

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

Inside this issue:

|   |    |
|---|----|
| Options and Resources                   | 2  |
| Bankruptcy Blotter                      | 4  |
| Rating Changes & Outlooks               | 4  |
| Management on the Move                  | 5  |
| The Global World of Sports and Footwear | 5  |
| Heard in the Grocery Aisle              | 6  |
| Health & Beauty Aids                    | 6  |
| FYI for the DIY                         | 7  |
| General Retail News                     | 7  |
| Off the Rack                            | 8  |
| Upcoming Reporting Dates                | 8  |
| Mass Merchant Musings                   | 9  |
| Specialty Items                         | 9  |
| Hi Tech Entertainment                   | 9  |
| Third Quarter Scorecard                 | 11 |

**Remember...**

*If you have knowledge,  
let others light their  
candles in it.*

### Shoppers Cut Spending -As If You Didn't Know

Cowed by the financial crisis, consumers are pulling back on their spending, all but guaranteeing that the economic situation will get worse before it gets better.

In response to the falling value of their homes and high gas prices, consumers have become more frugal all year. But in recent weeks, as the financial crisis reverberated from Wall Street to Washington, consumers appear to have cut back sharply. Even with the government beginning a giant bailout of the financial system, their confidence may have been too shaken for them to resume their free-spending ways any time soon.

Recent figures from companies, and interviews across the country, show that automobile sales are plummeting, airline traffic is dropping, restaurant chains are struggling to fill tables, customers are sparse in stores.

When the final tally is in, consumer spending for the quarter just ended will almost certainly shrink, the first quarterly decline in nearly two decades. More economists, who began the third quarter expecting modest growth, now believe the cutbacks are so severe that the overall economy did not expand either, and they warn that a consumer-led recession could be more severe than the relatively mild one earlier this decade.

*(continued on page 2)*

### Retailer of the Week: Pier 1

Although down from last year, losses for the second quarter and first six months of fiscal 2009 were still fairly significant. Unfortunately, with a reported comp store sales decline of (11.7%) for the month of September 2008, post second quarter, and the general economic environment not conducive to healthy retail, we are not optimistic about second half financial results being much better. Since Pier 1 was able to raise cash in the second quarter by selling its headquarters building and still avoiding using its revolving line of credit, Global Credit will maintain its "D-" credit rating for the Company, indicating a very moderate degree of credit risk to vendors shipping merchandise to Pier 1 on open credit terms. If losses increase in the third quarter, that result may make it prudent for Global Credit to downgrade its credit rating once the third quarter financial report is made available in January 2009.

#### BACKGROUND

Pier 1 is a global importer of merchandise offered through 1,112 stores throughout the United States and Canada as of August 30, 2008. The Company also franchisees its chain concept in several overseas markets. Over the past few years, Pier 1 has suffered from over aggressive store expansion, a slowing economy, and consumer indifference to its product lines. In recent quarters, Pier 1 has closed stores, sold overseas company-owned retail operations, revamped the merchandise selection, refocused store operations, eliminated on line shopping capabilities, and reduced corporate overhead. While losses are down from the prior fiscal year, Pier 1 continues to feel the impact of the aforementioned factors.

Earlier this year, Pier 1 made an unsolicited bid for rival and also poorly performing Cost Plus. The offer was rejected and Pier 1 soon halted any efforts towards acquiring Cost Plus. More recently, Pier 1 has shifted \$8 to \$12 million of ad budget from the second quarter towards the more important third and fourth quarters.

*(continued on page 10)*

## Shoppers Cut Spending -As If You Didn't Know

*(continued from page 1)*

For some, the pain is already acute: jobs disappeared at a faster clip in September. For many others, day-to-day finances are fine for now, but the financial outlook is uncertain: 401(K) accounts are dwindling, loans are hard to get and house prices continue to fall.

Consumer spending, which accounts for nearly two-thirds of the economy, grew modestly earlier in the year but fell in July and August on an annualized rate. When the government releases quarterly numbers this month, they are expected to show that consumer spending shrank 3% or more. That would be the first quarterly decline since 1990, ahead of the 1991 recession, and the steepest since 1981.

According to interviews with shoppers, analysts and company executives, the impact of the financial news of the last two weeks has been palpable in many corners of the country, from car dealerships, which endured the worst month for sales in 15 years, to the flashy casinos of Las Vegas, where spending at luxury restaurants and stores and at gambling tables has gone from bad to worse.

The picture is just as grim at suburban malls and city boutiques, where traffic is disappearing as retailers brace for what many predict will be a dismal holiday shopping season. Some have responded by reducing the number of sales people or their hours.

The situation is so uncertain that some retailers are simply not even trying to estimate their sales. Pier 1 Imports and Circuit City Stores recently withdrew their guidance to Wall Street about earnings and said they would not offer any more predictions this year.

The consumer slowdown in recent weeks comes after spending drops in July and August, when tax rebates came to an end. The financial shocks on Wall Street accelerated the decline, along with limits on consumer credit imposed by some banks. In addition, household net worth, which greases spending, fell \$6 trillion over the last year, with \$1 trillion of that in just the last four weeks.

Feedback?

Questions?

Suggestions?

[Click Here](#)

### HAVE YOU HEARD...

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

Roundy's Supermarkets  
U.S. Foodservice  
Golden State Foods  
Gordon Food Service  
Ben E Keith Company  
Wakefern Food Corp.  
Hy Vee Inc.

## Options and Resources

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

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

**Subscribe to our Newsletter:** Click [here to subscribe](#) to *Retail Sector Weekly*.

[RETURN TO FIRST PAGE](#)



## Phil Gootee Named President Of Global Credit Services

Global Credit Services ("GCS") is very pleased to announce that Phil Gootee, the former Director of Credit & Risk Management for the Midwest Independent Transmission System Operator, has been named President of GCS. Phil's 40 years of experience in credit risk management spans several industries and covers wholesale trade credit, inventory financing, field warehousing and accounts receivable financing. He also has substantial experience in working with the venture capital markets in affecting successful workouts and turnarounds.

"Global Credit is excited that one of the credit industry's true leaders is joining our firm. Mr. Gootee's expertise, accomplishments and leadership in the credit industry is a welcome addition to GCS' continuing effort to provide the most sophisticated and complete Credit Risk Management Solutions to its vast network of over 1,000 clients." said Lester Schoenfeld, Chairman of Global Credit Services.

Mr. Gootee started his career as a Wholesale Credit Manager for Mobil Oil; he then served as the Credit Manager for Harley-Davidson. He also served as the Operations Manager, Branch Manager and Regional Manager of ITT Commercial Finance Group. Mr. Gootee's assignments took him from Vancouver B.C. to Los Angeles, to Dallas and then to Houston, Texas.

Phil worked closely with the Credit Practices Working Groups in the development and implementation of the credit policies and procedures currently employed at both the New York Independent System Operator (NYISO) and the Midwest Independent Transmission System Operator (Midwest ISO). These are two of the leading wholesale market operators in the Electric Utility Industry. Together they facilitate annual market transactions exceeding \$60 billion dollars.

As important as Mr. Gootee's talents and broad experience are to GCS, his long term relationship with the Company is invaluable. Phil was GCS's first customer in the energy sector and was involved in the design and development of GCS's ARMZ product. Phil has been closely tied to GCS for many years and a major supporter of the Company. It is his firm belief in GCS and its array of products and services that motivated him to leave his previous position to accept this new endeavor.

[RETURN TO FIRST PAGE](#)

## Bankruptcy Blotter

Lenders are increasingly snuffing out their borrowers' hopes of reorganizing in Chapter 11, instead seeking quick sales to ensure they recover as much of what they're owed as possible. And bankruptcy judges are letting them. Chapter 11, designed to give companies breathing room to restructure their debts and streamline operations, has become a place where many businesses are heading simply to change hands or to die.

Amid the credit crisis and free-falling housing market, struggling homebuilders once destined for the auction block may now actually get a chance to restructure and sustain their operations. The paradox arises as banks, already weighed down with toxic home loans and mortgage-backed securities, resist adding builders' unsold homes and vacant land to their books.

GOB sales are expected to raise about \$510 million for **Linens 'n Things**, which threw in the towel on its restructuring effort after no one stepped forward to keep the chain open. Unfortunately, the lawyer for the unsecured creditors still sees no recovery for unsecured creditors, however, investigations into the dealings of **Apollo Management** are ongoing. Canadian stores are also included in the liquidation, which is expected to take some 10 to 12 weeks.

**Mervyns**, which filed for Chapter 11 protection in late July, has decided to liquidate under

Chapter 7. The chain will shortly begin GOB sales at its remaining 149 locations that will continue throughout the holiday season.

**Shoe Pavilion** is seeking court approval to engage **Jeffrey Drake & Associates, Inc.** as real estate consultants to evaluate the leases on the company's remaining stores. The firm has previously helped the company with other leases that have been terminated or modified.

**Goody's Family Clothing** is expected to have its second amended plan of reorganization become effective by month's end.

**Steve & Barry's LLC** was granted an extended deadline to file its Plan of Reorganization to March 6, 2009, giving the company more time to tie up loose ends after it sold substantially all of its assets in August. The company plans to liquidate what few remaining assets it has after it sold the bulk of the business to **Bay Harbour Management** and **York Capital Management** for \$163 million. Bay Harbour has indicated that it will assume more than 100 of the 276 stores Steve & Barry's operated at the time of its bankruptcy filing.

**Friedman's Inc.** is seeking to sell more than 7,000 pieces of unclaimed jewelry customers dropped off at its stores for repair, a step the company that will allow it to move closer to completing its liquidation. A hearing on the request is set for November 5<sup>th</sup>.

### Did You Know...?

*U.S. Producer Price Index fell 0.4% in September, the Labor Department reported. Excluding food and energy, core producer prices rose 0.4%.*

## Rating Changes & Outlooks

| Company                             | S&P Credit Rating |       | S&P Credit Outlook |          | GCS Credit Rating |
|-------------------------------------|-------------------|-------|--------------------|----------|-------------------|
|                                     | Current           | Prior | Current            | Prior    | Current           |
| DOLLAR THRIFTY AUTOMOTIVE GROUP INC | B-                | B     | NM                 | NM       | E                 |
| BON TON STORES INC                  | B-                | B     | STABLE             | NEGATIVE | E                 |
| RITE AID CORP                       | B-                | B     | NEGATIVE           | NEGATIVE | E                 |
| TEXTRON FINANCIAL CORP              | A-                | A-    | NM                 | STABLE   | NR                |
| SIMMONS/WIGGINS ENTPS LLC           | B                 | B     | NM                 | NEGATIVE | NR                |
| SUPERVALU INC                       | BB-               | BB-   | STABLE             | POSITIVE | D                 |
| WALGREEN COMPANY INC                | A+                | A+    | STABLE             | NM       | B-                |
| LANDRYS RESTAURANTS INC             | B                 | B     | NM                 | STABLE   | D-                |

[RETURN TO FIRST PAGE](#)

## Management on the Move

**Sears Holdings Corp.** named **Michael D. Collins** SVP Finance. He is expected to succeed outgoing CFO J. Miles Reidy before the end of the year. Collins comes from G.E.'s NBC Universal Division, where he was SVP of Planning & Analysis.

**Kroger Co.** promoted **Steve Young** to VP of Operations for its Central Division. Young has held several VP level positions with the company previously.

**The Finish Line, Inc.** elected **Dolores A. Kunda** as a director. Kunda is the founder of Lapiz, a Hispanic advertising agency.

**Family Dollar Stores** promoted **Marilyn M. Morse** to VP Facilities Management and **Mtu W. Pugh** to VP Business Development. Both were divisional VPs with Family Dollar prior.

**Best Buy Co.** appointed **Sanjay Khosla** to its board. Khosla is EVP and President of Kraft International Commercial.

**Charming Shoppes, Inc.** appointed **Carol L. Williams** President of the Catherines Plus Sizes brand, and appointed **Jeffrey A. Elliott** President of Charming Outlets.

**Price Chopper Supermarkets** named **Irfan Badibanga** Zone Director and **Mike Davidson** Regional VP Operations. Davidson was VP Operations for Marsh Supermarkets, prior, and Badibanga was Director of Store Operations at H-E-B.

**Steve & Barry's** named **Harold "Hal" Kahn** CEO. Kahn is a former Macy's exec who spent much of his career helping regional Macy's units.

**Spartan Stores, Inc.** appointed **Dennis Eidson** President and CEO in accordance with the previously announced succession plan. Former CEO **Craig C. Sturken** remains as Executive Chairman of the Board.

**Tweeter** President and CEO **George Granoff** has left the company. He'll be replaced by Craig Boucher until a permanent chief executive can be found.

**Ann Taylor Stores Corp.** named **Lisa Axelson** SVP Design and **Mary Kay O'Connor-Wente** SVP and Director of Stores. Axelson was most recently SVP of Design for Club Monaco. O'Connor-Wente was most recently Zone VP, West for Express.

### Did You Know...?

*U.S. Consumer Price Index was flat in September, as energy prices declined 1.9% and food prices rose 0.6%, the Labor Department reported.*

## The Global World of Sports and Footwear

**Nike** launched a redesigned e-commerce site for U.S. and key European markets. The changes at [www.nikestore.com](http://www.nikestore.com) include more ways to customize products, improved navigation and search functions and the ability of consumers to post their own reviews. Nike says the re-tooled site will serve its customers in the U.S. and the European markets of the United Kingdom, the Netherlands, Spain, France, Germany, Denmark, Belgium, Luxemburg, Italy, Ireland, Sweden, Finland and Austria.

**Outdoor Sales** rose 12% in August to \$346 million, according to "The Outdoor Topline Report," produced for the Outdoor Industry Association (OIA) by the Leisure Trends Group. All three outdoor retail channels—specialty, chain and Internet—experienced sales increases in August: Outdoor chain sales rose 14% in dollars to \$169 million and 13% in units; outdoor specialty sales were up 1% to \$116 million and 2% in units and Internet sales gained 28% to \$61 million with a 32% increase in units. From a product perspective, camping accessory sales were 12% higher at \$46 million and tent sales gained 21% (18% in units) to \$11 million.

**Academy Sports & Outdoors** will begin construction on a nearly 75,000 sq. ft. store in Decatur, AL in Jan. for a July 2009 grand opening that would mark the chain's fifth door in the state. Recently, Bass Pro Shops announced it was delaying the construction of a 144,000 sq. ft. store in Decatur for up to a year.

A NJ man has sued **Foot Locker** over its gift-card policies, alleging they violate NJ's consumer laws. At issue is a 'dormancy fee' Big Foot levies against gift cards that haven't been used for 12 months. That monthly fee for non-use is \$1.50. Many states impose limits on dormancy fees or ban them outright.

**Big 5 Sporting Goods** will open the second largest store in its chain at 24,000 sq. ft. when it opens its 410th door in The Carlsbad (CA) Mall next month.

More than 90 new **Vans**, **The North Face** and **Lucy** doors are planned for this year, according to parent VF Corp., which said that it would not cut its aggressive expansion plans for the banners.

[RETURN TO FIRST PAGE](#)

## Heard in the Grocery Aisle

**Spartan Stores, Inc.** sales increased 4.8% to \$626.8 million in the second quarter ended September 13. Comp store sales grew 4.1% excluding fuel. Net income increased 21.6% to \$11.1 million, led by the company's distribution segment where operating earnings jumped 30.8% in the quarter. SPTN expects retail comps to increase low single digits during the second half of the year.

Also, **Spartan Stores, Inc.** is purchasing 17 grocery stores, including 15 pharmacies, from VG's Food Center, Inc. and VG's Pharmacy, Inc. subject to due diligence. The price is undisclosed. VG's is a distribution customer of Spartan, so while the acquisition is expected to add approximately \$310 million to Spartan's retail segment, consolidated sales will only increase by about \$160 million. The acquisition is expected to be earnings neutral the first year and accretive during the second year of operation.

**Supervalu Inc.** sales increased 0.7% to \$10.226 billion for the second fiscal quarter ended September 6. Same store sales fell by 1.3% excluding fuel. Net income fell 13.5% to \$128 million. The company cut FY2009 earnings guidance to a range of \$2.86 to \$2.96 per share, down from \$3.00 to \$3.16 a share guided previously. For the year, management expects sales of \$45 billion, with a same store sales change of flat to negative 0.5%.

**The Great Atlantic & Pacific Tea Company, Inc.** sales grew 71.3% to \$2.183 billion in the second quarter ended September 6. Gross sales include the Pathmark stores added in December 2007. Same store sales (excluding Pathmark) increased 2.8% in the period, while

Pathmark same store sales increased 2.9%. Net loss narrowed to \$17.4 million from \$91.3 million, but loss from continuing operations was \$3.6 million vs \$2.9 million last year. Management acknowledged that there were some challenges integrating the Pathmark business, but said GAP realized approximately \$25 million of synergies during the quarter.

**Schnuck Markets Inc.** purchased three grocery stores in Illinois from The Homer Group. Financial terms were not disclosed. Schnucks will close one of the stores and convert the other two to the Schnucks banner.

**Brunos Supermarkets, Inc.** is closing poor-performing in-store pharmacies at 22 of 40 Bruno's and Food World stores, according to the *Tuscaloosa News*.

**Piggly Wiggly Carolina Co.** has cut 30 office and warehouse positions at its Charleston, South Carolina, headquarters, according to *The Post and Courier*.

**Nash Finch Co.** sees the Minnesota Court of Appeals uphold a lower court finding that the company properly adjusted a conversion rate on certain convertible debt.

**Kroger** reaffirmed its forecast for same store sales growth of 4.5% to 5.5%, excluding fuel, for fiscal 2008. KR also confirmed earnings guidance of \$1.85 to \$1.90 per share, excluding the effect of Hurricane Ike.

Boston Asian specialty chain **Super 88 Market** has closed three underperforming stores in the last month, reports the *Boston Globe*. The company still operates three stores in the area.

### Did You Know...?

*The Federal Reserve's Beige Book reports a broad slowdown in the economy at the end of September. Consumer spending, factory activity and even services were all down.*

## Health & Beauty Aids

**Walgreens'** Take Care Health Systems launched a new advertising campaign called "Life Diagnosis." The ads will appear in print and on television, radio and online. The company now operates 262 Take Care Clinics in 33 markets in 15 states.

**H.R. 6353**, the Ryan Haight Online Pharmacy Consumer Protection Act, was signed into law by President Bush. The bill will clamp down on illegal prescription drug sales by so-called "rogue" pharmacies over the Internet.

**Rite Aid Corp.**'s board has approved a reverse stock split of the company's common stock to get the share price back above \$1 to comply with NYSE listing requirements. The ratio—1-for-10, 1-for-15 or 1-for-20—has not been decided. The reverse split must be approved by stockholders.

**Shoppers Drug Mart Corporation** has entered into a new \$200 million senior unsecured 364-day credit facility to provide for a partial refinancing of the Company's \$300 million of medium term notes maturing October 24.

[RETURN TO FIRST PAGE](#)

## FYI for the DIY

**Sherwin-Williams Co.** raised its earnings guidance for FY2008 to a range of \$3.97 to \$4.17 per share from \$3.60 - \$4.10 per share guided prior.

After reporting a strong third quarter, **W.W. Grainger** raised earnings guidance for the year to a range of \$6.00 to \$6.20 per share from \$5.80 to \$6.10.

**Richelieu Hardware Ltd.** will increase its normal course issuer bid to 5% of the companies shares for the current buyback offering which expires December 2, 2008.

**Home Depot** is testing small in-aisle kiosks, according to *StorefrontBacktalk*. The kiosks offer the ability to accept credit and debit card payments, and can also read rfid tags in customer loyalty cards to allow customized offers based on the shopper's profile.

Also, **Home Depot** sees the federal appeals court in Atlanta dismiss a class action lawsuit accusing the company and executives of inflating financial results.

**Taiga Building Products Ltd.** has agreed to pay \$9.6 million to settle its provincial income tax reassessment.

**Builders FirstSource, Inc.** will exit the New Jersey market, where it currently operates a distribution center, a manufacturing facility and three showrooms. BLDR expects to save \$5 to \$7 million over the next two years. Facilities closure costs and possible asset impairment charges have yet to be determined.

**Building Materials Holding Corporation** announced that it is not in compliance NYSE listing standards as its stock price has been below \$1.00 for 30 days. The company said it will consider a reverse stock split if the share price does not improve.

**United Rentals, Inc.** amended its shareholder rights plan so that it will be triggered if any entity acquires 15% of the company's common shares, down from the previous threshold of 25%.

**Do it Best** distributed \$116 million in dealer rebates during a fall market that also saw the election of a new group of directors. While wholesale sales declined 5.6% to \$2.65 billion in fiscal 2008, the coop's industry leading 2.1% overhead helped pave the way to the third best net profit performance in the company's history. In fiscal 2008, more than 135 new members joined Do it Best.

### Did You Know...?

*Housing starts fell 6.3% to a seasonally adjusted annual rate of 817,000 in September, a 17-year low, the Commerce Department reported.*

## General Retail News

**The NPD Group** predicted "flat to declining sales" at retail for the Holiday season—a first for the market research company. In its Annual Holiday Survey 26% of consumers plan to spend less than the prior year, vs 18% saying they planned to spend less in last years survey. The top 10 gift items consumers plan to buy this year are:

- |                      |     |
|----------------------|-----|
| 1. Apparel           | 49% |
| 2. Toys              | 37% |
| 3. Movies (VHS, DVD) | 29% |
| 4. Books             | 27% |
| 5. Electronics       | 23% |
| 6. Video Games       | 22% |
| 7. Accessories       | 20% |
| 8. Music             | 20% |
| 9. Food              | 17% |
| 10. Fragrances       | 17% |

The **National Retail Federation** called on Congress to hold a lame duck session to consider economic stimulus legislation and tax relief for consumers. NRF warns that retailers are facing the worst holiday season in six years, and is forecasting sales will rise just 2.2% to

\$470.4 billion, the slowest growth since 2002. The NRF says its research shows that consumers spent or planned to spend 46% of the \$105.7 billion in rebate checks that were authorized in the Feb. economic stimulus bill, resulting in approximately \$48 billion put into circulation in the economy.

New **U.S. Retail Space** is down 37% year-over-year, according to data from McGraw-Hill Construction. All regions of the U.S. had double-digit drops in new retail space for the seven months ended July 31, led by the Midwest (-45%). The Northeast had the smallest fall-off (-23%) and both the South and West were down 37%. New mixed-use properties were off 40% for the period and big box doors accounted for 28.9% of new construction versus 31.5% in the year-ago period. By format, freestanding drug stores (+18.5%) showed the largest increase y-o-y, while new supermarket construction inched 0.9%. Research shows that nearly 3,700 retail properties are being constructed or expanded this year in the U.S., including 19 malls and 223 neighborhood centers.

[RETURN TO FIRST PAGE](#)

## Off the Rack

**Limited Brands'** board authorized a new \$250 million share repurchase program.

Swedish apparel brand **Filippa K** plans to open its first U.S. locations: a store in San Francisco next month and one in Los Angeles in 2009. Filippa K operates 41 stores worldwide.

**Mothers Work, Inc.** is partnering with Multi Trend, a member of the Al-Homaizi Group, to open stores in the United Arab Emirates, Saudi Arabia, Kuwait, Qatar, Bahrain and Oman. The multi-year franchise agreement gives Multi Trend exclusive rights to operate Destination Maternity, Motherhood Maternity, A Pea in the Pod, and Edamame The Maternity Spa banner the middle east.

**The Bon-Ton Stores, Inc.** announced that its results for FY2008 would be at the low end of their previous earnings guidance of \$(0.45) to \$(0.95) per share excluding the write-off of

goodwill, and \$(1.17) to \$(1.67) per share including it.

**Gap Inc.** confirmed FY2008 earnings guidance in a range of \$1.30 to \$1.35 per share at an investor conference last week. The company also reiterated that expects operating margins of about 10% for the year.

Also, **Gap Inc.** was sent a letter by the International Transport Workers' Federation and the International Textile, Garment and Leather Workers' Federation asking the company to stop using Oak Harbor Freight. The two unions are supporting Teamsters who are striking the trucking company. The Teamsters Union also launched a nationwide radio ad on Air America last Friday.

**New York & Co.** lowered its third quarter outlook from earnings of \$0.08 to \$0.12 per share to a loss of \$0.08 to \$0.12 a share.

## Upcoming Reporting Dates

| Company                   | Event             | Date         |
|---------------------------|-------------------|--------------|
| 1-800-Flowers             | Quarterly Results | Oct 23, 2008 |
| Advance Auto Parts        | Quarterly Results | Oct 29, 2008 |
| Amazon.com                | Quarterly Results | Oct 22, 2008 |
| American Apparel          | Quarterly Results | Nov 10, 2008 |
| AmerisourceBergen         | Quarterly Results | Oct 30, 2008 |
| Blue Nile                 | Quarterly Results | Nov 4, 2008  |
| Cabela's                  | Quarterly Results | Oct 30, 2008 |
| Cache                     | Quarterly Results | Oct 24, 2008 |
| CVS Caremark              | Quarterly Results | Oct 30, 2008 |
| Express Scripts           | Quarterly Results | Oct 31, 2008 |
| Gap                       | Quarterly Results | Nov 30, 2008 |
| GSI Commerce              | Quarterly Results | Oct 22, 2008 |
| Ingram Micro              | Quarterly Results | Oct 23, 2008 |
| J. C. Penney Company      | Quarterly Results | Nov 14, 2008 |
| Loblaw Companies          | Quarterly Results | Nov 13, 2008 |
| McKesson Corp.            | Quarterly Results | Oct 28, 2008 |
| Mother's Work             | Quarterly Results | Nov 18, 2008 |
| MSC Industrial Direct Co. | Quarterly Results | Oct 21, 2008 |
| Nordstrom                 | Quarterly Results | Nov 13, 2008 |
| Office Depot              | Quarterly Results | Oct 29, 2008 |
| PC Mall                   | Quarterly Results | Oct 29, 2008 |
| Rent-A-Center             | Quarterly Results | Oct 27, 2008 |
| Shoppers Drug Mart        | Quarterly Results | Nov 6, 2008  |
| Sport Supply Group        | Quarterly Results | Jan 11, 1900 |
| Tractor Supply            | Quarterly Results | Oct 22, 2008 |
| Volcom                    | Quarterly Results | Oct 30, 2008 |
| Walgreens                 | Analysts Day      | Oct 30, 2008 |
| WESCO International       | Quarterly Results | Oct 23, 2008 |
| West Marine               | Quarterly Results | Oct 23, 2008 |
| Whole Foods Market        | Quarterly Results | Nov 5, 2008  |
| Winn-Dixie Stores         | Quarterly Results | Oct 28, 2008 |

### Did You Know...?

The University of Michigan/Reuters consumer sentiment index dropped severely to 57.5 in October from 70.3 in late September.

[RETURN TO FIRST PAGE](#)

## Mass Merchant Musings

**Wal-Mart** is planning to expand its private label offerings, according to a story in *AdAge*. The company is conducting a search for a product development director to work under Andy Ruben, VP of Private Brands. WMT's private label business has declined in the past two years, while private label shares were rising industrywide.

**Wal-Mart** closed the Gatineau, Quebec auto service center where workers had attempted to organize by voting for union representation. The Quebec Labour Relations Board had imposed a three-year union contract on Wal-Mart for the nine workers.

**Wal-Mart** was sued by Nike for patent infringement in U.S. District Court for the Northern District of IL. The lawsuit alleges WMT is infringing on two 2004 design patents assigned to Nike that cover the Shox feature

found in many Nike styles being sold today. Further, the lawsuit contends Wal-Mart's infringement is intentional and willful.

**Wal-Mart** opened a pop-up store in Times Square promoting the new AC/DC album, which is sold exclusively through its stores.

**Sam's Club** will offer a special 10 week membership to its stores for \$10. A full year membership costs \$40.

**Costco** has made a deal with Starbucks whereby the warehouse club will sell Starbucks gift cards for 20% off face value. \$80 will buy five, \$20 gift cards.

**Kmart** will offer layaway service for the holiday season. Consumers can place a deposit on a purchase and the retailer will hold it until full payment is completed.

### Did You Know...?

Overall adjusted U.S. retail sales in Sept. declined 1.2% to \$375.5 million, higher than a forecast 0.7% drop. However, sales were 0.8% higher for the three-month period ended Sept. 30.

## Specialty Items

**The Sharper Image** has licensed its brand to HoMedics in a \$540 million, five-year deal covering the Home Environment, Electronics, Men's Personal Care, Men's Gifts, Health & Wellness, Weather and Concierge categories.

**KB Toys** will open 30 new stores nationwide for the holiday season. Also, the toy chain is following Wal-Mart's lead and offering over 200 toys at prices of \$10 or less.

**1800mattress.com** plans to open about 40 stores in the Washington D.C. area over the next 18 months, according to *Furniture Today*. The retailer currently operates 44 stores in the Northeastern states.

**Michaels Stores, Inc.** drew \$120 million out of its senior secured asset-based revolving credit facility as a proactive step to ensure adequate liquidity given the uncertain debt markets.

## Hi Tech Entertainment

**Overstock.com, Inc.** has settled its defamation claims against Gradient Analytics over research reports published by the company. Details were confidential, but Gradient did retract some of its earlier statements. Overstock is still going after the other defendants: Copper River, David Rocker, and Mark Cohodes.

**Best Buy Co. Inc.** will open five Best Buy stores in the U.K. next Summer with partner Carphone Warehouse, with plans to open 100 big-box stores throughout Europe over the next five years. The companies are also planning an integrated e-commerce strategy.

Also, **Best Buy** will launch larger stand-alone Best Buy Mobile stores in malls to sell cell phones, laptops, and handheld devices. The

new format will be around 3,000 sq ft, and the first tests are in The Mall of America in Bloomington, MN, Fair Oaks Mall, in Fairfax, VA, and Woodfield Mall, in Schaumburg, IL.

**Best Buy** expects to hire between 16,000 and 20,000 seasonal employees for the Holiday shopping season, down from 26,000 last year.

**Circuit City Stores, Inc.** will begin listing the same prices on their web site as in their stores. The company says it is responding to research that consumers distrust retailers who offer different prices on the web than in stores.

**OfficeMax** is launching four new private label office supply brands—Ascend, Canterbury, Divoga and Infuse—according to *BrandWeek*.

[RETURN TO FIRST PAGE](#)

## Retailer of the Week: Pier 1

*(continued from page 1)*

Also during the most recent second quarter, Pier 1 sold its headquarters building to Chesapeake Energy Corporation for \$102.4 million, thereby beefing up cash reserves.

**FINANCIAL PERFORMANCE**

| INCOME STATEMENT          | 2nd QTR FY 08         | 2ND QTR FY 09         | YTD FY 08             | YTD FY 09             |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Net Sales                 | \$344.6 mm            | \$320.5 mm            | \$700.9 mm            | \$630.5 mm            |
| Comp Store Sales          | -3.6%                 | -1.7%                 | -4.5%                 | -3.6%                 |
| Store Count               |                       |                       | 1,157                 | 1,112                 |
| Gross Profit              | \$87.5 mm<br>(25.4%)  | \$86.1 mm<br>(26.8%)  | \$174.7 mm<br>(24.9%) | \$173.7 mm<br>(27.5%) |
| SG&A Expenses             | \$127.9 mm<br>(37.1%) | \$114.6 mm<br>(35.7%) | \$270.6 mm<br>(38.6%) | \$232.6 mm<br>(36.8%) |
| <b>Operating Loss</b>     | <b>(\$40.4) mm</b>    | <b>(\$28.4) mm</b>    | <b>(\$95.9) mm</b>    | <b>(\$58.9) mm</b>    |
| Interest Expense          | \$4.00 mm             | \$3.70 mm             | \$7.96 mm             | \$7.30 mm             |
| Interest and Other Income | \$2.84 mm             | \$2.13 mm             | \$6.02 mm             | \$3.63 mm             |
| <b>Net Loss</b>           | <b>(\$43.4) mm</b>    | <b>(\$30.2) mm</b>    | <b>(\$99.8) mm</b>    | <b>(\$63.0) mm</b>    |

**Did You Know...?**

U.S. retail industry lost 40,000 jobs in Sept., according to data from the U.S. Dept. of Labor, and the figure is 250,000 for the trailing 12 months.

Net sales in both periods were impacted by the comp declines, the lower store count, and the loss of Internet revenues. Although margin dollars were down due to lower sales, the margin rate increased due to less markdown activity as Pier 1 became more focused on inventory control.

In addition, expenses decline in both dollar and percentage of sales terms as ad spend was shifted more towards the end of the year and the Company remained vigilant about costs. Also for the first half period, lease termination costs dropped from \$8.98 million for fiscal 2008 to \$2.98 million for fiscal 2009. Severance payments declined from \$5.33 million to \$3.17 million, respectively. For the (second) quarter to quarter period, lease termination costs dropped from \$5.54 million to \$2.39 million while severance payments declined from \$1.82 million to \$944,000 when comparing fiscal 2008 and fiscal 2009, respectively.

Other income year to date was negatively impacted by lower cash balances yielding less interest income, until the sale of the property took place during the most recent second quarter.

| BALANCE SHEET              | 9/1/2007     | 8/30/2008    |
|----------------------------|--------------|--------------|
| Cash                       | \$121.9 mm   | \$191.1 mm   |
| Receivables                | \$20.5 mm    | \$18.4 mm    |
| Inventory                  | \$374.5 mm   | \$379.1 mm   |
| Current Assets             | \$579.3 mm   | \$637.6 mm   |
| Total Assets               | \$838.5 mm   | \$784.7 mm   |
| Payables                   | \$125.3 mm   | \$119.0 mm   |
| Long Term Notes            | \$184.0 mm   | \$184.0 mm   |
| Total Liabilities          | \$576.3 mm   | \$574.5 mm   |
| <b>Current Ratio</b>       | <b>1.9:1</b> | <b>2.2:1</b> |
| <b>Leverage Percentage</b> | <b>69%</b>   | <b>73%</b>   |

From a liquidity standpoint, Pier 1 remained satisfactory, particularly with more than \$116 million of unused revolver capacity as most recent quarter end. However, the loss of the real estate has made the Company more leveraged but not to an overwhelming extent.

We do note that inventories crept up while sales declined. This could mean back to inventory clearance activity in the third quarter, thereby again depressing margin rates. However, payables were slightly reduced.

*(continued on page 11)*[RETURN TO FIRST PAGE](#)

## Retailer of the Week: Pier 1

(continued from page 10)

### OUTLOOK

The considerable liquidity position gives Pier 1 more time to initiated a turnaround. However, with the economy faltering up and down the aisle, the upcoming quarters may not be kind to retail, particularly home decor and furnishings. A prime past competitor Bombay Company was driven out of business, however, there does not appear to be a great corresponding influx of sales to Pier 1 or even Cost Plus for that matter. And there is the concern that comp store sales for the month of September nose dived nearly (12%).

While we see no immediate threat to supplier payments, at some not too distant point Pier 1 will need to stem this level of losses or face tough financial challenges. The question also begs is there more to the Company's woes than just the macro economic environment, or has Pier 1 fallen out of favor with consumer tastes?

For now, we suggest that clients keep an eye on their exposures and thoroughly review upcoming Global Credit reports and alerts. Third quarter analysis by Global Credit should be available around mid January.

## Third Quarter Scorecard

| \$ in Millions. Quarter ended<br>closest to 10/31/08 | Sales     |           |        | Comps  | Net Income |         |        |
|--|-----------|-----------|--------|--------|------------|---------|--------|
|  | 2008      | 2007      | Change |        | 2008       | 2007    | Change |
| <b>Apparel</b>                                       |           |           |        |        |            |         |        |
| Cache, Inc.  | \$58.1    | \$60.6    | -4.1%  | -4.0%  | tba        | \$0.2   | tba    |
| <b>Sports &amp; Footwear</b>                         |           |           |        |        |            |         |        |
| Recreational Equipment                               | \$347.9   | \$313.7   | 10.9%  | tba    | \$2.1      | \$4.6   | -54.3% |
| West Marine, Inc.                                    | \$180.2   | \$188.4   | -4.4%  | -4.7%  | tba        | \$5.3   | tba    |
| WinMark Corporation                                  | \$9.1     | \$8.0     | 14.5%  | tba    | \$1.4      | \$1.1   | 19.5%  |
| <b>Specialty</b>                                     |           |           |        |        |            |         |        |
| Haverty Furniture                                    | \$175.6   | \$200.7   | -12.5% | -14.9% | tba        | \$0.6   | tba    |
| <b>Home Centers</b>                                  |           |           |        |        |            |         |        |
| Fastenal Company                                     | \$625.0   | \$533.8   | 17.1%  | tba    | \$72.9     | \$62.1  | 17.4%  |
| Sherwin-Williams Company                             | \$2,268.7 | \$2,197.0 | 3.3%   | -1.4%  | \$177.1    | \$200.3 | -11.6% |
| W.W. Grainger  | \$1,839.5 | \$1,658.6 | 10.9%  | tba    | \$140.0    | \$109.2 | 28.2%  |

[RETURN TO FIRST PAGE](#)