

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*We are what we repeatedly do. Excellence, therefore, is not an act but a habit.*

### Retail Held Captive

Grisly reports from Wall Street and the chilling response retailers have received from banks have made the third quarter a nail-biter, and experts are predicting the macabre atmosphere could hang over the industry long after Santa has parked his sleigh. In fact, in all probability it will linger until the middle of next summer.

Unrelenting media coverage of the financial crisis leaves little doubt that the nation is in the middle of a full-blown economic nightmare. For retailers, whose fortunes are so closely meshed with consumer confidence and consumer spending, the goal right now is to tread water. They're hoping to find ways to salvage the all-important holiday season. Still, with the credit markets effectively frozen and prospects for borrowing looking bleak, the first two quarters of 2009 are expected to be especially tough.

Retailers are bracing themselves for a rocky stretch. Already, many have announced plans to slow or suspend new store openings; remodels also are likely to be put on hold. Some executives say they'll cut back on inventories, and nearly all are scrutinizing their operations in an effort to trim unnecessary costs.

While no one could have predicted the severity of the current crisis, retailers have been operating with tighter inventories for the better part of 2008. Most trace the early signs of a slowdown in consumer spending back to last fall, but it was when gasoline prices started to soar in the spring that shoppers began parking their disposable income. While the cost of filling their gas tanks has come down recently, consumers—feeling the pressure of declining home values, shrinking investment portfolios and rising unemployment rates—have dramatically reined in spending.

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### Retailer of the Week: Nacco Industries

The KCI unit of Nacco Industries (retail chains Kitchen Collection and Le Gourmet Chef) continued to see higher losses in the third quarter and first nine months of 2008 as compared to 2007. The house wares division, HBB (Hamilton Beach Brands), also saw earnings decline but remained in the black for this year's third quarter. KCI had its liquidity assisted by a \$5.8 million capital contribution from Nacco. However, liquidity and credit resources remain a concern for 2009. For now, Global Credit will maintain its "E-" credit rating, reflecting a very high degree of credit risk for vendors providing merchandise to the KCI chains on open credit terms. Given the current economic environment and management's own gloomy forecast, we do not see a turnaround in financial performance for the near term.

### BACKGROUND

Nacco Industries is a diversified holding company operating a forklift business, coal operations, and a house wares unit containing lines under the HBB division and the two retail chains. Each division is responsible for its own debt and liabilities with Nacco not guaranteeing any of it. While Nacco did not make a capital contribution to the house wares sector during 2007, year to date 2008 Nacco made a \$13 million contribution to HBB along with the aforementioned \$5.8 million contribution to KCI. Given that Nacco's forklift operations are beginning to feel the impact of the slower global economy, we question its ability to continue to prop up the KCI unit, if so required for uninterrupted operations.

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## Retail Held Captive

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Retail executives are already reporting difficulty borrowing for their working capital requirements. Revolving lines of credit have been drastically reduced, or worse. And the crisis couldn't have come at a worse time for the industry: Most retailers' working capital needs are highest in August, September and October as they ramp up for holiday selling.

Most retailers insist there will be plenty of inventory on store shelves for holiday selling. That's especially true for those retailers that source a majority of products from China, because those goods have already landed stateside. But if consumers pull back on spending as anticipated, retailers may have little choice but to move goods at highly promotional prices.

Retailers that operate "fast" fashion-type businesses may face more difficulty in the coming weeks because they've become accustomed to compressing the order cycle and sourcing goods closer to need. If they're placing orders now, experts say they're going to have a hard time getting credit to pay for them and may find themselves scrambling to fill the shelves.

Already, there are reports of growing tensions between retailers and their suppliers. Generally, experts perceive retailers to be more powerful than their supplier base and suggest that they may be able to push inventory risk onto them – requesting, for example, that they hold more inventory in their DCs.

Others tell a different story. With the credit freeze, some say suppliers are demanding alternative credit terms and accelerated payments from retailers. Insiders report that some suppliers have begun to treat big retail companies as if they were banks; manufacturers are telling their retail partners that if they want product they're going to have to foot the bill because they're struggling to get working capital.

In the not-so-distant past, struggling retailers found white knights in the form of private equity firms. But there's not much hope of someone with deep pockets swooping in to help retailers that may be in weakened positions now.

**Feedback?**

**Questions?**

**Suggestions?**

[Click Here](#)

## Management on the Move

**The Finish Line, Inc.** appointed COO **Steven J. Schneider** as Interim Chief Financial Officer, succeeding Kevin Wampler. FINL has initiated a search for a permanent CFO.

**Kevin Wampler** was appointed **Dollar Tree, Inc.**'s new CFO.

**AnnTaylor Stores** appointed **Gary Muto** President of Ann Taylor LOFT. Muto comes from Gap, Inc., most recently President of Gap Adult & GapBody.

**Abercrombie & Fitch Co.** named **Jonathan E. Ramsden** EVP and CFO, effective in early to mid-December 2008. Ramsden was CFO of ad agency TBWA Worldwide.

**JCPenney** promoted **John Kendig** to VP of furniture and window coverings.

**Charming Shoppes** appointed VP **Stephen Yeung** as interim General Manager of the CSI Sourcing division.

**Bi-Lo** named **Randall Onstead** to replace President and CEO **Brian Hotarek**, who is retiring Dec 31. Onstead is the former Chairman and CEO of Randalls Food Markets Inc.

**H.E. Butt Grocery Co.** (H-E-B) promoted Chief Operating Officer **Bob Loeffler** to President. **Craig Boyan** will replace Loeffler as COO and **Martin Otto** is names CFO and EVP of Merchandising and Procurement.

**Fastenal Company** director **Robert A. Hansen** will retire effective as of the end of the next annual meeting of shareholders in April 2009.

**Canadian Tire Corporation, Limited** appointed Stephen G. Wetmore as the company's next President and CEO, effective the beginning of 2009, succeeding Tom Gauld who is retiring from that role at the end of this year. Mr. Wetmore has led large, complex businesses in different industries, including telecommunications, information technology and transportation.

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## Bankruptcy Blotter

The total number of bankruptcy filings pushed past the 100,000 mark last month for the first time since 2005. In October, 108,595 consumers and businesses sought bankruptcy protection, a 13% increase from the 96,089 filings in September. Chapter 11 filings saw an even greater leap, up 17.9% to 957 from 812.

**Circuit City** has filed for Chapter 11 bankruptcy protection in Richmond, Virginia, and hired Shakken, Arps, Slate, Meagher, & Flom LLP and Maguire Woods LLP as its council. The electronics retailer has filed an application requesting to administratively consolidate and jointly administer their chapter 11 cases (18 in total) under Case #08-35653. At the time of this morning's filing, the company listed total assets of \$3.4 billion and total debts of \$2.3 billion. According to the filing, the company has negotiated a commitment for a \$1.1 billion debtor-in-possession (DIP) revolving credit facility to supplement its working capital. Bank of America and General Electric Capital Corporation (GECC) are the lenders, with BofA acting as the administrative agent. Further details on this DIP facility, which will replace the retailer's \$1.3 billion asset-based revolver, were under seal at the time of this report.

**Linens 'n Things** expects to be out from under its bankruptcy loans by mid-November and able to start paying vendors who supplied post-petition goods during its failed effort to stay on its feet in Chapter 11.

**Boscov's Department Store LLC** signed an Asset Purchase Agreement for the sale of substantially all of its assets to a family group led by **Albert Boscov** and brother-in-law **Edwin Lakin**. The investors will pay \$11 million and

some \$200 million owed to Boscov's senior lenders to fund the company's exit from Chapter 11. The proposed sale supplants a bid by **Versa Capital Management** valued at \$288 million.

After refusing to give fired workers their accrued vacation pay, **Mervyn's LLC** reversed its decision and will pay the debt as long as GOB sales raise enough cash to pay off its debt to **Wachovia Bank**.

**Tweeter Home Entertainment Group Inc.** filed for bankruptcy protection after deciding to close its stores. The company will begin its store closings through a joint venture with liquidators at **SB Capital**, **Tiger Capital** and **Hudson Capital**. Tweeter operated 94 stores at the time of the filing.

**Friedman's Inc.** moved a step closer to completing its liquidation by securing bankruptcy court approval to sell more than 7,000 pieces of unclaimed jewelry that customers dropped off at its stores for repair. Most of the unclaimed jewelry includes low-quality rings, bracelets, earrings and necklaces, some of which are still not repaired.

**Interstate Bakeries Corp.** cleared a key hurdle in its effort to emerge from bankruptcy, winning court approval to send its reorganization plan to creditors for voting, with a voting deadline of December 1<sup>st</sup>. Under the plan, **Ripplewood Holdings** will pump \$130 million into the company and take it private with a 50% stake and warrants that would allow the firm to increase its stake by 15%. Pre-bankruptcy lenders will swap their debt for notes and an equity stake in the company, while **GE Capital** will provide up to \$125 million in borrowings.

### Did You Know...?

*The ISM index of factory output fell to 38.9% in October from 43.5% in September, the lowest level since September 1982, the Institute for Supply Management reported.*

## Health & Beauty Aids

**CVS** launched the Beauty 360 specialty concept test, with the first store opening in Washington, D.C. The second test store will open in Mission Viejo, CA in early December.

**Drugstore.com** estimated fourth quarter net sales in the range of \$94.0 to \$99.0 million and net income of \$400,000 to \$1.9 million.

**Express Scripts** revealed that it has been the victim of an extortion attempt by an unknown person or persons threatening to expose millions of the company's patients' records. The company received a letter with personal

information of 75 members as part of the threat. Both the members listed and the FBI were notified and an investigation is ongoing.

**Max-Wellness** is the name of a new retail venture being launched by **OfficeMax** founder Michael Feuer, according to *The Plain Dealer*. The healthy living stores will carry a range of products including supplements and exercise equipment, with contract in-store pharmacies.

**Walgreens'** Take Care Health Systems opened five new clinics in the greater Phoenix, area, bringing their total in Arizona to 22.

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## Off the Rack

**Coldwater Creek** updated third quarter guidance withdrew fourth quarter guidance. The company now expects Q3 sales of about \$225 million, with a comp store sales decline "in the low twenties." Loss is expected to be \$0.07 and \$0.09 per share.

**Bebe Stores, Inc.** sales were up 1.4% to \$163.3 million in the first quarter of fiscal 2009 ended October 4. Comp store sales decreased 10.8%. Net income for the quarter fell 27.3% to \$11.2 million. As comp store sales in October decreased 20%, the company warned that earnings for the second quarter will be \$0.12 to \$0.16 per share versus \$0.26 per share last year if trends continue.

**AnnTaylor Stores Corp.** expanded its restructuring program first announced in January 2008 with "strategic right-sizing" of the corporate and divisional organizations and careful management of expenses and inventories. The ongoing stock buyback program has been slowed in the interest of preserving cash. The streamlining is expected to generate savings of \$80-\$90 million over three years, \$35 million in fiscal 2008.

**AnnTaylor** also reduced its third quarter guidance, now expecting net sales of approximately \$527 million with comp store sales down about 19% and breakeven earnings.

**Citi Trends** is now projecting a loss of \$0.09-.13 per share (\$1.3-1.9 mm) in Q3 versus a loss of \$0.04 in the year-ago period.

**Saks Inc.** is shutting down its Club Libby Lu tween specialty store business, which currently operates 78 stand-alone stores and 20 store-in-stores, and generated revenues of \$60 million last fiscal year. The exit is expected be complete by May 2, 2009, the end of SKS' first fiscal quarter, and will cost \$16 to \$25 million in cash with total charges of \$29 to 38 million after tax.

**Wet Seal** expects third quarter earnings to be at or near the high end of the guidance provided

in late August of between \$0.05 and \$0.07 per share.

**Children's Place Retail Stores, Inc.** expects earnings from continuing operations for the third quarter in the range of \$0.92 to \$0.95 per share

**Gap Inc.** expects third quarter earnings in the range of \$0.33 to \$0.35 per share. Gap reaffirmed full year earnings guidance of \$1.30 to \$1.35 per share.

**American Eagle Outfitters, Inc.** now expects third quarter earnings to be approximately \$0.30 per share compared to \$0.45 last year. This guidance does not include an other-than-temporary impairment charge relating to auction rate securities which has yet to be calculated.

**Aeropostale, Inc.** raised its earnings guidance for the third quarter to the range of \$0.61 to \$0.62 per share, versus previously issued guidance of \$0.59 to \$0.61 per share.

**Ross Stores, Inc.** revised estimates for third quarter earnings to a range of \$.43 to \$.44 per share, up from \$.36 in the third quarter of 2007.

**J.C. Penney** narrowed third quarter earnings guidance to a range of \$0.53 to \$0.55 per share, from a range of \$0.50 to \$0.60 per share guided previously.

**Talbots** has announced that after a third quarter that reported double-digit comp store declines, it expects to sell the J Jill brand. The company says that it will continue to "reenergize" its Talbots brand, and that selling J Jill will help it accomplish that goal. Talbots purchase J Jill at the end of 2005 for \$517 million, and currently operates 282 stores under that banner.

**Neiman Marcus, Inc.** sales fell 12.9% to \$986 million for its first fiscal quarter ended November 1. Comp store sales fell 14.5%. The company announced it is cutting its fiscal year 2009 capital expenditure plan to \$100 to \$110 million down from the previous plan of \$135 to \$145 million.

### Did You Know...?

*U.S. factory orders fell 2.5% in September, the Commerce Department reported, much weaker than expected. Factory orders had fallen 4.3% in August.*

## Options and Resources

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## Hi Tech Entertainment

**hgregg, Inc.** sales rose 11.3% to \$320.3 million for the second quarter ended September 30. Comp store sales fell 8.8%. Net income swung to a gain of \$3.4 million from a loss of \$6.9 million in Q2 last year. The company lowered fiscal 2009 earnings guidance to \$0.75 to \$0.90 per share from \$1.13-\$1.20 guided previously.

**Staples Inc.** issued preliminary third quarter results, estimating earnings of \$.21 - .22 per share on comp store sales that are down 8%.. The company said it will reduce capital spending and scale back expansion plans in 2009.

**Tweeter** has again filed for bankruptcy protection. The firm will begin its store closings through a joint venture with liquidators at SB Capital, Tiger Capital and Hudson Capital. Tweeter was operating 94 stores at the time of the filing.

**OfficeMax Inc.** took a non-cash impairment charge of \$735.8 million for a Lehman Brothers guaranteed installment note and another \$18.2 million for impairment of the interest on the note. These charges are expected to be reversed in a later period. Excluding the charges, net income was \$28.0 million vs. \$49.0 million in Q3 last year. Looking forward to the fourth quarter the company issued no guidance beyond stating it expects "significant sales declines" and associated deleveraging of costs and expenses.

**Amazon.com** plans to cut back on excessive packaging, specifically eliminating double boxing and the heavy plastic retail packaging found on many electronic items. Another focus of the initiative is children's toys that have multiple layers of cardboard packaging and wires and brackets that are frustrating to unpack.

## The Global World of Sports and Footwear

**Big 5 Sporting Goods Corp.** updated earnings guidance for fiscal 2008 to \$.55 to .65 per share, some 48-56% below last year's \$1.24 a share on a mid- to high-single digit same store sales drop.

**Sport Supply's** sales improved 4.6% to \$73.6 million for the period ended Sep. 30, as the elementary school, varsity athletic and internet segments showed strength. Net income was up 23.6% to \$5.1million. Despite the strong quarterly results, Sport Supply said it continues to right-size its infrastructure and tightly manage costs in the current economic environment. RBI has slightly modified its FY09 outlook. Annual revenues are now projected to grow in the low-to mid-single digits, resulting in an EPS range of \$0.82-.92 (\$10.8 mm). The range is slightly below an earlier forecast of \$0.85-.95 but still represents mid-teens growth for the year.

**Zumiez** said its Q3 earnings will now be \$0.22-.23 per share (\$6.5-6.8 mm), some 18-21% below last year. ZUMZ also lowered its Q4 earnings guidance to \$0.52-.57 per share (\$15.3-16.8 mm) from prior guidance of \$0.79 a share and hiked its negative comparable store sales range to mid teens from negative low single digits.

**DSW** announced a 13% reduction in its headquarters and field management workforce, or 98 persons. The cuts involved 82 current persons and 16 vacancies and are a response

to the current economic climate and the chain's expectations for 2009. DSW will take a \$3 million charge in Q4 to cover severance costs.

**Foot Locker** closed its acquisition of CCS. dELiA\*s will receive \$103.5 million in cash for the on-line and catalog skate retailers. Big Foot says the acquisition will be accretive in its first full year. Foot Locker handle operations of the new acquisition through the Eastbay/Footlocker.com group while moving the existing buying staff into its New York headquarters.

**Play It Again Sports** had 365 doors operating in the U.S. and Canada on Sep. 27, the last day of Q3 for parent Winmark Corp., versus 374 on Dec. 29, 2007.

**Eastern Mountain Sports** has opened three new doors this fall in Amherst, NY; Fairfield, CT and at the Patriot Place complex adjacent to Gillette Stadium in Foxboro, MA.

**Zappos** is laying off approximately 8% of its workforce. The layoffs will affect almost every department, according to CEO Tony Hsieh. He added that the company was also looking at closing some of its brick & mortar outlet stores in NV and NY. Zappos is expected to take in more than \$1 billion in gross merchandise sales this year, but is also said to be below plan. The layoffs were suggested by an investor in the company, according to an interview with Hsieh.

### Did You Know...?

*U.S. private-sector companies lost 157,000 jobs in October, according to the ADP employment report released Wednesday.*

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## Mass Merchant Musings

**Wal-Mart** has had discussions with the founders of Golden West Financial Group about offering a new low-fee, low-rate credit card, according to *BusinessWeek*.

**Wal-Mart** is the number one store for gamers, according to the Are You Game? Study by IGN. GameStop and Best Buy followed in second place, with Target in third.

**BJ's Wholesale Club, Inc.** increased its earnings guidance for the third quarter on the back of high gasoline profits. The company forecasts earnings of \$.45 to \$.49 per share, up from previous guidance of \$.36 to \$.40 per diluted share.

**99c Only Stores** sales from continuing operations (excluding Texas) increased by 9.2% to \$276.4 million for the fiscal second quarter ended September 27. Comp store sales

increased 4.7%. Net loss was \$9.4 million compared to a \$5.2 million loss in Q2 last year, but this year's results included losses in Texas operations of \$13.8 million.

**Pricesmart, Inc.** reported revenues for its fiscal year ended August 31, 2007 of \$1.098 billion, a 26.3% increase over total revenues of \$869.1 million for the prior fiscal year. Net income for the year almost tripled to \$38.1 million from \$12.9 million last year with the successful opening of 2 new warehouses and strong sales growth in all of the company's markets.

Ongoing strength in fresh food, dry grocery and consumables helped **Sam's Club** produce a 3.6% comp store sales gain during October, excluding the effects of gasoline prices. Surprisingly, Sam's increase topped the 2% comp store sales increase reported by Costco for its U.S. operations.

## Upcoming Reporting Dates

Company	Event	Date
A.C. Moore Arts & Crafts	Quarterly Results	Nov 10, 2008
Abercrombie & Fitch	Quarterly Results	Nov 14, 2008
American Apparel	Quarterly Results	Nov 10, 2008
American Eagle Outfitters	Quarterly Results	Nov 25, 2008
AnnTaylor Stores	Quarterly Results	Nov 21, 2008
Barnes & Noble	Quarterly Results	Nov 20, 2008
BJ's Wholesale Club	Quarterly Results	Nov 19, 2008
Bon-Ton Stores	Quarterly Results	Nov 20, 2008
Charlotte Russe Holding	Quarterly Results	Nov 12, 2008
Citi Trends	Quarterly Results	Nov 24, 2008
Collective Brands	Quarterly Results	Dec 3, 2008
Conn's	Quarterly Results	Nov 26, 2008
Cost Plus	Quarterly Results	Nov 20, 2008
CVS Caremark	Investor Conference	Nov 12, 2008
Dollar Tree	Quarterly Results	Nov 25, 2008
GameStop	Quarterly Results	Nov 20, 2008
Gap	Quarterly Results	Nov 30, 2008
Gap Inc.	Quarterly Results	Nov 20, 2008
Hibbett Sporting Goods	Quarterly Results	Nov 20, 2008
Ingram Micro	Investor Conferences	Nov 18-19, 2008
Interline Brands	Investor Conference	Nov 12, 2008
J. C. Penney Company	Quarterly Results	Nov 14, 2008
Jo-Ann Stores	Quarterly Results	Dec 3, 2008
Kohl's Corp.	Quarterly Results	Nov 13, 2008
Loblaw Companies	Quarterly Results	Nov 13, 2008
Macy's	Quarterly Results	Nov 12, 2008
Metro Inc.	Quarterly Results	Nov 19, 2008
Mothers Work	Quarterly Results	Nov 18, 2008
Mother's Work	Quarterly Results	Nov 18, 2008
Neiman Marcus, Inc.	Quarterly Results	Dec 10, 2008
Nordstrom	Quarterly Results	Nov 13, 2008
PC Connection	Investor Conference	Nov 18, 2008
PC Connection, Inc.	Investor Conference	Nov 3-4, 2008
Tech Data Corp	Investor Conference	Nov 18, 2008
Wal Mart	Quarterly Results	Nov 13, 2008
Wet Seal	Quarterly Results	Nov 20, 2008

### Did You Know...?

U.S. state unemployment benefit recipients rose by 122,000 to a seasonally adjusted 3.84 million in the week ending Oct. 25, the Labor Department reported.

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## General Retail News

Overall **U.S. retail sales** in Oct., the weakest since 2000, further darkened the prospects of a positive holiday shopping season. The Oct. Thomson Reuters same store sales index was off 0.7% with comparable store sales declines widespread from discounters and specialty apparel chains to warehouse clubs. The results prompted many to lower their respective outlooks for the important Q4 holiday sales period.

A majority of **online retailers** see 15%+ growth for the Holiday season, according to the 2008 eHoliday Study conducted for Shop.org by Shopzilla. Online retailers will be heavily promotional to attract shoppers on a budget and a majority (78%) will offer their customers free shipping with conditions during the some holiday timeframe. Retailers have taken a number of steps to compensate from higher year-over-year shipping costs from renegotiating terms with shipping providers (40.4%) and reducing other promotions (15.8%) to requiring a larger purchase (21.3%) in order to qualify for the free shipping.

**Retail store closings** will top 10,000 in 2009, contends International Council of Shopping Center (ICSC) data, representing 64% more than the projected 6,100 storefronts that will close in 2008. But Excess Space Retail Services of Huntington Beach, CA estimates 2009 store closings to range between 12,000 and 14,000 as banners that rely on discretionary spending pare their door counts. Retail Traffic says that even "healthy" retailers today are making plans to lop off the bottom 10-15% of their real estate

portfolios. With the store closings next year, retail vacancy rates are forecast to hit 17.3% by June, according to research from Property & Portfolio Research, Inc. (PPR), and retail rents will decline an estimated 5.6%. The company advises landlords to consider re-drafting lease terms to hold onto tenants.

**Small retailers** are pushing for legislation that would force banks to negotiate credit card fees and provide a credit card bill of rights for small merchants, the *New York Times* reported.

**The Dubai Mall**, the world's largest with nearly 600 retailers, opened earlier this week. When fully operational, it will have 1,200+ stores, including a supermarket.

**Monthly retail container imports** fell again in Oct. and it aren't expected to rise again on a year-over-year basis until March 2009. Already, 2008 is projected to be the slowest year for retail cargo volume since 2004, according to the monthly Port Tracker report from the National Retail Federation (NRF) and HIS Global Insight. Annual volume is projected to hit 15.3 million Twenty-Foot-Equivalent Units (TEUs) this year, down 7.3% from 16.5 million TEU in 2007 and the lowest total since 2004 when 14 million TEU moved through U.S. ports. Going forward, year-over-year TEU imports are forecast to fall for the next four months before rising 2.3% in Mar. 2009 to an estimated 1.18 million TEU. The month-by-month breakdown: Nov. 2008, 1.26 million TEU (-8.7%); Dec. 2008, 1.21 million TEU (-5.5%); Jan. 2009, 1.17 million TEU (-5.0%) and Feb. 2009, 1.12 million TEU (-8.3%).

## Heard in the Grocery Aisle

**Whole Foods Market, Inc.** sales increased 13% to \$1.789 billion in the fourth quarter ended September 28. Comp store sales increased 0.4%. Net income fell 96% to \$1.5 million, largely due to \$21.7 million in charges related to store closures and the Wild Oats integration. For the full year, sales expanded 20.7% to \$7.954 billion, with comp store sales (excluding Wild Oats) up 0.2%. Net income for the year fell 37.3% to 114.5 million. Looking forward to FY2009, WFMI estimates earnings of \$0.95 to \$1.00 per share, less and estimated \$0.06 to \$0.08 from FTC-related legal costs and a \$0.19 impact from preferred stock.

Also, **Whole Foods Market** is selling \$425 million in convertible preferred stock due 2020 to an affiliate of Leonard Green & Partners, L.P. The sale amounts to an ownership interest,

assuming conversion of the preferred stock to common stock, of approximately 17%.

The FTC's challenge of the **Whole Foods-Wild Oats** merger is scheduled to go to trial in Washington, D.C., federal court in February.

**Publix** is opening a third GreenWise store in Tampa, adding to the two existing stores in Boca Raton and Palm Beach Gardens. The format focuses on natural and prepared foods.

**Winn-Dixie Stores Inc.** approved an employee stock purchase plan which allows employees to purchase up to one million aggregate shares at a 5 percent discount via payroll deductions.

**A&P** converted two more Philadelphia area stores to its price-impact Pathmark format.

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## Retailer of the Week: Nacco Industries

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For analytical purposes, Global Credit will review only the House Wares groups and credit rate accordingly. As of September 30, 2008, there were 199 KCI stores and 79 Le Gourmet Chef stores in operation. For the retail chains, there has been much product rationalization in order to hopefully develop a more sustainable and profitable business.

### INCOME STATEMENTS

#### HBB

INCOME STATEMENT	3RD QTR 2007	3RD QTR 2008	YTD 2007	YTD 2008
Net Sales	\$140.4 mm	\$138.2 mm	\$340.5 mm	\$342.2 mm
<b>Operating Income</b>	<b>\$14.2 mm</b>	<b>\$3.9 mm</b>	<b>\$16.8 mm</b>	<b>\$3.4 mm</b>
Interest Expense	\$3.4 mm	\$2.5 mm	\$6.5 mm	\$7.9 mm
Other Expense	\$100,000	\$100,000	\$100,000	\$100,000
<b>Net Income/Loss</b>	<b>\$6.3 mm</b>	<b>\$1.2 mm</b>	<b>\$5.8 mm</b>	<b>(\$2.1) mm</b>

Revenues declined in both periods due to a higher mix of lower priced goods sold to retailers and a decline in unit volume as department stores and specialty chains are cutting back inventory purchases. The very noticeable drop in operating earnings was attributed to higher product and freight costs, unfavorable foreign currency exchange rates, and a shift towards lower margin goods. This was partially offset by a reduced cost structure. Some of that decrease was associated with not having expenses tied to a failed spin off of HBB in last year's third quarter.

The initiation of a \$125 million term loan to fund a special dividend payment to Nacco shareholders (to make amends for not being able to spin off that unit) forced the rise in year to date interest expense. However, lower interest rates charged on debt gave way for less interest expense in the (third) quarter to quarter period.

As stated above, HBB has received a capital contribution from Nacco of \$13 million year to date. At third quarter end, there was \$26 million of borrowings and \$82.5 million of availability under a \$115 senior secured revolving line of credit. Capital expenditures year to date were \$4.6 million compared to \$2.3 million for year to date 2007 and rose due to product development initiatives being carried out. For the fourth quarter, capital expenditures are estimated at \$1.1 million. The Company's outlook for the fourth quarter is not optimistic and HBB anticipates that raw material costs may continue to rise.

However, we see no issues with liquidity given the third quarter end credit availability.

#### KCI

INCOME STATEMENT	3RD QTR 2007	3RD QTR 2008	YTD 2007	YTD 2008
Net Sales	\$46.6 mm	\$45.6 mm	\$125.2 mm	\$124.5 mm
Store Count			269	278
<b>Operating Loss</b>	<b>(\$900,000)</b>	<b>(\$4.8) mm</b>	<b>(\$10) mm</b>	<b>(\$15.6) mm</b>
Interest Expense	\$500,000	\$300,000	\$1.2 mm	\$800,000
Other Income/Expense	(\$700,000)	\$100,000	(\$1) mm	(\$100,000)
<b>Net Loss</b>	<b>(\$900,000)</b>	<b>(\$3.3) mm</b>	<b>(\$6.8) mm</b>	<b>(\$10.2) mm</b>

Revenues from the Le Gourmet Chef store base being expanded by nine net new locations in the year over year third quarter period were more than offset by negative comp store sales within the Le Gourmet Chef. That chain is expanding while the KCI store count remained the same at 199 sites. For the third quarter, new stores provided \$2.3 million of addition sales, Le Gourmet Chef stores declined (\$2.9) million on a comp basis, KCI stores increased \$400,000 on a comp store sales basis, while closed locations took away (\$800,000) of lost sales.

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#### Did You Know...?

The U.S. unemployment rate jumped to a 14-year high of 6.5% in October as nearly a quarter million jobs were lost, the Labor Department.

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## Retailer of the Week: Nacco Industries

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Year to date, new stores gave \$4.9 million, KCI comp store sales provided \$2.2 million of higher sales, Le Gourmet Chef had a comp dollar decline of (\$3.7) million, closed stores washed away another (\$4.3) million, and finally, there were other revenues of \$200,000.

Costs to open new stores and a higher level of markdowns within discontinued products lines caused an increased operating loss for both 2008 periods. These factors were partially offset by a lower cost structure.

As of third quarter end, borrowing and availability under a \$40 million revolving line of credit were \$15.7 million and \$9.1 million, respectively. Again, liquidity was boosted by the \$5.8 million capital contribution from Nacco. While credit resources are sufficient for the fourth quarter, we again become concerned once KCI hits the slower winter and very early spring months of 2009. This is particularly worrisome given what is happening in the home furnishings and house wares retail sector.

Capital expenditures year to date were \$5.9 million compared to just \$1.9 million for the 2007 year to date period. A new Le Gourmet Chef distribution center and the new Le Gourmet Chef stores were responsible for the sizable increase in expenditures. However, no material capital expenditures are planned for the fourth quarter. As of September 30, 2008, there were \$42 million of tangible net assets for the KCI unit.

Management believes that temporary seasonal locations should help to boost revenues in the fourth quarter and that overall earnings moving forward should benefit from newly introduced product lines. While the merchandise content may be more compelling, this impact would need to be weighed against what is expected to be a drop in holiday sales, particularly within this retail sector.

While the fourth quarter for KCI should be profitable, the 2009 outlook is much more uncertain.

### OUTLOOK

HBB should continue to show modest earnings even as retailers slow down inventory purchases. The KCI unit, being pressured by under performing Le Gourmet Chef stores, appears much more problematic. With Nacco's forklift business feeling the effect of a slower economy, the overriding concern is will Nacco continue to fund an operation that is progressively losing more money.

Given the steeper losses for KCI, clients should continue to keep a close eye on the their exposures. Fourth quarter and full year 2008 results should be announced by early March 2008. Unfortunately, most of the first quarter will have already been concluded by that time.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
DILLARDS INC-HQ	B+	BB-	STABLE	STABLE	D-
WHOLE FOODS MARKET INC	BB-	BB	STABLE	NEGATIVE	C-
JC PENNEY CO INC	BBB-	BBB-	NEGATIVE	STABLE	C-
NORDSTROM INC	A-	A-	NEGATIVE	STABLE	C-
BARNEYS NEW YORK INC	B	NR	NEGATIVE	NR	D
VENETIAN CASINO RESORT LLC	B	B+	NM	NM	NR
RIVIERA HOLDINGS CORP	B	B	NM	NEGATIVE	E+
LAS VEGAS SANDS INC	B	B+	NM	NM	D+

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## FYI for the DIY

**Menards** will reportedly open a Salina, Kansas store in 2009.

and a net profit of \$20.5 million, an increase of 70% over prior year.

Despite the depressed economy and home market, **True Value** reported positive results for the third quarter ended September 27, including revenue of \$493.1 million, an increase of 3%

**Interline Brands** updated guidance for the fourth quarter and full year. Earnings for the fourth quarter are projected to be between \$0.30 and \$0.35 per share, and for the full year to be between \$1.33 and \$1.38 per share.

## Specialty Items

Berkshire Hathaway's **CORT** has completed its purchase of Aaron Rents' Corporate Furnishings Division, first reported last month.

Shops in Milwaukee. The company cited the poor economy as the reason for the closings.

Wisconsin furniture retailer **WG&R Furniture** has closed five bedding and mattress Sleep

**Jo-Ann Stores, Inc.** expects third quarter earnings will be "slightly improved" compared to last year's \$0.32 per diluted share.

### Did You Know...?

The projected 9.3% decline in home prices this year would be the sharpest drop since the National Association of Realtors started keeping records in 1968.

## 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>							
Aeropostale, Inc.	\$482.0	\$412.6	16.8%	7.0%	tba	\$36.0	tba
American Eagle Outfitters	\$754.0	\$744.4	1.3%	-7.0%	tba	\$99.4	tba
Bon Ton Stores, Inc.	\$724.9	\$780.8	-7.2%	-8.3%	tba	(\$19.4)	tba
Cache, Inc.	\$58.1	\$60.6	-4.1%	-4.0%	(\$1.6)	\$0.2	-1129%
Cato Corporation	\$179.8	\$181.9	-1.2%	-2.0%	tba	\$2.9	tba
Chico's FAS, Inc.	\$394.2	\$415.9	-5.2%	-13.4%	tba	\$23.6	tba
Children's Place	\$450.6	\$430.6	4.6%	2.0%	tba	\$12.3	tba
Citi Trends, Inc.	\$104.9	\$99.5	5.4%	-4.2%	tba	(\$0.5)	tba
Dillard's, Inc.	\$1,475.3	\$1,631.0	-9.5%	-9.0%	tba	(\$11.3)	tba
Eddie Bauer Holdings	\$207.3	\$211.0	-1.8%	-1.1%	(\$18.6)	(\$16.4)	-13.4%
Gap Inc.	\$3,560.0	\$3,850.0	-7.5%	-12.0%	tba	\$238.0	tba
Gottschalks	\$119.1	\$137.4	-13.3%	-12.1%	tba	(\$4.1)	tba
Gymboree Corporation	\$261.3	\$247.6	5.5%	-2.0%	tba	\$26.9	tba
Hot Topic, Inc.	\$197.3	\$188.5	4.7%	1.0%	tba	\$6.7	tba
J.C. Penney Company	\$4,318.0	\$4,729.0	-8.7%	-10.1%	tba	\$261.0	tba
Jo-Ann Stores, Inc.	\$480.1	\$480.2	-0.0%	-1.5%	tba	\$8.0	tba
Kohl's Corporation	\$3,803.6	\$3,825.2	-0.6%	-6.7%	tba	\$194.0	tba
Limited Brands	\$1,842.0	\$1,923.0	-4.2%	-7.0%	tba	\$12.0	tba
Macy's, Inc.	\$5,500.0	\$5,906.0	-6.9%	-6.0%	tba	\$33.0	tba
Nordstrom, Inc.	\$1,805.0	\$1,970.0	-8.4%	-11.1%	tba	\$165.7	tba
Retail Ventures, Inc.	\$503.5	\$489.4	2.9%	-3.3%	tba	\$68.2	tba
Ross Stores, Inc.	\$1,555.0	\$1,468.0	5.9%	0.0%	tba	\$48.7	tba
Saks Incorporated	\$692.7	\$790.0	-12.3%	-11.5%	tba	\$21.6	tba
Stage Stores, Inc.	\$333.8	\$355.1	-6.0%	-10.3%	tba	\$2.5	tba
Stein Mart, Inc.	\$298.8	\$333.3	-10.4%	-12.6%	tba	(\$2.7)	tba
Talbots, Inc.	\$357.0	\$414.0	-13.8%	-13.9%	tba	(\$9.4)	tba
Wet Seal, Inc.	\$146.6	\$150.3	-2.4%	-7.6%	tba	(\$3.3)	tba
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc	\$41.1	\$40.3	2.0%	4.5%	tba	(\$15.3)	tba
Big 5 Sporting Goods Corp.	\$223.2	\$231.3	-3.5%	-6.6%	\$4.5	\$8.4	-46.4%
Cabela's	\$611.8	\$546.8	11.9%	-9.0%	\$9.7	\$13.2	-26.5%
DSW Inc.	\$391.4	\$367.4	6.5%	-4.1%	tba	\$22.4	tba
Golfsmith International	\$101.7	\$106.5	-4.5%	-4.6%	\$2.8	\$4.0	-30.0%
GSI Commerce	\$189.8	\$137.3	38.2%	NA	(\$12.8)	(\$6.1)	-109.8%

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## Third Quarter Scorecard

(continued from page 10)

\$ in Millions. Quarter ended closest to 10/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<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%	\$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%
Blue Nile, Inc.	\$65.4	\$67.4	-2.9%	NA	\$2.3	\$3.0	-22.6%
Ethan Allen	\$205.8	\$248.7	-17.2%	-19.0%	\$7.4	\$17.5	-57.7%
Finlay Enterprises, Inc.	\$160.2	\$141.9	12.9%	-14.9%	tba	(\$7.5)	tba
Haverty Furniture	\$175.6	\$200.7	-12.5%	-14.9%	(\$1.5)	\$0.6	-334.4%
Pet Valu	\$46.6	\$41.5	12.3%	5.8%	\$4.0	\$3.1	29.0%
<b>Home Centers</b>							
Builders FirstSource, Inc.	\$288.3	\$413.9	-30.3%	tba	(\$18.9)	(\$12.0)	-57.5%
Building Materials Holding Co	\$364.4	\$594.0	-38.7%	NA	(\$45.2)	\$4.2	-1176%
Fastenal Company	\$625.0	\$533.8	17.1%	tba	\$72.9	\$62.1	17.4%
Interline Brands, Inc.	\$317.5	\$330.2	-3.8%	NA	\$13.7	\$16.0	-14.4%
Lumber Liquidators	\$123.1	\$102.1	20.6%	2.0%	\$5.5	\$3.7	48.6%
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%
True Value Company	\$493.1	\$478.5	3.1%	0.5%	\$20.5	\$12.0	70.8%
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>							
Arden Group	\$114.2	\$119.4	-4.4%	-4.4%	\$4.1	\$8.9	-53.9%
Nash Finch Company	\$1,436.5	\$1,367.1	5.1%	0.7%	\$8.6	\$15.4	-44.2%
Publix Super Markets	\$5,800.0	\$5,600.0	3.6%	1.2%	\$201.8	\$249.0	-19.0%
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%
BMTC Group Inc.	\$181.7	\$178.5	1.8%	NA	\$11.6	\$2.1	452.4%
Conn's, Inc.	\$173.9	\$170.1	2.2%	-5.8%	tba	\$4.0	tba
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%
OfficeMax Incorporated	\$2,096.3	\$2,315.2	-9.5%	-11.1%	(\$431.9)	\$49.9	-965.5%
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%
Systemax Inc.	\$739.5	\$687.3	7.6%	NA	\$11.3	\$17.6	-35.8%
<b>Drug</b>							
Abbott	\$7,497.7	\$6,376.7	17.6%	NA	\$1,084.6	\$717.0	51.3%
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%
Drugstore.com, Inc.	\$87.8	\$81.0	8.4%	NA	(\$3.6)	(\$2.4)	-50.0%
Express Scripts, Inc.	\$5,450.5	\$5,358.2	1.7%	NA	\$201.9	\$142.9	41.3%
McKesson Corp.	\$26,570.0	\$24,450.0	8.7%	NA	\$327.0	\$247.0	32.4%
Shoppers Drug Mart	\$2,793.0	\$2,542.7	9.8%	5.0%	\$162.5	\$141.7	14.7%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,006.2	\$1,014.0	-0.8%	-0.2%	tba	\$14.3	tba
BJ's Wholesale Club, Inc.	\$2,400.0	\$2,172.4	10.5%	11.9%	tba	\$22.7	tba
Dollar Tree Inc.	\$1,110.0	\$997.8	11.2%	6.2%	tba	\$35.9	tba
Fred's, Inc.	\$417.8	\$419.9	-0.5%	1.4%	tba	\$4.6	tba
Target Corporation	\$14,588.0	\$14,835.0	-1.7%	-3.3%	tba	\$483.0	tba

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