reason to end the buyout effort. CVS is now the sole bidder for the California-based druggist. It is still unclear whether another party will step forward to make a play for Longs. Some investors had suggested that the CVS bid was too low.

Rite Aid Corp.'s stock could be delisted from the New York Stock Exchange, as it has languished below $1.00 for a month. Delisting would violate loan covenants and force RAD to repurchase convertible notes and refinance some of its debt. Typically, an NYSE warning letter would give the company six months to remedy the problem.

Heard in the Grocery Aisle

Retail food prices in the third quarter increased by about 4% compared to last quarter, and were up 10.5% compared to Q3 2007, according to the American Farm Bureau's Marketbasket Survey.

Wegmans is closing all of it's in-store photo labs, citing reduced demand due to digital photography.

Fresh & Easy opened three new stores in the Las Vegas market, bringing its total there to 22.

Safeway Inc. sales increased 3.9% to $10.169 billion in the third quarter ended September 6. Comp store sales increased 2.8% including fuel and 0.5% excluding fuel. Net income was up 2.6% to $199.7 million. Safeway continues to guide for earnings in the range of $2.25 to $2.35 per share for the year on same store sales growth of 1.0% to 2.0%, excluding fuel.

Meijer Inc. is offering 2,000 products in case quantities on its website, with a quantity discount of at least 5%. The Grocery By The Case program has free shipping for orders of $150 or more.

Texas chain **Brookshire Grocery Co.** will test a new concept store called FRESH by Brookshire.

Supervalu is adding a 15,000 sq ft convention center to its corporate headquarters in Eden Prairie, MN.

FYI for the DIY

Griffin Land & Nurseries, Inc. revenues fell 35.3% to $7.9 million in the third quarter, while last year's $2.3 million profit swung to a loss of $1.3 million, largely due to a decrease in revenue and income from property sales.

Home Depot was fined $230,000 by the state of New Jersey for test running generators at its 68 stores in the state on two poor air-quality days.

ProBuild Holdings purchased the assets of CTX Builders Supply, a division of Centex Homes that distributes building materials and manufactures trusses and wall panels. Terms of the deal were not disclosed. CTX Builders Supply operates six component manufacturing and distribution centers primarily serving Centex Homes' operations.

Fleetwood Enterprises, Inc. is relocating motor home production from its plant in Paxinos, Pennsylvania, to its plants in Decatur, Indiana. The facility will cease operations effective early December.

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Management on the Move

Save Mart Supermarkets named VP Finance **Stephen Ackerman** CFO. He has been acting in that capacity for five months.

J.C. Penney Co. named Walgreen's Chairman and CEO **Jeffrey A. Rein** to its board.

Stage Stores, Inc. hired **Richard Maloney** President and COO of its Peebles division. Most recently a consultant, Maloney has also served in executive roles at several Macy's divisions.

Walgreens' Chairman and CEO **Jeffrey A. Rein** is retiring. **Alan G. McNally** lead director of the Walgreens Board, will serve as Chairman and acting CEO. The WAG board has formed a search committee for a permanent replacement.

Ingram Micro Inc. appointed **Justin Scopaz** to GM and Data Capture/POS VP of the company's Data Capture/Point-of-Sale Division.

99c Only Stores independent director **Jennifer Holden Dunbar** has resigned from the company's board. Non-independent director **Howard Gold** also stepped down to maintain a majority of independent directors on the board.

TJX Companies, Inc. SEVP and Group President **Arnold Barron** is resigning as of November 1.

Huttig Building Products, Inc. appointed Treasurer **Kenneth L. Young** as interim CFO after current VP, CFO and Secretary David L. Fleisher resigned.

Eddie Bauer Holdings hired **Jean Park** as Divisional VP for Men's Merchandising. Park comes from a similar role at Levi Strauss & Co.

Family Dollar Stores, Inc. promoted **Dorlisa K. Flur** to EVP Strategy and Marketing from SVP Strategy and Business Development.

La-Z-Boy Inc. named **Mark S. Bacon Sr.** Chief Retail Officer. Bacon succeeds Mark Wiltshire as head of the company's retail segment.

Did You Know...?

Retail Forward's latest ShopperScape data shows that 37% of consumers are planning to spend less on the holiday than they did last year, compared to 27% last year.

Upcoming Reporting Dates

Company	Event	Date
1-800-Flowers	Quarterly Results	Oct 23, 2008
Advance Auto Parts	Quarterly Results	Oct 29, 2008
Aeropostale	Investor Conference	Oct 14, 2008
Amazon.com	Quarterly Results	Oct 22, 2008
American Apparel	Quarterly Results	Nov 10, 2008
AmerisourceBergen	Quarterly Results	Oct 30, 2008
Bon-Ton Stores	Investor Conference	Oct 15, 2008
Cabela's	Quarterly Results	Oct 30, 2008
Citi Trends	Investor Conference	Oct 15, 2008
Dollar General	Investor Conference	Oct 14, 2008
Family Dollar Stores	Investor Conference	Oct 15, 2008
Fastenal Company	Quarterly Results	Oct 13, 2008
GSI Commerce	Quarterly Results	Oct 22, 2008
Ingram Micro	Quarterly Results	Oct 23, 2008
J. C. Penney Company	Quarterly Results	Nov 14, 2008
Kroger	Investor Conference	Oct 15, 2008
McKesson Corp.	Quarterly Results	Oct 28, 2008
Mother's Work	Quarterly Results	Nov 18, 2008
Nordstrom	Quarterly Results	Nov 13, 2008
Office Depot	Quarterly Results	Oct 29, 2008
Sherwin-Williams	Quarterly Results	Oct 16, 2008
Shoppers Drug Mart	Quarterly Results	Nov 6, 2008
Supervalu	Quarterly Results	Oct 14, 2008
Whole Foods Market	Quarterly Results	Nov 5, 2008
Zumiez	Investor Conference	Oct 15, 2008

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Specialty Items

Luxe Home Interiors is a new chain of furniture and home décor stores being formed by 30 former franchisees of Norwalk Furniture, which shut down in July. The focus will shift upmarket, with interior design services and less emphasis on price.

Tuesday Morning Corp. sales fell 14.0% to $173.4 million in the first quarter ended September 30. Comp store sales decreased by 17.3%. The company is projecting a loss of $0.09 to $0.11 per share, compared to income of $0.03 per share for the same period last year.

Haverty Furniture Companies, Inc. sales fell 12.5% to $175.6 million for the third quarter ended September 30. Comp store sales declined 14.9%.

Advance Auto Parts, Inc. third quarter revenues increased approximately 2.6% on flat comp store sales. Commercial comps were up 10.9%, but DIY business comps fell 4.2%. Earnings per share are projected to be approximately flat vs last year's $0.57.

The Pep Boys has reorganized its field structure into six divisions from eight with a divisional VP responsible for all aspects of service and operations for each division.

Thomasville Furniture purchased six Thomasville stores in the Philadelphia area from Encore Enterprises. The company now owns 42 of its 143 U.S. stores.

Also in Phildelphia, **Lane Home Furnishings** will close eight dedicated stores in the market as part of its overall strategy to move away from company-owned stores. Lynch Sales is managing the liquidation.

Hi Tech Entertainment

OfficeMax has partnered with Lyreco S.A.S. to support international office supplies customers with coverage of 36 countries. OfficeMax recently terminated a similar alliance with Office-To-Office and the European Office Supply Alliance (EOSA).

Office Depot is rolling out its Tech Depot computer support services nationwide. Tech Depot provides in-store and on-site installation and support. Office Depot had been testing the concept in a limited number of stores.

Also, **Office Depot** has been selected as an office supplies vendor for the State of New York under the state's multi-source office supplies contract.

Movie Gallery, Inc. has completed two debt to equity conversions. Sopris Capital Advisors, LLC exchanged $151.4 million of first lien debt into shares of common stock at $10.00 per share, and Sierra Fund IV, LLC exchanged $7.0 million, also at $10.00 per share.

Retailer of the Week: Circuit City

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plenty of wrinkles to iron out. Marcum's relationship with Mark Wattles goes back to the days when the two built Hollywood Video. Marcum also worked for Ultimate Electronics, which Wattles bought out of bankruptcy.

Moving forward, Circuit City has halted the opening of new stores and is analyzing its current store base. The firm will certainly find a number of underperforming stores in its existing store base, which could lead to the contraction of a number of existing locations. Based on the large losses that have plagued the company recently, one would assume there is plenty of dead weight that needs to be trimmed. This could lead to added losses as the company attempts to wiggle out of leases.

Given market conditions, a turnaround at Circuit City remains a daunting task. The firm has to deal with stiff competition as well as a customer base that has increasingly negative views from past experiences at the firm.

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Retailer of the Week: Circuit City

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The firm will not be providing guidance going forward.

$ FIGURES IN MILLIONS	08/31/2008 (Q2 YTD FY09)	08/31/2007 (Q2 YTD FY08)	Year-over-Year Change
Liquidity Ratios			
Cash and Equivalents	$92.5	$424.4	-78.20%
Cash and Equivalents % Current Liabilities	5.48%	22.79%	-1,731 bps
Working Capital	$481.4	$985.1	-51.13%
Current Ratio	1.29x	1.53x	-24 bps
Leverage Ratios			
Total Debt	$281.8	$59.0	377.72%
Total Debt / Equity	26.17%	3.60%	2,257 bps
Total Liabilities / Total Assets	68.33%	59.45%	888 bps

Did You Know...?

MasterCard SpendingPulse, which measures national retail sales, said a steep drop-off in consumer spending sent its specialty retail sales index plunging 7.7% in September compared with last year. In August, the decline was only 4.1% compared with the period a year ago.

OPERATING PERFORMANCE

Revenues for the second quarter ended August 31, 2008 dropped 9.6% to $2.39 billion. Comp store sales for the quarter continued to fall quickly, dropping 13.3% as the company is struggling with its name brand and out-of-stock issues. Domestic revenues were $2.24 billion for the quarter, down 10.6% on a comp store decline of 14.4%. Domestically, video revenues were down 2.4% to $925.6 million on a comp store decline in the high single digits, IT revenues were down 16.2% to $649.4 million, and audio revenues were down 17.6% to $268.3 million. International revenues for the quarter were up 11.2% to $147.3 million. Comps were up 11.2% in local currencies. The gross margin for the second quarter improved 60 basis points to 21.3%. The improvement was a factor of a shift in product mix, particularly a reduction in revenues from lower margin PC hardware. The firm also saw TV margins improve slightly. While SG&A as a dollar figure has decreased year-over-year, the drop in revenues has created a de-leveraging effect which caused SG&A to rise 230 basis points as a percentage of revenues. During the second quarter this year, Circuit City took a $73 million non-cash asset impairment charge, dropping the operating loss lower into the red. The operating loss for the three months was $232 million, down sharply from $131.9 million for the same quarter last year. Even if we exclude the $73 million asset impairment charge, the EBITDA loss for the second quarter was $112.9 million. This was much wider than the $83.5 million EBITDA loss for the same quarter last year. During the three months, the firm posted a $239.2 million loss. During the same quarter last year, the loss was just $62.8 million.

Revenues for the first half ended August 31, 2008 dropped 8.5% to $4.69 billion. Domestic revenues were $4.41 billion for the semester, down 9.8%. Domestically, video revenues were down 3.6% to $1.82 billion, IT revenues were down 11.6% to $1.24 billion, and audio revenues were down 19.6% to $530.9 million. International revenues for the period were up 16.7% to $281.6 million. The gross margin for the six month period fell 60 basis points. The drop in the first quarter more than offset the margin gains in the second quarter, bringing the six month figure down. The SG&A burden was up 200 basis points for the first half of the year, driving the operating loss deeper into the red. The current period contained a $73 million non-cash asset impairment charge. For the semester, Circuit City posted an operating loss of $393.4 million, cutting much deeper than the $220.1 million operating loss last year. During the first half last year, the firm received a $92.8 million income tax benefit. During the same period this year, the company paid $6.5 million. The net loss for the six months was an alarming $404 million.

CAPITAL STRUCTURE

The once mighty balance sheet has been significantly diminished as the large losses continue to eat away the firm's valuable liquidity. There was just $92.5 million in cash and equivalents left on the balance sheet at the end of the second quarter. This was down nearly 80% from last year,

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Retailer of the Week: Circuit City

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when there was $424.4 million available. The cash available was enough to cover up just a minute 5.48% of current liabilities, low by any standard. The firm's working capital was halved over the last year to $481.4 million, while the current ratio has fallen sharply to 1.29.

To fund the operations of the firm, Circuit City has had to tap into its revolver, adding debt to the once clean balance sheet. There was $215 million outstanding on the revolver at the end of the quarter, a facility that was clean just six months ago. The firm did not provide an availability number on the revolver to close the quarter. There was $1.51 billion in inventory on the books to close the quarter. The "standard haircut" off the inventory is 10-20% according to CFO Bruce Besanko. This would put the facility borrowing base near the $1.3 billion ceiling. This should mean that Circuit City has availability should it choose to tap the facility further. Previously, even as Circuit City was losing money, the firm had built enough of a cushion to ease the pain. That cushion has been used up, and the company now needs to tap into its banking facility to fund the day-to-day operations. While the total debt position remains fairly low, the availability of credit from the open market has been significantly reduced due to the ongoing credit crunch.

While the shareholder's equity was $1.08 billion at the close of the quarter, the firm's market cap has fallen under $100 million.

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