

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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**Remember...**

*Life shrinks or expands in proportion to one's courage.*

### Economy Shrinks - Spending Cut

A day after the Federal Reserve slashed a key interest rate to battle the economic downturn, the government reported that the economy did shrink in the summer, sending the strongest signal yet that a recession may have already begun.

The Commerce Department reported that the gross domestic product, the broadest measure of economic health, fell at an annual rate of 0.3% in the July-September period, a significant slowdown after growth of 2.8% in the prior quarter.

The spring activity had been boosted by the \$168 billion economic stimulus program, but the economy ran into a wall in the summer as the mass mailings of stimulus checks ended and consumer confidence was shaken by the upheavals on global markets. Consumer spending, which accounts for two-thirds of the economy, dropped by the largest amount in 28 years in the third quarter.

Meanwhile, the Labor Department reported that applications for unemployment benefits remained at an elevated level last week, another sign of the economy's struggles. The number of laid-off workers filing new claims totaled 479,000, the same as the previous week, disappointing analysts who had expected a small drop.

Last Wednesday, the Fed cut the federal funds rate – the interest banks charge each other on overnight loans – by a half a percentage point, and the government finally began distributing funds from the billions in the financial rescue package.

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### Retailer of the Week: iParty Corp.

With comp store sales now declining for two consecutive quarters, the third quarter and first nine month loss exceeded the losses incurred for the same period last year. For the (third) quarter to quarter period, the loss nearly doubled. In addition, iParty saw revolver debt levels increase over last year and year end 2007 as debt need to be used to pay invoices coming due on unsold merchandise. While the Company should be able to post positive earnings for the fourth quarter covering the important Halloween, Christmas and New Years periods, the outlook for 2009 appears to be fairly grim. In particular, iParty may find it difficult competing against much bigger chains such as Party City and Party America. In light of the negative comp stores sales and higher losses, Global Credit will downgrade its credit rating for iParty from an "E" to an "E-", reflecting a very high degree of credit risk to vendors shipping merchandise to the Company on open credit terms.

#### BACKGROUND

iParty operates retail stores dedicated towards serving the needs of party planning. As of September 27, 2008, iParty operated 50 stores with 45 of those locations in New England and the remaining five stores located in Florida. Earlier this year, iParty acquired two stores from Party City, a subsidiary of Amscan Holdings, for approximately \$1.54 million. The transaction was funded from excess revolver capacity under a \$12.5 million line. The two stores were subsequently converted to iParty stores. iParty also shuttered two under performing stores in the beginning of 2008.

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## Economy Shrinks - Spending Cut

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The Fed's half-point interest rate cut marked the second rate reduction this month. The Fed slashed the rate by a half-point on October 8th in a coordinated action with other foreign central banks. Economists predict foreign central banks will follow suit with another round of rate cuts over the next week.

In a brief statement explaining last week's action, the Fed said that "downside risks to growth remain" holding out the promise of further rate cuts if needed. The rate-cut decision was unanimous.

Many analysts said they believe the Fed will not stop at 1% if officials see the need to cut rates further. Some are forecasting another half-point move at the Fed's last meeting of the year on December 16th.

But other economists said with rates already so low, the Fed may decide to hold at 1%, leaving some room for a further reduction next year should the country's economic troubles intensify.

The Fed's action was quickly followed by a reduction by commercial banks in their prime lending rate, the benchmark for millions of consumer and business loans, which was cut from 4.5% down to 4.0%, its lowest level in four years.

The central bank also announced that it was lowering its discount rate, the interest it charges to make direct loans to banks, by a half-point to 1.25%. This rate has become increasingly important as the central bank has dramatically increased direct loans to banks in an effort to break the grip of the credit crisis.

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
VENETIAN CASINO RESORT LLC	B	B+	NM	NM	NR
LAS VEGAS SANDS INC	B	B+	NM	NM	D+
DILLARDS INC-HQ	BB-	BB	STABLE	NEGATIVE	D-
WYNDHAM WORLDWIDE CORP	BBB-	BBB-	NEGATIVE	STABLE	C-
MANDALAY RESORT GROUP	NR	BB+	NR	NM	D+
WENDYS INTERNATIONAL INC	B+	BB-	STABLE	NM	D+

## Options and Resources

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## Bankruptcy Blotter

**Mervyns**, which decided to call its quits and liquidate their remaining 149 stores, will begin GOB sales using a joint venture group consisting of **Great American Group, LLC, SB Capital Group, LLC, Tiger Capital Group, LLC**, and **Hudson Capital Partners, LLC**. The sale is expected to last 8 weeks with some stores closing sooner.

**Linens 'n Things** has begun disposing of 371 retail locations throughout the U.S., according to **DJM Realty**, the company marketing the properties. The company also operated three distribution centers that are also now available. The auction of the store leases and the distribution centers is expected before December 15<sup>th</sup>.

**Value City**, which filed for Chapter 11 protection last week, is moving forward with its plan to conduct GOB sales at its remaining 66 stores after getting interim court approval to use a \$40 million DIP facility provided by **National City Business Credit Inc.** and **Wells Fargo Retail Finance LLC**. The company wants to hire **Tiger Capital Group LLC** to conduct the sales.

Also, former **Value City** workers have filed a class-action lawsuit, saying the company violated federal law when it failed to notify employees in advance of last week's mass layoff. The suit was filed in U.S. Bankruptcy Court for the Southern District of New York, and seeks 60 days' pay and benefits for those who were laid off.

It appears that **Boscov's** is still up for sale, as the firm attempts to keep liquidators at bay long enough to proceed with an auction. However, a date for the court to approve a buyer has been pushed back indefinitely.

It has been reported by TWICE, that **Tweeter** was purchased by a liquidator Thursday night after closing all of its distribution centers and pushing all inventory out to its stores. Last night, management held a conference call with top regional personnel to inform them of the decision, according to sources with close ties to the chain. The name of the liquidation company was not mentioned; Tweeter has not returned phone calls.

### Did You Know...?

*U.S. consumer confidence index fell to 38 in October, the lowest ever recorded, down from a September reading of 61.4, the Conference Board reported.*

## Heard in the Grocery Aisle

**Winn-Dixie Stores, Inc.** sales increased 3.4% to \$1.676 billion in its first fiscal quarter ended September 17. Same store sales increased 3.0%, of which 1.1% was attributed to severe weather. Net loss expanded slightly to \$2.3 million vs. a loss of \$0.8 million prior, as higher SG&A expenses overcame a 40 basis point improvement in gross margin.

**Ruddick Corp.** sales increased by 9.7% to \$3.99 billion for the fiscal year ended September 28. Harris Teeter sales were up 11.1% to \$3.66 billion, while American & Efid sales declined 3.6%. Comp store sales increased 2.86% for the year. Net income rose 19.9% to \$96.8 million.

The **UFCW** sees organizing **Fresh & Easy** workers as crucial, according to a story in the *LA Times*, given Tesco's high profile and big expansion plans. The union claims that the almost all of the employees at the Huntington Beach store signed cards requesting union representation. While Fresh & Easy says it recognize the union only if employees vote for it in a government-supervised secret-ballot election, the UFCW is hoping to bypass that once the Employee Free Choice Act is passed under a democratic administration.

The **Kroger** executive and three former Ralphs managers who were indicted on federal labor fraud charges, have pleaded not guilty. As we reported earlier, the charges were linked to the 2003-04 So. California supermarket strike and lockout.

**Whole Foods Market Inc.** issued a release opposing merger regulatory changes proposed by the Federal Trade Commission. The rule changes would change some time limits and reduce the influence of administrative law judges, giving the FTC the power to decide pre-hearing motions.

**Penn Traffic Co.**, following on its settlement with the SEC, has reached a non-prosecution agreement with the U.S. Attorney's Office for the Northern District of New York, in connection with the company's accounting practices between 2001 and 2004.

**Coborn's**, a 34 store Midwestern grocery chain, acquired the assets of Minneapolis St. Paul delivery service Simon Delivers last summer, including a fleet of trucks and a customer list. The grocery delivery service was just restarted under the CobornsDelivers name.

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## Health & Beauty Aids

**Walgreen Co.** plans to cut \$1 billion in costs through 2011, and outlined several strategic initiatives to increase revenue and earnings growth. These include enhancing the customer experience, extending its presence in pharmacy, health and wellness services and broadening and deepening its relationships with employers, managed care organizations and PBMs.

Also, **Walgreen Co.**'s Medmark specialty pharmacy has been selected by the Pennsylvania Department of Public Welfare as a prescription provider to 400,000 participants.

**McKesson Co.** has completed the integration of its recently acquired Oncology Therapeutics Network into its specialty pharmaceutical business unit, and renamed that unit McKesson Specialty Care Solutions.

**CVS Caremark** reported its third quarter (see the Scorecard), with segment results as follows: Retail drugstore segment sales increased 5.3% to \$11.5 billion, with front-end same store sales up 3.3% and pharmacy same store sales up 3.8% despite being negatively impacted by about 280 basis points due to more generics. Pharmacy services segment sales fell 0.9% to \$10.6 billion.

**CVS** has completed its acquisition of Longs Drug Stores Corporation. The \$2.9 billion deal was partially funded through the issuance of debt. CVS hopes to defray some of the transaction cost by unloading \$1.0 billion of real estate that was held by Longs. The purchase of this 521 store retailer will allow CVS to dramatically boost its market share on the west coast. CVS has noted that it does not have a significant presence in ten markets where Longs has a notable footprint. CVS expects to generate \$100 million of synergies during 2009. The company also anticipates that the purchase will be a catalyst for improved operations on the PBM side of the business. GCS is not very concerned about the risks associated with this merger because the company has a strong track record when it comes to integration and execution.

And **CVS** has extended its partnership with Google Health. CVS customers can now able to link their [www.caremark.com](http://www.caremark.com) account to Google Health and import their prescription history.

**AmerisourceBergen Corp.** has completed the sale of its PMSI workers' compensation business to H.I.G. Capital, LLC.

### Did You Know...?

*U.S.-made durable goods orders were up a surprisingly strong 0.8% in September, the Commerce Department estimated.*

## General Retail News

**New England retailers** have joined to form the Law Enforcement Retailer Alliance of New England and implemented an e-mail alert system to communicate about organized retail theft rings, according to the *Patriot Ledger*. The system connects the stores with each other and with law enforcement to spread the word when a theft ring is hitting multiple outlets in a particular area.

In a **survey of retail Chief Marketing Officers** by BDO Seidman, LLP, panelists expect Holiday comp store sales to fall 2.7% vs. last year. 75% of the CMOs are more cautious about their sales and inventory purchase plans this Holiday season, up from 64% last year. 88% expect a more promotional environment this season than prior, up from 73% last year, with in-store promotions (42%), markdowns (37%) and online promotions (20%) topping the list.

A **liberal return policy** can help online retailers grow sales and build loyalty, according to a Forrester Consulting/UPS study. Of consumers surveyed, 81% are more likely to buy from a retailer with a generous return policy, 81% are

more loyal to such retailers, and 73% are less likely to buy in the future from an online retailer where returns are a hassle.

The **National Retail Federation** asked Congress to consider a second stimulus package. Citing the record low U.S. consumer confidence and possibly the weakest holiday season in six years, the NRF today asked a congressional committee to consider possible economic stimulus initiatives that would include a second round of tax rebate checks or other direct relief to consumers. In its comments, the NRF said the stimulus, to put more money into consumers' pockets, could be achieved through a number of avenues from the rebate checks to a national sales tax holiday or payroll tax holiday.

**Luxury apparel**, jewelry and home décor is off about 20% this year, according to a survey by luxury market research firm Unity Marketing. Confidence among U.S. buyers of luxury goods has fallen to the lowest level in at least four years, the study finds.

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## The Global World of Sports and Footwear

**Boot Barn Holding Corp.** has purchased another 22 retail stores from BTWW Retail, L.P. The stores—12 in Arizona, nine in New Mexico and one in Nevada—expands Boot Barn's store count from 45 to 67 stores in the Southwestern U.S. The 22 new stores will be rebranded to Boot Barn after the holiday season.

**Stride Rite** and **Dick's** scored highest in the Shoe Stores and the Sporting Goods Stores categories of the quarterly customer service survey conducted by RealPeopleRatings.com and released today by Corporate Research Intl. Following Stride Rite (7.56) in the Shoe Stores category in Q3 were: Journeys (7.31), Aldo (7.17), Payless (7.14), Shoe Carnival (7.11), DSW (7.02) and Famous Footwear (6.99). After Dick's SG (7.33), other top sporting goods retailers cited for their customer service were: Hibbett Sports (7.28), The Finish Line (7.24), Foot Locker (7.18), Champs Sports (7.09) and The Sports Authority (6.94).

**Cabela's** has dropped its outlook for the year. Annual revenues are now forecast to grow high single digits versus a prior expectation of low to mid-teens. FY EPS is now seen as declining in the low to mid-teen range against a prior

forecast of mid single digit expansion. Annual same store sales are now forecast at down 7-10% versus the prior estimate of a 5-7% decline. CAB says it intends to more aggressively manage inventory levels by season, adjusting prices when market conditions change. FY08 end inventory is forecast to be down slightly y-o-y.

**Under Armour** reported it has signed no new leases for mall stores, and is keeping existing stores in test mode right now.

**Fleet Feet**, the third largest franchisor of running specialty stores, reported a 16.5% increase in Q3 retail sales to \$24.8 million. Nine-month sales are up 17.8% to \$67.5 million versus \$57.3 million. Year-to-date comparable store sales are 14% higher, the company said. The 90-door chain, later this year, will open a new store in Schererville, IN and have an ownership transition in Pleasant Hill, CA.

**REI** will open a two-story, 28,000 sq. ft. store in Oxnard, CA at The Collection at Riverpark in fall 2009. The door will mark the co-op's eighth location in the Los Angeles market.

### Did You Know...?

*The U.S. economy contracted at a 0.3% annualized rate in the third quarter, according to Commerce Department estimates.*

## Mass Merchant Musings

This year Black Friday is coming two days after Halloween, as Kmart is taking the rush to the holiday season to extremes. "Early Black Friday" sales began at Kmart this weekend, moving Black Friday up from its traditional sate the day after Thanksgiving to November 2nd, some 26 days early.

**Wal-Mart** is accelerating U.S. store renovations, but will allocate 53% of its FY09 capital expenditure budget—somewhere between \$4.8 and \$5.3 billion—toward expansion in emerging international markets such as Brazil, China and Mexico. In the U.S., Wal-Mart intends to scale back door openings in favor of an accelerated remodeling program that will see all stores get a facelift by 2014. This fiscal year, WMT intends to open 191 stores for the 12 months ending Jan. 31, 2009, down slightly from the 195 that were opened in the last FY. U.S. store openings for the FY ending Jan. 2010, meanwhile, have been reduced to a range of 142-157 against an earlier projection of 165.

Also, **Wal-Mart** will open a Sam's Club in Houston targeted at Hispanic families. Dubbed "Mas Club" the store will feature more Mexico-

sourced products from Mexico. The Mas Club will open during H1 2009.

**Wal-Mart** unveiled its new design concept that will be used for remodeled stores. The new style is brighter, with soft colors, and ties departments together. Shelves will be lower and understated. The first store with the new design is in Rogers, Arkansas, a descendent of the first Wal-Mart store.

**Walmart** is selling MP3 for \$.74 each for top-25 songs and \$.94 each for other songs from its just re-launched MP3 downloads store, undercutting Apples' iTunes.

**Target Corp.** disclosed that it has been considering a proposal put forward by Pershing Square to spin-off a separate publicly-traded real estate investment trust (REIT) that would own substantially all of the land currently owned by Target. Target is been evaluating the ideas with outside advisors, including Goldman Sachs.

**Canadian Tire** will try selling groceries in a test with two stores in Orleans and Welland, Ontario.

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## Hi Tech Entertainment

**Best Buy Co.** has completed the cash tender offer for Napster, Inc. Approximately 83.3% of Napster shares were tendered. Now Best Buy will begin a subsequent offering period for remaining shares.

**Amazon.com** launched its new automotive electronics section for car audio, video and navigation systems at [www.amazon.com/carelectronics](http://www.amazon.com/carelectronics). The new store has more than 5,000 products.

**PC Mall, Inc.**'s board has authorized up to \$10 million share repurchase plan.

**TigerDirect** has opened a new store concept in an old CompUSA location in the Miami market. The store has 300 networked computers that have product information for the products on display.

**Staples, Inc.** will take a non-cash, pre-tax impairment charge of approximately \$120 million in its third quarter ending November 1 to write down the value of trade names acquired in the Corporate Express deal.

**OfficeMax Inc.** is delaying release of its third-quarter results as it continues to analyze the effects of the Lehman Brothers Inc. failure last month. Lehman had guaranteed \$817.5 million of OfficeMax debt.

**Circuit City Stores, Inc.** received notification from the NYSE that the company had not maintained a share price of at least \$1.00 per share over a consecutive 30-trading-day period as of October 22, 2008. To avoid delisting, CC has six months to bring the share price above \$1.00.

## Specialty Items

**Williams-Sonoma** lowered third quarter, fourth quarter and FY2008 guidance. In Q3, the company expects a net loss of \$0.12 to \$0.10 per share, compared to prior guidance of breakeven to earnings of \$0.04 per share. Sales are now forecast at \$732 million to \$742 million down from \$802 million to \$820 million. For Q4, earnings are now expected to be \$0.10 to \$0.30 per share vs. \$0.76 to \$0.86 per share guided prior. Sales are now expected to be \$940 million to \$1.000 billion vs. \$1.168 to \$1.216 billion guided prior. And for the full year, earnings are expected to be \$0.25 to \$0.47 per share vs. prior guidance of \$1.03 to \$1.15 per share on sales of \$3.274 to \$3.344 billion vs. prior guidance of \$3.572 to \$3.638 billion.

**Rent-A-Center, Inc.** lowered revenue guidance for the fourth quarter to \$698 million to \$713 million, down from the \$700 to \$715 million

guided previously, with same-store sales in the flat to 1% range. Earnings are expected to be \$0.44 to \$0.49 per share.

**Aaron Rents, Inc.** restated earnings for their last four quarters to report the Corporate Furnishings business as discontinued operations. The sale of that business to CORT Business Services Corporation closed on September 15.

**Tuesday Morning Corp.** sales fell 14.0% to \$173.4 million for the first fiscal quarter ended September 30. Comp store sales decreased 17.3%. Net loss was \$4.3 million compared to income of \$1.2 million in Q1 last year. TUES issues FY2009 sales guidance of \$854 million to \$859 million, with comps in the negative mid-single digits, and earnings projected to be \$0.19 to \$0.21 per share.

### Did You Know...?

*Sales of newly built single-family homes rose 2.7% in September to a seasonally adjusted annual rate of 464,000 units. At the current pace, there was 10.4 months' supply of unsold new units on the market, versus an 11.4 months' supply in August.*

## Management on the Move

**Winn-Dixie Stores, Inc.** named **Mary Kellmanson** VP of Marketing. Kellmanson was VP of Advertising and Marketing at Wegmans Food Markets, where she spent almost 15 years.

**Albertsons** appointed **Shane Dorcheus** President of the Southwest Division. Dorcheus was VP Operations for this division, prior.

**Stein Mart** has begun a search for permanent CEO to replace **Linda Farthing**, who's been in that role on an interim basis for over a year.

**W. W. Grainger, Inc.** promoted **Michael A. Pulick** to SVP and President, Grainger Industrial Supply. He was SVP for Customer Service prior. Also, Grainger gives SVP **D.G. Macpherson** responsibility for global supply chain function.

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## FYI for the DIY

**Building Materials Holding Corporation** is now trading its common stock under the symbol "BLGM" on the Over the Counter ("OTC") Pink Sheets market as an interim step to its listing on the OTC Bulletin Board ("OTCBB"). The move to OTC trading is the result of the company no longer meeting the minimum market capitalization standard of the New York Stock Exchange.

**Stock Building Supply**, a division of Wolseley, is closing 86 facilities and reducing head count by some 3,000 associates. The company is exiting 16 markets in six states. Wolseley has given no timeline for closing all 86 branches, which will leave Stock Building with 209 locations in 27 states. The company plans on holding on to the operations where the company is No. 1 or No. 2 in the market including North Carolina, South Carolina, Florida, Texas, California and Utah.

**Champion Enterprises, Inc.** completed an amendment of its senior secured credit agreement covering the period beginning September 27, 2008 and ending January 2, 2010. During the period, the financial covenants have been amended to eliminate the maximum

senior leverage ratio, minimum interest coverage ratio and minimum fixed charge ratio in lieu of new minimum quarter-end liquidity and minimum twelve month EBITDA covenants.

**Restoration Hardware** has confirmed that there will be layoffs at its headquarters in Corte Madera, CA. While the Company did not disclose the actual number, a local news report had placed the number of eliminated jobs at between 100 and 300. This in addition to a previous reduction of 100 positions last year.

**Ace Hardware** topped a recent customer service survey from RealPeopleRatings.com by Corporate Research International (CRI), reported. The results: Ace Hardware 7.76, True Value 7.52, Lowe's 7.47, Tractor Supply 7.41, Home Depot 7.21, Menards 7.14, 84 Lumber 6.90.

**Kohlberg Kravis Roberts & Co.**-backed **Masonite International Corp.** missed a \$42 million interest payment on its \$770 million of subordinated notes. A forbearance agreement prevents lenders from accelerating \$1.5 billion of senior secured credit facilities until November 13<sup>th</sup>, which coincides with the end of the 30-day grace period for the interest payment.

## Upcoming Reporting Dates

Company	Event	Date
American Apparel	Quarterly Results	Nov 10, 2008
AnnTaylor Stores	Quarterly Results	Nov 21, 2008
Blue Nile	Quarterly Results	Nov 4, 2008
Building Materials Holding	Quarterly Results	Nov 6, 2008
CVS Caremark	Investor Conference	Nov 12, 2008
Eddie Bauer Holdings	Quarterly Results	Nov 6, 2008
Gap	Quarterly Results	Nov 30, 2008
Golfsmith	Quarterly Results	Nov 6, 2008
Havertys	Quarterly Results	Nov 6, 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
Mother's Work	Quarterly Results	Nov 18, 2008
Nash Finch	Quarterly Results	Nov 6, 2008
Nordstrom	Quarterly Results	Nov 13, 2008
OfficeMax	Quarterly Results	Nov 6, 2008
PC Connection, Inc.	Investor Conference	Nov 3-4, 2008
Shoppers Drug Mart	Quarterly Results	Nov 6, 2008
Sport Supply Group	Quarterly Results	Nov 4, 2008
Tech Data Corp	Investor Conference	Nov 5, 2008
Tech Data Corp	Investor Conference	Nov 18, 2008
Whole Foods Market	Quarterly Results	Nov 5, 2008

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## Off the Rack

**Macy's Inc.** will start issuing monthly same store sales reports again, beginning with October sales. Macy's stopped reporting monthly same-store sales in February.

**Dillard's Inc.** shareholders Barington Capital Group LP and Clinton Group Inc. sent a letter to the board demanding the ouster of CEO William Dillard II and other family members on the management team, citing "atrocious" performance over the past 10 years. Dillard's

market cap was \$4.36 billion when William Dillard II took the helm in 1998, and was less than \$246 million when the letter was sent. A day later, Dillard's management responded by issuing a press release highlighting the company's strengths.

**Hot Topic** has launched ShockHound, an online music site offering MP3s and music-centric accessories.

## Retailer of the Week: iParty Corp.

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For the fourth quarter, the Company over the past three years has realized more than 36% of its annual revenues during that quarter.

In September 2009, iParty will have a note for \$2.5 million maturing, which is owed to an institutional investor, Highbridge. The debt was assumed in September 2006 with proceeds used to meet current operating obligations. iParty also has a note payable to major vendor Amscan Holdings for payables due that were extended into a three year loan. Monthly payments of \$59,562 plus interest continue with any balance due in early October 2009. iParty has indicated that it hopes to have sufficient cash on hand and excess credit availability at that time to cover the maturing Highbridge loan and any balance remaining on the Amscan Holdings note.^

### FINANCIAL PERFORMANCE

INCOME STATEMENT	3rd QTR 2007	3rd QTR 2008	YTD 2007	YTD 2008
Net Sales	\$18.2 mm	\$17.7 mm	\$54.2 mm	\$54 mm
Comp Store Sales	4.5%	(-4.2%)	7.2%	(-1.6%)
Store Count			50	50
Gross Profit	\$7.53 mm (41.3%)	\$7.11 mm (40%)	\$22.50 mm (41.5%)	\$21.80 mm (40.3%)
SG&A Expenses	\$8.45 mm (46.4%)	\$8.26 mm (46.5%)	\$24.00 mm (44.2%)	\$24.20 mm (44.8%)
<b>Operating Loss</b>	<b>(\$920,242)</b>	<b>(\$1.14) mm</b>	<b>(\$1.46) mm</b>	<b>(\$2.43) mm</b>
Interest Expense	\$214,614	\$178,061	67441700.0%	57671400.0%
Interest Income	\$1,198	\$240	\$4,679	\$2,160
<b>Net Loss (no taxes)</b>	<b>(\$1.13) mm</b>	<b>(\$1.32) mm</b>	<b>(\$2.12) mm</b>	<b>(\$3) mm</b>

Not only have comp store sales seen a significant deterioration, margins fell in both dollar and percentage of sales terms. Higher product costs and the inability to leverage occupancy expenses against falling comp store sales spoiled margin performance. Also, the cost structure rose as other expenses could not be adequately leveraged against sales. However, the impact for the third quarter was only very modest with management looking at all expenditures for reductions.

A lower interest rate charged on the Highbridge and Amscan Holdings debt allowed for a decrease in interest expense.

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### Did You Know...?

Consumer spending declined at an annual rate of 3.1% in the quarter, the first time consumer spending fell since 1991 and the largest drop since early 1980.

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## Retailer of the Week: iParty Corp.

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BALANCE SHEET	9/29/2007	9/27/2008
Unrestrictive Cash	\$65,587	\$62,563
Receivables	\$1.07 mm	\$1.11 mm
Inventory	\$17.4 mm	\$17.4 mm
Current Assets	\$20.3 mm	\$20.3 mm
Tangible Assets	\$25 mm	\$26.9 mm
Payables	\$11 mm	\$9.95 mm
Revolver Debt	\$2.34 mm	\$4.32 mm
Term Loans to Amscan Holdings and Highbridge, including current portion due	\$3.99 mm	\$3.59 mm
Total Liabilities	\$21.5 mm	\$21.7 mm
<b>Current Ratio</b>	<b>1.2:1</b>	<b>1.0:1</b>
<b>Working Capital Coverage</b>	<b>1.2 months</b>	<b>Less than 1/2 month</b>
<b>Tangible Leverage Percentage</b>	<b>86%</b>	<b>81%</b>

The reclassification of the Highbridge loan (due September 2009) and the increased revolver borrowings have now forced an insufficient current ratio and even weaker working capital coverage. While excess credit capacity at most recent quarter end was more than \$7.3 million, sufficient for fourth quarter needs, we are highly concerned over whether iParty will have adequate credit availability going into the slower first quarter of next year.

Also, inventory levels remained the same while sales have declined. We question whether iParty has excessive goods on hand and therefore may need to carry out clearance activity in the fourth quarter, which would probably depress margin performance even more. For now, iParty did reduce payables and average account payable turns while probably still too high at 76 days for most recent third quarter end are down from an average of 84 days for the same period in 2007.

**OUTLOOK**

iParty had financially struggled before even when comp store sales were positive. Consequently, we believe that an ongoing drop in comp store sales may make the situation more problematic for iParty. Given that the upcoming holiday period is not expected to be productive for most retailers and that consumers will probably dial back on entertaining and other such festivities, a weak fourth quarter might force iParty to start the new year with limited credit capacity to cover a typically lean first quarter.

The one bright spot is that the Company has no store expansion plans or any other sizable capital expenditures that would churn up cash. To be financially fit for 2009, iParty will need to effectively control inventory levels, thereby lessening the pressure on margins, and reduce costs to match the rate of sales.

Given the third quarter 2008 losses, higher revolver debt and lower availability, clients should continue to watch their exposures closely. Unfortunately, the Company will probably not announce fourth quarter and full year results until February 2009 at the earliest.

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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
<b>Apparel</b>							
Cache, Inc.	\$58.1	\$60.6	-4.1%	-4.0%	(\$1.6)	\$0.2	-1129%
<b>Sports &amp; Footwear</b>							
Cabela's	\$611.8	\$546.8	11.9%	-9.0%	\$9.7	\$13.2	-26.5%
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%
<b>Specialty</b>							
1-800-Flowers.com, Inc.	\$158.0	\$145.8	8.4%	NA	(\$5.3)	(\$5.8)	8.6%
Advance Auto Parts, Inc.	\$1,188.0	\$1,158.0	2.6%	-0.1%	\$56.2	\$59.0	-4.9%
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
<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%
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%
<b>Food</b>							
Weis Markets, Inc.	\$603.9	\$565.0	6.9%	6.2%	\$8.1	\$10.8	-25.0%
<b>High-Tech &amp; Electronics</b>							
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%
Office Depot, Inc.	\$3,657.9	\$3,935.4	-7.1%	-14.0%	(\$6.7)	\$117.5	-105.7%
PC Connection, Inc.	\$441.4	\$456.5	-3.3%	NA	\$3.2	\$7.7	-58.4%
PC Mall, Inc.	\$325.9	\$287.7	13.3%	NA	\$2.6	\$3.0	-13.0%
RadioShack Corporation	\$1,021.9	\$960.3	6.4%	7.7%	\$50.2	\$46.3	8.4%
Rent-A-Center, Inc.	\$708.8	\$705.8	0.4%	3.4%	\$29.4	\$22.7	29.5%
<b>Drug</b>							
AmerisourceBergen Corp	\$16,661.9	\$15,199.2	9.6%	NA	\$114.9	\$87.6	31.2%
CVS Caremark Corporation	\$20,863.4	\$20,495.2	1.8%	3.7%	\$736.0	\$689.5	6.7%
McKesson Corp.	\$26,570.0	\$24,450.0	8.7%	NA	\$327.0	\$247.0	32.4%

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