

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

*A man grows most tired
when standing still.*

A Different Explanation For The Crisis

*(Editor's Note: The following was excerpted from the weekly radio commentary given by Kevin Coupe, Editor of **MorningNewsBeat.com.**)*

The economy is on everybody's minds these days, so I thought I'd draw your attention to a couple of recent stories with unique takes on the nation's financial crisis.

One was in Slate.com, where columnist Daniel Gross sets forth what he calls the Starbucks Theory Of International Economics, which essentially is a cousin to what New York Times columnist Thomas Friedman calls the McDonald's Theory of International Relations.

Mr. Friedman's premise was this: that once two countries evolved into prosperous, mass-consumer societies, with middle classes able to afford Big Macs, they would generally find peaceful means of adjudicating disputes instead of resorting to violence. Of course, Mr. Friedman's theory isn't ironclad, especially in the Middle East. But that may be more a testament to how crazy all those folks are than how flawed Mr. Friedman's logic is.

Mr. Gross lays out his Starbucks Theory of International Economics this way: "The higher the concentration of expensive, nautically themed, faux-Italian-branded Frappuccino joints in a country's financial capital, the more likely the country is to have suffered catastrophic financial losses. It may sound doppio, but work with me. This recent crisis has its roots in the unhappy coupling of a frenzied nationwide real-estate market centered in California, Las Vegas, and Florida, and a nationwide credit mania centered in New York. If you could pick one brand name that personified these twin bubbles, it was Starbucks. The Seattle-based coffee chain followed new housing developments into the suburbs and exurbs, where its outlets became pit stops for real-

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Retailer of the Week: RONA

Reflecting the prolonged slowdown in the U.S., turbulence in the global financial markets, the sharp price increases in basic commodities, and the decrease in housing starts and the resale market for single-family homes, RONA reported sales through the second quarter ended June 29, 2008 of \$2.385 billion (all dollars are Canadian), an increase of 1.6%. However, net income for the first half of the year of \$190.7 million reflects a drop of 5.9% versus net income of \$202.6 million for the comparable period last year. The net growth in sales of 1.6% was the result of acquisitions and new store openings as comp store sales through the first six months of the year declined by more than 5%.

On the plus side, Canada's construction and renovation market continues by and large to hold its own, and is much more robust than the U.S. market, as existing trends are still favorable to renovation in Canada.

In spite of the profit squeeze through the first half of the year, the company's cash flow and balance sheet remain strong. On June 29, 2008, the company's ratio of total debt to capital was 29.8% compared to 37.9% at the end of the corresponding quarter in 2007, and the company's equity/asset ratio stood at 51.0%, compared to 46.7% at the same date last year. As a result, we are maintaining our "C" Credit Rating, but have decided to downgrade our Outlook to "Stable" from "Positive". Our rating is further validated through Global Credit's proprietary credit score.

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A Different Explanation For The Crisis

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estate brokers and their clients. It also carpet-bombed the business districts of large cities, especially the financial centers, with nearly 200 in Manhattan alone.

“Starbucks’ frothy treats provided the fuel for the boom, the caffeine that enabled deal jockeys to stay up all hours putting together offering papers for CDOs, and helped mortgage brokers work overtime processing dubious loan documents. Starbucks strategically located many of its outlets on the ground floors of big investment banks. (The one around the corner from the former Bear Stearns headquarters has already closed.)

“Like American financial capitalism, Starbucks, fueled by the capital markets, took a great idea too far ... and diluted the experience unnecessarily ... like so many sadder-but-wiser Miami condo developers, Starbucks operated on a ‘build it and they will come’ philosophy. Like many of the humiliated Wall Street firms, the coffee company let algorithms and number-crunching get the better of sound judgment: If the waiting time at one Starbucks was over a certain number of minutes, Starbucks reasoned that an opposite corner could sustain a new outlet. Like the housing market, Starbucks peaked in the spring of 2006 and has since fallen precipitously.”

The really interesting thing, Mr. Gross notes, is that many of the countries where Starbucks has developed a significant presence are countries where the economies are in trouble.

Think about it.

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
DAVE & BUSTERS INC	B	B	STABLE	NM	D-
STARWOOD HOTELS & RESORTS WORLDWIDE INC	BBB-	BBB-	NM	NEGATIVE	D+
SAKS INC/ FKA PROFFITTS INC	BB-	BB-	STABLE	POSITIVE	D+
FIDELITY NATIONAL TITLE CO	A	A	NM	NEGATIVE	NR
NEBRASKA BOOK CO	B-	B	STABLE	NEGATIVE	NR
MANDALAY RESORT GROUP	NR	BB+	NR	NM	D+
SIMMONS/WIGGINS ENTPS LLC	B-	B	NM	NM	NR
NEBRASKA BOOK COMPANY INC	B-	B	STABLE	NEGATIVE	D-
DOLLAR THRIFTY AUTOMOTIVE GROUP INC	B-	B	NM	NM	E

Options and Resources

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Bankruptcy Blotter

The list of companies most vulnerable to default climbed for the eighth consecutive month. Standard & Poor's placed 181 companies, with a combined debt of \$388.5 billion on its "Weakest Links" list, 19 more than last month.

Value City Department Stores filed for Chapter 11 protection in the New York Bankruptcy Court, with plans to conduct GOB sales at its remaining 66 stores in the Midwest, Mid-Atlantic and Southeast. The company, which listed assets and liabilities of between \$100 million and \$500 million each, will conduct the reorganization under Case No. 08-14197.

The auction of **Boscov's**, scheduled to conclude on October 20th, was postponed with no new date scheduled. The company is known to have a stalking horse bid from **Versa Capital**, while retired CEO **Al Boscov** is reportedly interested in acquiring the chain as well.

In order to facilitate the complete liquidation of the company, **Linens 'n Things** filed for bankruptcy protection covering its 40 store locations in Canada. The company is seeking court approval in Canada to begin GOB sales and liquidate assets immediately.

Shoe Pavilion, which filed for Chapter 11 protection in late July, is conducting GOB sales at its remaining 64 stores in California, Washington, Oregon and New Mexico. The sales are being conducted by a joint venture

consisting of **Great American Group**, **SB Capital**, **Tiger Capital Group** and **Hudson Capital Partners**. Shoe Pavilion had previously shuttered 74 locations.

In other news, the bar date for filing claims, including payment for consignment goods for **Shoe Pavilion** has been set for November 20th.

Goody's Family Clothing, privately held by **PGDYS Lending**, emerged from bankruptcy protection, effective October 20th. Additionally, the chain closed on a \$175 million exit revolver from **GE Corporate Lending** and **Bank of America** and separate \$10 million and \$35 million term loans from **GB Merchant Partners** and PGDYS Lending.

Interstate Bakeries Corp. reached a deal with the **Pension Benefit Guaranty Corp.**, which agreed to drop demands for priority payment and will line up with other general unsecured creditors waiting to be paid. The agreement is crucial to reeling in a \$130 million infusion of cash the company is counting on to help fund its bankruptcy exit.

Delphi Corp., which is suing investors over a scrapped equity deal, is asking the court to reinstate a portion of its fraud claim against **Appaloosa** that was dismissed this summer. Delphi is suing Appaloosa and others for terminating a \$2.55 billion equity infusion.

Did You Know...?

Citi Investment Research's "Living Large" index of luxury retailers and companies that cater to the wealthy has fallen more than 50% so far this year.

Management on the Move

Walgreen Co. has added corporate Divisional VP titles to Take Care Health Systems CEO and President **Peter Miller** and Employer Solutions President **Peter Hotz**.

Golfsmith's SVP Merchandising **Frederick Quandt** has resigned. The company does not expect to hire or appoint a replacement.

New York & Company, Inc. President and CFO Ron Ristau has left the Company. Chief Accounting Officer **Sheamus Toal** has been named CFO.

Interline Brands, Inc. promoted **Kenneth D. Sweder** to EVP and COO. Sweder has been Interline Brands' CMO since April of 2007.

Barnes & Noble, Inc. director **William F. Reilly** passed away on October 17.

Sears Canada Inc. appointed **Allen Ravas** as SVP and CFO, replacing David B. Merkley who is leaving the company. Ravas has held several senior finance positions since joining the company in 1997.

Specialty Items

Williams-Sonoma is opening an 1,800 sq ft Pottery Barn Teen store at Lenox Square Mall in Atlanta, sectioning that area off from an existing 11,700 sq ft Pottery Barn Kids store.

This is the first PBTeen store and the retailer does not have any immediate plans for more, given the economy.

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Heard in the Grocery Aisle

Ahold sales rose 3.9% to €5.806 billion for the third quarter ended Oct. 5. Sales at Stop & Shop/Giant Landover were up 4.4% to \$3.909 billion with same store sales up 3.8% at Stop & Shop (excluding gasoline) and up 0.6% at Giant-Landover (ex. gasoline). Sales at Giant Carlisle rose 11.8% to \$1.092 billion, with comp store sales rising 5.4% (ex. gasoline).

Jack in the Box is planning to sell its Quick Stuff convenience store chain. The 61 Quick Stuff stores are located with gas stations next to Jack in the Box restaurants.

Fresh & Easy Neighborhood Market announced sites for eleven new stores in Arizona. Five in Phoenix, two in Peoria, and one each in Glendale, Surprise, Gilbert and Chandler.

Giant-Landover and PNC Financial Services Group have reached a 10-year deal to offer banking services in Giant supermarkets in

Virginia, Maryland, Delaware and Washington, DC. 41 in-store branches and 180 ATMs are planned for 2009. Giant split with previous banking partner Chevy Chase Bank earlier this year.

H-E-B opened a large format 128,000 sq ft store in San Antonio. The company described it as a destination store, with a huge selection of fresh foods and many upscale features.

Aldi continues its expansion in Florida with ten stores opening today on its way to the planned total of 25 in Central Florida.

Penn Traffic's BiLo has a new three year labor contract with UFCW Local 23 in Western/Central Pennsylvania.

Loblaws-owned Maxi sees 800 workers from 13 stores in eastern Quebec go on strike for higher wages and benefits, *Reuters* reported. They are represented by UFCW Local 503.

Did You Know...?

Nearly half (41%) of CFOs at U.S. retailers have experienced a tightening of credit by their lenders, according to a new study by BDO Seidman, LLP, one of the nation's leading accounting and consulting organizations.

The Global World of Sports and Footwear

Cabela's and **Gander Mountain** are proponents of a proposed constitutional amendment in Minnesota that would raise the state sales tax to generate \$300 million annually to spend on the outdoors, environment and the arts.

Columbia Sportswear will focus on own retail as its wholesale business has lagged. By year-end, the company will operate 28 outlet locations and six full-price stores in the Pacific Northwest and Midwest. In 2009, 10 additional full-price doors and 15 additional outlets will open and an e-commerce component will be available to consumers by mid-year.

GSI Commerce updated fiscal year 2008 guidance. Net revenues are now expected to be from \$950.0 million to \$985.0 million, with a loss from operations of \$6.5 million to \$9.5 million.

Pacific Sunwear rejected an unsolicited offer from action sports retailer **Adrenalina**. PSUN which operates 937 doors including 124 outlet locations, says Adrenalina's \$1.90 a share cash and stock offer for the company, which values PacSun at \$295.7 million, is not in the best interests of the company's shareholders. Adrenalina lost \$5.8 million in 2007 on \$2.4

million in revenues. The latest balance sheet of the Miami-based action sports retailer shows \$340,000 in cash, debt of \$4.8 million and a market cap of about \$26 million.

The Finish Line hires Gomez, Inc., of Lexington, MA, to provide web application experience management services to its websites.

REI will open a 30,000 sq. ft. store in East Hanover, NJ next fall, its second door in the Garden State.

City Sports is moving its corporate headquarters to North Washington Street in Boston. City Sports' distribution center remains in Wilmington, Massachusetts.

Also, **City Sports** will open its third door in the Metro Washington, D.C. market in nearby Bethesda, MD.

West Marine revised its full year 2008 earnings guidance downward, from a previously communicated earnings range of an after-tax loss of \$0.32 to \$0.42 per share to a revised after-tax loss range of \$0.55 to \$0.65 cents per share. The company is maintaining sales guidance of \$625 million to \$635 million.

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Mass Merchant Musings

Costco Wholesale Corp. said that its expansion plans for Australia are going full-speed, despite the country's economic slowdown. Costco plans to open one store in Melbourne and another in Sydney.

Big Lots is launching a new e-commerce web site using GSI Commerce for site management, customer care and fulfillment.

Meijer will follow Wal-Mart, KB Toys and Target and slash prices on 300 popular toys in its toy department for the Holiday season.

Target Corp. will pay \$1.745 million to settle charges of charging a higher price than listed on the shelf in five California counties. Target admitted no wrongdoing but will implement audit procedures in its California stores for four years.

Also, **Target** announced that it will open only 70 new stores in 2009, the low end of previous plans for 70-75.

Target is taking steps to tighten up its store credit card business by ramping up its collections efforts and reducing credit lines for card holders in high risk areas like Arizona and Nevada.

Wal-Mart laid out new rules for Chinese suppliers in a meeting with representatives from over 1,000 companies. WMT introduced a new supplier agreement which factories will be required to follow, including providing specific source information and certifying compliance by those factories. The new pact will be phased in beginning in January 2009 will all suppliers in compliance by 2011.

Wal-Mart Canada has been working on obtaining a Canadian banking license for about two years, and global credit tightening is now expected to bolster its arguments with the federal government in Ottawa. Wal-Mart has unsuccessfully tried to establish a bank in the U.S. over the past several years.

Did You Know...?

First time jobless claims increased by 15,000 in the week ending Oct. 18 to a seasonally adjusted 478,000, according to the Labor Department. The four-week average fell by 4,500 to 480,250.

Upcoming Reporting Dates

Company	Event	Date
Advance Auto Parts	Quarterly Results	Oct 29, 2008
American Apparel	Quarterly Results	Nov 10, 2008
AmerisourceBergen	Quarterly Results	Oct 30, 2008
Blue Nile	Quarterly Results	Nov 4, 2008
Building Materials Holding	Quarterly Results	Nov 6, 2008
Cabela's	Quarterly Results	Oct 30, 2008
CVS Caremark	Quarterly Results	Oct 30, 2008
Express Scripts	Quarterly Results	Oct 31, 2008
Gap	Quarterly Results	Nov 30, 2008
Hibbett Sporting Goods	Quarterly Results	Nov 20, 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
Nordstrom	Quarterly Results	Nov 13, 2008
Office Depot	Quarterly Results	Oct 29, 2008
PC Connection	Quarterly Results	Oct 30, 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	Nov 4, 2008
Staples	Quarterly Results	Oct 30, 2008
Volcom	Quarterly Results	Oct 30, 2008
Walgreens	Analysts Day	Oct 30, 2008
Wal-Mart Stores	Investor Meeting	Oct 27-28, 2008
Whole Foods Market	Quarterly Results	Nov 5, 2008
Winn-Dixie Stores	Quarterly Results	Oct 28, 2008

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FYI for the DIY

Housing starts continue to sink, according to the U.S. Commerce Department, which reported that last month's total starts fell to an adjusted annual rate of 817,000 units. Single-family starts in September 2008 fared worst, with 544,000 annual units, a 12% drop from August's rate of 618,000. This is the slowest pace of new home construction since 1982.

84 Lumber Co. says it is closing another 20 stores, bringing the number of stores closed this year to 80 as the housing market continues its slump. About 160 jobs are being eliminated, although some employees may move to other stores. Three stores will close in Pennsylvania, two in Michigan, four in Kentucky, two in Georgia and one each in Alabama, California, Indiana, Maryland, Missouri, New Jersey, New York, South Carolina and Virginia.

Also, **84 Lumber** cancelled plans to build a store on 12 acres in Wichita, Kansas. The

industry's third largest chain of lumberyards, which announced two years ago that it would re-enter the Wichita market with a new store, has put the land on the market. **84 Lumber** operated two small stores in Wichita in the early 1980s, but closed them in 1984.

MSC Industrial Direct Co. sales fell .4% to \$448.6 million for its fourth quarter ended August 30. Q4 was 4 days shorter this year than last, and average daily sales increased by 5.8% vs 2007. Net income grew 6.5% to \$50.5 million. For the full fiscal year, sales were up 5.3% to \$1.78 billion on an average daily sales increase of 7.5%. Net income for the year was up 12.8% to \$196.2 million. **MSC** guided for fiscal 2009 first quarter sales of \$436 to \$446 million, with earnings between \$0.68 and \$0.72 per share.

Stock Building Supply will close 86 locations in six states and cut 3,000 jobs as part of a restructuring, citing overcapacity in the industry.

Hi Tech Entertainment

Wholesale major appliance unit sales fell 14.7% in September, according to the Association of Home Appliance Manufacturers. The only bright spot in the month was air conditioners. For the year so far, major appliance shipments are off 8.2%.

The **Consumer Electronics Association** (CEA) has forecast a 3.5% increase in consumer electronics sales for the fourth quarter, in their CE Holiday Purchase Patterns survey.

Circuit City Stores Inc. is making desperate moves to survive, according to the *Wall Street Journal* and other reports. The embattled chain is considering significant layoffs and closing 150 stores as soon as possible to keep operating through the Holiday season. Other options include liquidating inventory to raise cash. Reportedly, attempts by the firm's bankruptcy attorney Skadden, Arps to find debtor-in-possession financing have not been successful.

The Bankruptcy Review reported that **Circuit City** is considering a plan to close at least 150 stores as an alternative to filing for bankruptcy protection. Earlier this month the company hired Skadden Arps, Slate, Meagher & Flom LLP, the law firm that oversaw the Chapter 11 reorganization of Kmart, as its bankruptcy counsel. The company also retained FTI Consulting Inc. to develop a turnaround plan and investment bank Rothschild Inc. to guide talks with banks and secure emergency financing.

REX Stores Corp.'s board of directors authorized an additional 500,000 shares for its ongoing share repurchase program.

Amazon.com adjusted its full year 2008 guidance. Net sales are now expected to be \$18.46 billion to \$19.46 billion, with operating income of \$716 million to \$876 million.

Also, **Amazon.com** has acquired video game developer Reflexive Entertainment.

Did You Know...?

Existing home sales were up 5.5% in September to the highest level in 13 months, the National Association of Realtors reported. It was the largest monthly percentage increase in five years.

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Off the Rack

Casual Male Retail Group, Inc. has partnered with GSI Commerce to launch Casual Male XL and Rochester e-commerce web sites in Germany, France, Italy, Spain and the Netherlands. Each online store has country-specific components, including language, customer service and payment processing.

Gottschalks Inc. was informed by the NYSE that the company was in non-compliance with listing requirements by having a market cap below \$25 million for a 30-day period. The NYSE plans to suspend trading of GOT prior to the market opening on October 27. Gottschalks said it would appeal, but that a delisting from the NYSE does not create a default under the company's credit agreement.

Urban Outfitters' Anthropologie chain will open its first Canadian store next year in Toronto. The two level store will be about 12,000 sq ft.

Gap Inc. could surpass \$1 billion in online sales this year, according to an article in *Internet Retailer*. It's four sites: Gap.com, BananaRepublic.com, OldNavy.com and

Piperlime.com grew 23.7% to \$903 million in 2007.

Also, **Gap Inc.** opened its first Banana Republic Factory Store and Gap Factory Store in Canada.

Bebe Stores' board authorized a stock repurchase program for up to \$30 million of the company's common stock.

Ex Officio will open a 1,100 sq. ft. store, its first on the U.S. East Coast, at JetBlue's Terminal 5 at JFK Airport in New York.

Sears Holdings is planning to close 12 stores, including eight Kmart and four Sears outlets, in January. The company said the closures are part of the normal course of business and not part of a greater issue.

J.C. Penney Inc. will limit the amount of severance pay for its senior executives to 2.99 times their annual base salary and target bonus. The policy only applies to future severance agreements and not existing agreements.

Did You Know...?

More than half (56%) of the CFOs participating in a recent survey by CFO Magazine said they expect the credit crisis to force them to cut payroll in the coming year.

Health & Beauty Aids

CVS Caremark successfully completed its offer for Longs Drug Stores. 76.51% of the outstanding shares were tendered and all conditions to the offer have now been satisfied. Closing of the merger is expected to occur by the end of October, but CVS will immediately begin consolidating Longs financial results into its own reporting.

Walgreen Co. will acquire McKesson Corp.'s specialty pharmacy business. Terms were not disclosed, and the transaction is expected to

close within 60 days. The acquisition includes McKesson specialty pharmacy based in Pittsburgh as well as the IVPCARE business based in Frisco, Texas.

Also, **Walgreen** is working on changes to its store format and improvement to store operations, according to *Reuters*. The company has reportedly hired consultants Booz Allen Hamilton to advise them on how best to compete with rival CVS Caremark.

General Retail News

Findings from **Deloitte's annual U.S. holiday** survey won't light up any Christmas tree. Spending on gifts will fall 6.5% this year to an average \$532, according to the group's survey of nearly 13,300 consumers, and 59% of respondents said they intend to lower their holiday spending this year due to economic conditions. The Deloitte study also found that fewer gift cards (5.3 vs. 5.5) will be purchased this holiday with the average per card down more than 21% year-over-year to \$28.43.

Meanwhile, **Forrester Research** finds that online holiday spending will rise 12% y-o-y to \$44 billion with 48% of respondents telling the research firm that they can find the best values and deals online versus the 41% who felt the same way last holiday season. The majority of online shoppers this holiday are expected to be returning to the web for their purchases and not online e-commerce novices.

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Retailer of the Week: RONA

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OPERATIONS

(Canadian \$ in Millions)	For the three months ended			For the six months ended		
	Jun 29, 2008	Jul 1, 2007	Change	Jun 29, 2008	Jul 1, 2007	Change
Sales	\$1,473.3	\$1,469.1	0.3%	\$2,384.8	\$2,347.6	1.6%
Gross Margin	\$431.7	\$412.8	4.6%	\$701.1	\$662.0	5.9%
% of Sales	29.3%	28.1%	+120 BP	29.4%	28.2%	+120 BP
Overhead	\$303.5	\$273.5	-11.0%	\$564.8	\$503.4	-12.2%
Operating Income	\$128.2	\$139.4	-8.0%	\$136.3	\$158.6	-14.1%
% of Sales	8.7%	9.5%	-79 BP	5.7%	6.8%	-104 BP
Net Income	\$80.1	\$86.2	-7.0%	\$81.1	\$95.2	-14.8%
% of Sales	5.4%	5.9%	-43 BP	3.4%	4.1%	-65 BP

Did You Know...?

U.S. fixed-rate mortgages declined last week, according to Freddie Mac. The national average interest rate on the benchmark 30-year, fixed-rate loan averaged 6.04%, down from the prior week's 6.46%.

Sales through the first half of 2008 were \$2.385 billion, up \$37.2 billion or 1.6% versus prior year. The limited growth can be mainly attributed to acquisitions, store openings, and the recruitment of new affiliate dealer-owners. Excluding the contributions of its acquisitions - Noble Trade, Dick's Lumber, Centre de Renovation Andre Lessard and Best-MAR - consolidated sales declined by 2.9%. Sales generated by new stores opened in the last 12 months could not compensate for the decline in comp stores sales, which declined better than 5%, excluding the 0.5% decline in the price of forest products. As mentioned above, the decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a sharp decline in construction and resale of single-unit homes, especially in Alberta.

Mitigating the sluggish sales, management was able through better terms and purchasing conditions from its suppliers, a reduction of in-store losses (shrinkage), an increase in sales of private brand products and better management of product categories, to increase gross margins by 5.9%, or some 120 basis points. More than offsetting the gross margin gains, however, the company's overhead increased by 12.2% as a result of the afore-mentioned acquisitions and the opening of additional stores, resulting in a 14.1% decline in operating income to \$136.3 million for the six months.

After six months of activity, RONA invested \$90.0 million in fixed assets - \$18.2 million or 16.8% less than the \$108.1 million invested in 2007. during the second quarter, RONA decided to reduce the company's capital spending program by 20% in 2008, in view of market conditions more difficult than expected. Accordingly management will hold its capital spending at approximately \$200 million, which is \$40 million less than the amount planned at the beginning of this year. The \$40 million in reduced spending will help to offset the cash impact of the decline in profitability.

FINANCIAL POSITION

In spite of the reduced operating earnings through the first six months of the year, the company generated \$149.3 million in cash from operations while investing \$90.0 million in fixed assets and paying down \$62.4 million of debt. While the company currently is not operating with a tremendous amount of cash, it does not carry significant debt and has approximately \$366.0 million in availability under its \$500.0 million revolving credit facility. Adding to the company's liquidity, subsequent to the end of the second quarter, the company increased its \$500.0 million revolver to \$650.0 million, increasing availability by \$150.0 million.

OUTLOOK

We suspect that the company, while continuing to be profitable, will experience earnings below last year for the second half of the year. We believe that management has taken the appropriate steps (reduced capital spending and increasing their revolving credit facility) to be able to carry it through the current economic instability. As such, we are maintaining our current "C" Credit Rating and do not foresee any vendor issues through the next several quarters.

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Third Quarter Scorecard

\$ in Millions. Quarter ended closest to 10/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
Cache, Inc.	\$58.1	\$60.6	-4.1%	-4.0%	(\$1.6)	\$0.2	-1129%
Sports & Footwear							
GSI Commerce	\$189.8	\$137.3	38.2%	NA	(\$12.8)	(\$6.1)	-109.8%
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%	\$3.4	\$5.3	-35.4%
WinMark Corporation	\$9.1	\$8.0	14.5%	tba	\$1.4	\$1.1	19.5%
Specialty							
1-800-Flowers.com, Inc.	\$158.0	\$145.8	8.4%	NA	(\$5.3)	(\$5.8)	8.6%
Ethan Allen	\$205.8	\$248.7	-17.2%	-19.0%	\$7.4	\$17.5	-57.7%
Haverty Furniture	\$175.6	\$200.7	-12.5%	-14.9%	tba	\$0.6	tba
Home Centers							
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%
Tractor Supply Company	\$733.9	\$629.2	16.6%	6.0%	\$19.8	\$17.5	13.1%
W.W. Grainger	\$1,839.5	\$1,658.6	10.9%	tba	\$140.0	\$109.2	28.2%
Wesco International	\$1,628.1	\$1,545.6	5.3%	NA	\$65.9	\$71.8	-8.2%
Food							
Weis Markets, Inc.	\$603.9	\$565.0	6.9%	6.2%	\$8.1	\$10.8	-25.0%
High-Tech & Electronics							
Amazon.com, Inc.	\$4,264.0	\$3,262.0	30.7%	NA	\$118.0	\$80.0	47.5%
Ingram Micro Inc.	\$8,238.7	\$8,607.9	-4.3%	NA	\$46.4	\$72.4	-35.9%
RadioShack Corporation	\$1,021.9	\$960.3	6.4%	7.7%	\$50.2	\$46.3	8.4%

Did You Know...?

New homes sales rose an 2.7% in September to a seasonally adjusted annual rate of 464,000, the Commerce Department reported.

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