

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*A life spent making mistakes is not only more honorable but more useful than a life spent doing nothing.*

## Turnaround For Retailers Far Off

With October's unemployment numbers suggesting the U.S. is in a recession, a turnaround for retailers remains well into the future.

"Everyone is looking for a bottom, and with all the news we've had coming out it means that we haven't found it yet," said Neil Stern, senior partner at McMillan Doolittle, a retail consulting firm. "We're in a downward spiral. Each piece of bad news just builds on the bad news from before."

Last week, the Labor Department reported U.S. job losses accelerated over the last two months, pushing the unemployment rate to 6.5% in October, a 14-year high. Nonfarm payrolls tumbled a larger-than-expected 240,000, making it the 10th straight decline and pushing total job losses for the year to 1.2 million.

The continued loss of jobs shows the consumer is being hit from all sides: For much of the year record-high gas prices were blamed for a cutback in discretionary spending. Now, with gas prices leveled off, consumers continue to spend less and are trading down for cheaper products when possible.

The decline in consumer spending has contributed to the bankruptcy filings of many retailers, including the likes of Circuit City Stores, Sharper Image and Whitehall Jewelers.

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## Retailer of the Week: Brookstone

We are downgrading Brookstone to an "E" high-risk credit with a "stable" outlook. The slowdown in the US economy is having an affect on retailers in every sector, and the operations at Brookstone have certainly been feeling the pinch like most others. The firm will be operating in a very tough market for this holiday season, dealing products that most consumers to date have managed to avoid. The firm should see a bump in business going forward due to the liquidation of its closest competitor, Sharper Image. The question now remains, is the absence of true competition a reflection on this specific retail sector or is it the break that Brookstone needed. Management remains persistent that it will pick up some business from Sharper Image but wouldn't comment on how much they felt it would be.

Brookstone has said that it will be entering some of the storefronts that were abandoned in the Sharper Image liquidation. The firm sees some opportunities in some malls that it was not in previously. The firm's airport stores always perform better than its mall stores, so we would rather see Brookstone go more aggressively at this front.

Operationally, we did not see a bump in business for the firm in the third quarter despite the lack of a competitor. Comps continued to fall, and the firm's gross margin took a rather large hit for the most recent three months. Many of the firm's product lines are simply not on the top of the list for shoppers as they hit the malls with less in their wallets. This has forced Brookstone to discount more merchandise. The operating loss fell deeper into the red during the three months, while EBITDA remained firmly in the red as well.

Brookstone remains highly leveraged from the buyout a few years back. The company has managed to reduce debt marginally over the past year, but the firm's total debt remains high for a company this size. True cash liquidity at Brookstone remained very low.

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## Turnaround For Retailers Far Off

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The scaling back in spending can be soon across all socioeconomic groups, thanks to heavy losses in the stock market that have wiped out retirement savings and net worth for high-income consumers. Sales at luxury retailers alike Saks Inc. have fallen along with the mainstream apparel retailers.

"The high-income consumers were not impacted by the gas prices but they are affected by their 401(k)s being lost," according to Mr. Stern.

A testament to that trend are comp store sales numbers released last week showing that stores of all kinds are simply seeing a big cut in traffic. Specialty apparel retailers Abercrombie & Fitch Co. and Saks had the biggest drops in stores open for at least a year, falling 20% and 17%, respectively, in October. Most sales numbers were well below what analysts had anticipated.

The October sales figures also leave little hope for holiday sales, which most analysts and companies expect to be the worst in years.

With unemployment rising, industry watchers expect discount retailers like Wal-Mart to continue seizing market share as cash-strapped consumers look for better bargains, continuing the trends seen through this year.

While lousy economic data continues to pileup, there may be one upside for retail companies. Craig Rowley, a retail consultant at the Hay Group, said many companies, now having all but given up the hopes for making a profit this year, are using the remainder of the fiscal year to reduce costs and cut the fat where possible.

Dillard's Inc. has closed around 20 stores this year and said it plans for more in 2009. Circuit City unsuccessfully tried to avoid filing for bankruptcy by announcing plans to shutter 155 stores and lay off 17% of its domestic workforce.

We can still expect more bankruptcies and store closings but those moves will make for a better retail environment for the survivors once we get out of the downturn.

## Health & Beauty Aids

**Duane Reade Holdings, Inc.** lowered FY2008 earnings guidance after reporting its third quarter. The company now projects a net loss in the range of \$62.9 to \$67.9 million, down from \$58.3 to \$63.3 million guided prior. Sales guidance for the year was also narrowed slightly to a range of \$1.70 to \$1.71 billion from a range of \$1.70 to \$1.72 billion.

**RediClinic** has opened a 926 sq ft clinic in a Houston H-E-B supermarket, which is the

largest retail-based convenient care clinic in the U.S., according to the Convenient Care Association.

**Walgreens** Specialty Pharmacy division has won national accreditation from The Accreditation Commission for Health Care.

**AmerisourceBergen Corp.**'s board of directors authorized a new \$500 million share repurchase program.

## Options and Resources

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## Off the Rack

**Nordstrom, Inc.** updated fiscal 2008 guidance, estimating earnings of \$1.87 to \$1.97 per share. Comp store sales are projected to fall 9% to 10%, gross profit decrease by 250 to 280 basis points, and SG&A increase by 160 to 190 basis points. Nordstrom will open only seven to eight new stores in 2009 and 2010, down from the 12 originally planned. Remodelings will be at a two per year pace rather than the more typical five to six per year.

**Abercrombie & Fitch Co.** adjusted earnings guidance for fiscal 2008 to \$3.27 to \$3.32 per share, which assumes a 26% comp store sales decline in the fourth quarter. Final expansion plans for 2008 consist of gross square-footage expansion of 9% from 94 new non-flagship stores in the U.S. including two new Abercrombie & Fitch stores, 63 new Hollister Co. stores, 12 new abercrombie stores, six new RUEHL stores and 11 new Gilly Hicks stores. Three new Hollister Co. stores are slated to open in the U.K.

**Christopher & Banks Corp.** lowered third quarter earnings guidance, now projecting a loss of between \$0.04 and \$0.07 per share, down from previous guidance of income per share of \$0.10 to \$0.13. The estimates assume comp store sales of negative high teens.

**J.C. Penney's** fourth quarter guidance is for total sales to decrease 7% to 9%, with a comp store sales decrease of 9% to 11%. Earnings are forecast at \$0.90 to \$1.05 per share.

**TJX Companies, Inc.** adjusted its FY2009 outlook, forecasting earnings from continuing operations (excluding divested Bob's Stores) in the range of \$2.07 to \$2.11 per share. Comp store sales are anticipated to be about 1%, excluding an estimated one percentage point negative exchange rate impact.

**Charlotte Russe Holding, Inc.** sales increased 11.1% to \$823.3 million for the fiscal year ended September 27, while comp store sales for the full-year period decreased 1.5%. Net income fell 50.0% to 18.2 million, which included \$4.1

million of transition costs and \$6.9 million of annual impairment charges.

Also, **Charlotte Russe** received a proposal by KarpReilly Capital Partners LP and H.I.G. Capital, LLC to acquire the company for between \$9.00 and \$9.50 per share. CHIC's board said it would review and consider the proposal in "in light of current economic conditions."

**American Apparel Inc.** was sued by a former accountant and IT manager for wrongful termination. The suit alleges CEO Dov Charney tried to inflate the company's inventory numbers in financial reports. Also, the suit accuses Charney of several instances of sexual-harassment, including holding meetings while nude. American Apparel issued a statement denying the allegations.

**Kohl's Corp.** estimated that fourth quarter comp store sales would be down 8% to 12%, and earnings would be \$0.90 to \$1.05 per share down from previous guidance of \$1.26 to \$1.34 per share. For the full year, the company sees earnings of \$2.69 to \$2.84 per share.

**Sears Holdings Corp.** opened a 780,000 sq ft distribution facility in Stockton, California. The new center will distribute home appliances, tractors, televisions and other large-ticket items to stores and home delivery centers in California, Nevada, Oregon and Utah.

**Sears** will close seven more stores in February, bringing to 19 total stores to close in early 2009.

**Sears** launched a mobile device compatible version of their e-commerce web site at Sears2go.com.

Also, **Sears** said it will offer layaways this holiday season.

**Saks Inc.** opened its first licensed Saks Fifth Avenue store in Bahrain. The two-level, 57,600 square foot store is located in the Bahrain City Centre in Manama, Bahrain.

## Specialty Items

**Haverty Furniture Companies, Inc.** board voted to suspend the company's quarterly cash dividend, citing, "The historic slowdown in the retail home furnishings industry."

**Amscan Holdings, Inc.**, parent of Party City, has notified the SEC that it will not be able to

file its third quarter 10Q on time, due to questions raised by the company's auditors over the accounting treatment of employee stock options. Amscan Holdings and its auditors have resolved this issue. Amscan Holdings indicated that the 10Q will be filed no later than December 15, 2008.

### Did You Know...?

*The U.S. lost 38,100 retail jobs in October, according to the International Council of Shopping Centers.*

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## Bankruptcy Blotter

Foreclosure filings increased 5% from September to 279,561 properties in October – one in every 452 households. That's up 25% from October 2007. Nevada reported the highest state foreclosure rate for the 22<sup>nd</sup> consecutive month in October, followed by Arizona and Florida.

**Circuit City**, which filed for Chapter 11 protection last week, received interim approval to tap a \$1.1 billion DIP facility from lenders, lead by **Bank of America**, who have put the company on a fast track to make it or break it in bankruptcy. Unfortunately, \$898 million of the \$1.1 billion will be used to payoff loans from existing lenders, lead also by Bank of America providing little additional liquidity, especially given reserve requirement under the facility.

**Linens 'n Things** will put 371 store leases on the auction block on November 20<sup>th</sup>. Since abandoning its restructuring bid, liquidators have been conducting GOB sales in the hopes of raising about \$510 million, enough to pay off senior lenders but leaving landlords and other unsecured creditors unpaid.

**NWL Holdings**, which filed for Chapter 11 protection last week, received permission to tap a \$7 million DIP loan, must now turn its attention to a looming November 26<sup>th</sup> deadline for the sale or liquidation of its assets. The funding, provided by a group of lenders led by **GE Capital**, required the company to wrap up plans to sell its assets as a going concern or to conduct GOB sales in less than two weeks.

The hearing to approve the sale of **Boscov's** was delayed for a fourth time last week as the company's founding family worked to finalize loans with lenders for the deal. The hearing is now scheduled for this week. **Versa**, which had previously provided a stalking horse bid for the company, has filed a limited objection to the sale, looking for a \$4 million breakup fee.

**Thor Macomb Mall LLC** claims that the **Value City** official creditors committee, of which it is a member, is blindly supporting the retailer's request to enter an unfavorable consulting agreement with **Tiger Capital**, ignoring several conflicts of interest. Thor Macomb is objecting to the fact that one of Value City's directors owns Tiger Capital, perhaps giving Value City an incentive to hire the liquidator, and that the unsecured creditors' committee is being represented by a law firm that has also represented Tiger Capital.

**Harold's Stores**, which operates 41 specialty apparel and footwear stores and two outlets in the southwest, filed for Chapter 11 protection. The company has received little interest in its potential sale as a going concern, and selected a bid from liquidator **Gordon Brothers** to assist in the liquidation of the company.

**Sports Universe**, which also did business as **Tennis Universe**, filed for Chapter 13 bankruptcy protection. The business principals were **Ryan Glen Nelson** and his spouse.

## Mass Merchant Musings

**Wal-Mart Stores, Inc.** estimated fourth quarter U.S. comp store sales would increase 1% to 3%. Earnings in Q4 are forecast at \$1.03 to \$1.07 per share, and full year earnings guidance was tightened and modestly reduced to \$3.42 to \$3.46 per share.

**Wal-Mart** has formed a customer support group called the New England Customer Action Network (CAN), according to the *Hartford Courant*. The group allows pro-WMT consumers to organize to support the company with petitions, zoning support and letter-writing. CAN already has more than 61,000 members in the region.

Also, **Wal-Mart** is looking for an ad agency for Marketside, according to *AdAge*. It reportedly met with as many as seven agencies last week.

The lead developer of Boston's Downtown Crossing redevelopment project, home of the original, flagship **Filene's Basement**, has put the project on hold indefinitely. The Filene's Basement store, which provided 13% of the chain's 2006 sales, has been closed since last fall. When the redevelopment began, the chain was looking at reopening in the spring of 2009, which was pushed back to the fall of 2009 previously.

### Did You Know...?

*The Deloitte Research Leading Index of Consumer Spending fell into negative territory in October for the first time since October 1980, primarily due to substantial increases in unemployment claims and continued softness in the housing market.*

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## The Global World of Sports and Footwear

**Sport Chalet** sales decreased 1.2% to \$96.5 million for the second quarter ended September 28. Comp store sales declined 6.7%. Gross margin fell 390 basis points to 26.5% on increased promotional activity and rent expenses. Net loss for the quarter was \$4.2 million vs. income of \$739,000.

Also, **Sport Chalet** is launching an e-commerce initiative, including a new website focused on winter and holiday merchandise which is set to debut on Nov. 22. In 2009, the second phase of the e-commerce initiative will launch with a newly designed [www.sportchalet.com](http://www.sportchalet.com) that will serve as a fully integrated online/offline shopping experience.

**Cabela's** has agreed to pay \$680,000 civil penalty, according to the U.S. Commerce Dept.'s Bureau of Industry and Security, to settle allegations that it committed 152 violations of Export Administration regulations by selling and exporting controlled optical devices for firearms in 2004 and 2005 to 14 countries, including Pakistan, Malaysia and Taiwan. According to the government agency, the retailer failed to file required shipper's export declarations for 76 exports in questions.

**No Fear Retail** urged the **Orange 21** board to reconsider its proposal and begin meaningful negotiations about a possible merger. No Fear Retail, which sells action sports and casual youth lifestyle apparel, founded Orange 21 and is currently one of its largest customers. The company has sent Orange 21, which primarily sells the Spy Optic brand, two letters about a possible merger but has received no formal feedback to its overtures.

**Adrenalina**, the action sports retailer and marketer, may need to curtail operations without an infusion of capital. As of Sep. 30, the company had signed lease agreements in excess of \$35.5 million for new stores despite a balance sheet showing total cash/cash equivalents and receivables of \$834,000. At Q3 end, Adrenalina's liabilities exceeded its current assets by more than \$2.1 million.

The **International Council of Shopping Centers** reported sales in athletic shoe stores climbed 4.7% in Aug., which is the back-to-school season for the U.S., and rose 2.6% in sporting goods/bike stores. The mall athletic chains are going up against unusually weak sales numbers from the year before. Both segments outpaced GAFO sales in Aug, which fell 0.4% during the month.

**The Sportsman's Warehouse**, the outdoor specialty chain with 68 doors in 29 states, is said to be close to securing an equity infusion of up to \$90 million. More details are expected shortly.

**Christy Sports**, which currently has more than 40 locations in CO and UT, is celebrating its 50th year in business in 2008.

**Shop.NHL.com** year-over-year sales rose 27%, the league reports, with 16 teams posting higher merchandise sales for the season's opening month.

**New Balance** opens a 2,500 sq. ft. store in New York's SoHo to showcase products from its lifestyle unit and PF Flyers.

### Did You Know...?

First-time jobless claims rose by 32,000 to 516,000 in the week ended Nov. 8, the highest number since September 2001.

## Heard in the Grocery Aisle

13-store Ohio grocer **Buehler's Fresh Foods** is testing an order online, pick up at the store program from MyWebGrocer.com, according to *The Cleveland Plain Dealer*.

**Stop & Shop** is buying two Grand Union stores in Seekonk and Provincetown Massachusetts, according to local media reports.

The **Penn Traffic Co.** will closing two stores—Oswego, New York and Lebanon, New Hampshire—in early to mid-December. Price Chopper will purchase the store assets and operate stores in both locations.

The latest UK grocery market shares are out from TNS Worldpanel, and Wal-Mart's **Asda** is now up to a 17.1% share vs. 16.9% last quarter, while **Tesco's** share fell to 30.9% from 31.3%.

**Tesco** will slow down Fresh & Easy openings given economic conditions, according to a report in the *Times of London*. The prior target of 200 stores open by February 2009 has been pushed back to November 2009. There are currently 100 Fresh & Easy stores.

However, **Tesco** is full speed ahead in China, where it plans for several new stores next year.

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## Management on the Move

**Sears Holdings Corp.** reported that **Corwin Yulinsky**, EVP of Customer Strategy and Insight, has resigned.

**Dollar General** appointed **Todd J. Vasos** Division President and Chief Merchandising Officer. Vasos was the EVP and COO at Longs Drugs.

**Weis Markets** appointed **Karen Buch** Director of Lifestyle Initiatives. Buch was the corporate dietitian prior.

**Claire's Stores, Inc.** appointed **Kenny Wilson** President – Europe. Wilson was SVP Commercial Operations, Europe for Levi Strauss.

**NexCen Brands, Inc.** appointed **Mark Stanko** Chief Financial Officer. Stanko was CFO of NexCen Franchise Management. NexCen filled several other vacancies, as well: **William Dolan** is Assistant Controller; **Martin Amschler** is Chief Development Officer for NexCen Franchise Management; **Pam Price** is VP of Domestic Development for NexCen Franchise Management.

**RadioShack Corp.** SVP of Information Technology **Cara D. Kinzey** has resigned.

**Cost Plus, Inc.** appointed **Willem Mesdag** to its board of directors. Mesdag is the Founder

of Red Mountain Capital Partners LLC, which owns approximately 12.5% of Cost Plus.

**CVS Caremark** appointed **Troyen A. Brennan**, MD, as EVP and Chief Medical Officer. He'll be in charge of MinuteClinic, Accordant Health Care, clinical and medical affairs, and health care strategy. Brennan was Chief Medical Officer for Aetna Inc.

**Movie Gallery, Inc.** named **Cliff Torng** EVP and Chief Marketing Officer. Torng comes from Nike, where he was Director of Marketing for the Jordan brand.

**Charlotte Russe Holding, Inc.** made several moves in the executive suite:

- **John D. Goodman** was named CEO and will join the board. He was President and CEO of Mervyn's prior.
- **Emilia Fabricant** was named President and Chief Merchandising Officer and will also join the board. She held the President and CMO role at Babystyle.
- **Frederick G. Silny** was named EVP and CFO. He was SVP and CFO at Guess? Inc. previously.
- Interim CEO and CFO **Len Mogil** will resume his position on the board of directors after a transition.

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
SIMMONS/WIGGINS ENTPS LLC	CCC	B-	NM	NM	NR
DRIVETIME AUTOMOTIVE GROUP INC	B-	B+	NEGATIVE	NM	NR
BARNEYS NEW YORK INC	B-	B	STABLE	NEGATIVE	D
VENETIAN CASINO RESORT LLC	B	B+	NM	NM	NR
RIVIERA HOLDINGS CORP	CCC+	B	NEGATIVE	NM	E+
LAS VEGAS SANDS INC	B	B+	NM	NM	D+
WHOLE FOODS MARKET INC	BB-	BB	STABLE	NEGATIVE	C-
O CHARLEYS INC	B+	BB-	STABLE	NEGATIVE	D-
DILLARDS INC-HQ	B+	BB-	STABLE	STABLE	D-

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## General Retail News

**20 Top U.S. Retailers** including Best Buy, Pier 1 Imports, Costco and Macy's surveyed by The Hay Group saw holiday expectations lowered significantly between September and November. In September, 60% of respondents expected an increase in sales, but by November, 38% expect a 5% to 15% drop in sales, and 29% expect the same level of sales. In September, most planned promotions from Black Friday onward, but in November, 57% said they plan to run consistent promotions from now until New Year's.

**On-line Retailers** reported trimming promo budgets in a Shop.org holiday survey. 30% of web merchants said they were lowering marketing budgets, 16% are reducing promotional spending. But consumer holy grail free shipping is getting a larger share of budget than last year at 45% of retailers.

**Return Policies** will soften this Holiday season, according to a National Retail Federation survey last month. 52% of surveyed retailers said that they will adopt a more lenient holiday return policy this year versus 2007. But not every retailer feels the need to ease their return policy. In fact, 17.1% intend to tighten theirs this year, up from 15.3% in 2007.

**Global Retail Theft** reached \$104.5 billion—equivalent to 1.34% of retail sales—in the twelve-month period ending in June 2008, according to the second annual Global Retail Theft Barometer. North America fared slightly worse, with shrink of \$42.3 billion, or 1.48% of sales. Adding the cost of prevention to global number works out to a burden of \$229.73 per consumer household, the study said.

**Shopping on the Web** is now done by 78% of adult consumers, according to the @Plan report from Nielsen Online. Among the findings: 38% made a travel-related purchase, 28% bought clothing and 26% bought books.

A **Gift Card** survey by Chase Paymentech shows that 55% of adults plan to buy the same number of cards the Holiday season as they did last year, and 21% plan to buy more. 82% said that a discount at the time of purchase would make them more likely to purchase gift cards. Gift packaging for cards is also a strong purchase motivator for 61%. And when they're redeemed most consumers spent more than the amount of the gift card – 85% added an average of \$17.70 out of their own wallets.

### Did You Know...?

*U.S. distribution center vacancies increase to an average of 8.7% in the third quarter, according to a survey by Colliers International.*

## FYI for the DIY

**Lowe's Companies, Inc.** updated fiscal year 2008 guidance after reporting its third quarter (see the scorecard). Sales growth for the year is projected to range from flat to an increase of 1%, with a comp store sales decline of 6% to 7%. Earnings are forecast at \$1.46 to \$1.54 per share.

**Taiga Building Products Ltd.** sales increased 1.8% to \$292.2 million for the second quarter ended September 30. Net income was down 17.7% to \$3.2 million, including a \$1.0 million

expense for an income tax reassessment settlement.

**Rona, Inc.** said that the effect of the economic environment may prevent it from meeting its projected low single digit earnings growth in the first half of the company's 2008-2011 business plan.

**Tractor Supply Co.** opened stores in Dixon, Illinois, and Ripon, California.

## Hi Tech Entertainment

**OfficeMax Inc.** announced a cost reduction initiative, eliminating approximately 245 corporate staff and field management positions in its North American operation. OMX says the cuts will reduce operating expenses by about \$20 million going forward. One-time severance costs of about \$8.5 million are expected.

Also, **OfficeMax** is partnering with **Safeway** to sell about 300 office product SKUs in 1,600

Safeway-owned grocery stores. The two companies have been testing the concept since July.

**Best Buy Co.** lowered its fiscal 2009 earnings guidance to between \$2.30 and \$2.90 per share, down from a prior estimate of \$3.25 to \$3.40 per share. Revenue was forecast between \$43.7 and \$45.4 billion, assuming a 1% decline in comp store sales.

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## Retailer of the Week: Brookstone

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### OPERATING PERFORMANCE

\$ FIGURES IN MILLIONS	09/27/2008 (Q3 YTD FY08)	09/29/2007 (Q3 YTD FY07)	Year-over-Year Change
<b>Liquidity Ratios</b>			
Cash and Equivalents	\$1.7	\$1.5	12.83%
Cash and Equivalents % Current Liabilities	2.06%	1.67%	39 bps
Working Capital	\$74.1	\$80.0	-7.37%
Current Ratio	1.91x	1.9x	1 bps
<b>Leverage Ratios</b>			
EBITDA	(\$17.7)	(\$11.2)	-58.04%
Total Debt	\$197.4	\$210.3	-6.17%
Total Debt / Equity	83.68%	91.00%	-732 bps
Total Liabilities / Total Assets	57.57%	59.60%	-203 bps

Revenues for the third quarter ended September 27, 2008 were \$89.5 million, a 2% decrease from the same quarter last year. Comp store sales for the quarter were down 5.9% from last year. The company's retail segment saw revenues decrease 5.4% to \$71.6 million for the quarter. The retail segment performed best in stationary, games, travel and comfort, while audio, bedding and massage chairs underperformed for the quarter. Direct marketing revenues were up 14.1% to \$17.9 million for the three months primarily from increased catalog circulation. Brookstone continues to be plagued by pricing pressure, as the product line the firm has been offering seems to be passed over by the consumer. Gross margins for the third quarter were down 230 basis points, as product margins were down 140 basis points while the remainder was a result of an increase in occupancy expenses. Decreased advertising expenses helped the firm's SG&A decrease 90 basis points as a percentage of revenues, offsetting a portion of the gross margin decline. For the quarter, Brookstone reported an operating loss of \$10.5 million, lower than the \$9.4 million operating loss last year. A drop in interest expense and a larger tax benefit helped ease some of the pain, but the bottom line still showed a \$10.4 million loss for the three months. In the second quarter, we gave Brookstone a bit of a pass due to the GOB sales at Sharper Image. There was no such excuse in the most recent quarter. It is clear that this is a business model that will struggle in the current economic environment. The EBITDA in the third quarter was \$5.9 million in the hole, as the problems Brookstone is facing are persistent.

Revenues for the nine months ended September 27, 2008 were \$226.7 million, a 0.8% increase from the same period last year. Comp store sales for the period were down 3.2%, as a decent first quarter was offset by less than stellar results in the second and third quarters. The company's retail segment saw revenues decrease 1.4% to \$221.9 million for the nine months. The retail segment performed best in stationary, games, travel and comfort, while audio, bedding and massage chairs more than offset the gains. Direct marketing revenues were up 11.1% to \$54.7 million for the semester. Gross margins for the period were down 90 basis points for the nine months, as a strong first quarter was offset by sharp drops in both the second and third quarter. SG&A expenses were up 140 basis points for the period, driven by the drop in comps. SG&A spending was up on a dollar basis, exacerbating the problem. The company's advertising expense was up when compared to last year, while a drop in payroll expense helped to curtail some of the spending. For the nine months, Brookstone reported an operating loss of \$31.2 million, worse than the \$24.7 million operating loss last year. A drop in interest expense and a larger tax benefit helped close the gap some, but Brookstone has still lost \$30.8 million through the first three quarters of the year. The firm's EBITDA remains firmly in the red, totaling an EBITDA loss of \$17.7 million. In the second quarter, Brookstone dealt with the GOB sales of its closest competitor, Sharper Image. While this is certainly part of the problem, there seems to be other issues with the operations of the firm.

### CAPITAL STRUCTURE

At the close of the third quarter, Brookstone had just \$1.7 million in cash on the books. The cash  
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## Retailer of the Week: Brookstone

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balance remains extremely low for the company and it is a position that must be improved going forward. The figure was essentially on par with the cash position that the company boasted a year ago. The cash on hand covers up a miniscule 2.06% of current liabilities. The current liability coverage is up slightly from last year. Through nine months this year, Brookstone's operations have used \$78.2 million in cash. With another \$12.2 million used by capex, the company was forced to tap into its revolver.

The company still has a fairly strong 1.91 current ratio, translating to \$74.1 million in working capital. The working capital is a product of the \$110.9 million in inventory the firm has on the balance sheet. Thankfully, inventory per store has been reduced from last year to match the current environment. There was \$356,700 of inventory per store to close the third quarter, down from \$386,000 at the same point last year.

Brookstone had borrowed \$23.1 million on its \$125 million revolver at the close of the quarter. Just three months ago, the facility was unused.

Total debt on the balance sheet has fallen just over 6% over the past year. There was \$174.3 million in long-term debt on the books to close the third quarter. The notes carry a high 12% interest rate and mature on October 15, 2012. The debt repayment has slowed over the past few quarters, as Brookstone has needed its cash to support the operations.

### Did You Know...?

Retail sales fell a record 2.8% in October, the Commerce Department estimated. Autos led the decline, dropping 5.5%, and retail sales fell a record 2.2%.

## 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>							
Abercrombie & Fitch	\$896.3	\$973.9	-8.0%	-14.0%	\$63.9	\$117.6	-45.7%
Aeropostale, Inc.	\$482.0	\$412.6	16.8%	7.0%	tba	\$36.0	tba
American Apparel	\$154.8	\$106.6	45.2%	24.0%	\$2.3	\$6.0	-61.2%
American Eagle Outfitters	\$754.0	\$744.4	1.3%	-7.0%	tba	\$99.4	tba
Bluefly, Inc.	\$19.8	\$18.1	9.4%	NA	(\$5.7)	(\$5.0)	13.5%
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
Charlotte Russe Holding, Inc.	\$206.7	\$190.3	8.6%	-3.8%	(\$6.6)	\$8.4	-178.9%
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%	\$124.0	\$261.0	-52.5%
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%	\$160.2	\$194.0	17.4%
Limited Brands	\$1,842.0	\$1,923.0	-4.2%	-7.0%	tba	\$12.0	tba
Macy's, Inc.	\$5,493.0	\$5,906.0	-7.0%	-6.0%	(\$44.0)	\$33.0	-233.3%
Nordstrom, Inc.	\$1,805.0	\$1,970.0	-8.4%	-11.1%	\$71.0	\$165.7	-57.2%
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
TJX Companies	\$4,761.5	\$4,658.7	2.2%	-1.0%	\$235.8	\$249.5	-5.5%
Urban Outfitters, Inc.	\$478.0	\$379.3	26.0%	10.0%	\$59.3	\$45.4	30.7%
Wet Seal, Inc.	\$146.6	\$150.3	-2.4%	-7.6%	tba	(\$3.3)	tba

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## Third Quarter Scorecard

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\$ in Millions. Quarter ended closest to 10/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<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%
Broder Bros., Co.	\$252.3	\$246.4	2.4%	NA	(\$0.9)	(\$11.6)	92.2%
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
Gander Mountain	\$270.0	\$260.0	3.8%	-6.5%	\$0.7	(\$5.1)	113.7%
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%
Recreational Equipment	\$347.9	\$313.7	10.9%	tba	\$2.1	\$4.6	-54.3%
Walking Company, The	\$42.7	\$36.9	15.7%	7.0%	(\$2.9)	\$0.9	-405.1%
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%
A.C. Moore Arts & Crafts	\$116.7	\$122.6	-4.8%	-9.4%	(\$7.5)	(\$0.7)	-1054%
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%
Brookstone, Inc.	\$89.5	\$91.3	-2.0%	-5.9%	(\$10.4)	(\$10.2)	-2.0%
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%
Leon's Furniture Limited	\$259.2	\$216.2	19.9%	7.9%	\$17.5	\$16.2	8.0%
Pet Valu Inc.	\$46.6	\$41.5	12.3%	5.8%	\$4.0	\$3.1	29.0%
<b>Home Centers</b>							
Ace Hardware	\$969.2	\$976.7	-0.8%	0.0%	\$26.4	\$22.4	17.9%
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%
Lowe's Companies	\$11,728.0	\$11,565.0	1.4%	-5.9%	\$488.0	\$643.0	-24.1%
Lumber Liquidators	\$123.1	\$102.1	20.6%	2.0%	\$5.5	\$3.7	48.6%
Rona, Inc.	\$1,337.3	\$1,360.1	-1.7%	-2.3%	\$51.7	\$59.8	-13.5%
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%
Loblaw Companies Limited	\$9,493.0	\$9,137.0	3.9%	3.0%	\$155.0	\$117.0	32.5%
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
IAC/InterActiveCorp	\$369.3	\$335.4	10.1%	NA	(\$14.8)	\$70.5	-121.0%
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%
Zones, Inc.	\$197.7	\$163.0	21.3%	NA	\$1.2	\$2.6	-55.4%

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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>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	6.0%
Drugstore.com, Inc.	\$87.8	\$81.0	8.4%	NA	(\$3.6)	(\$2.4)	-50.0%
Duane Reade Holdings	\$431.0	\$408.8	5.4%	5.0%	(\$22.3)	(\$22.0)	-1.4%
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
Canadian Tire	\$2,182.8	\$2,051.3	6.4%	2.0%	\$105.0	\$102.3	2.6%
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
Overstock.com	\$186.9	\$160.1	16.7%	NA	(\$1.6)	(\$5.6)	71.4%
Target Corporation	\$14,588.0	\$14,835.0	-1.7%	-3.3%	\$369.0	\$483.0	-23.6%
Wal-Mart Stores, Inc.	\$97,634	\$90,826	7.5%	3.3%	\$3,138	\$2,857	9.8%

## Upcoming Reporting Dates

Company	Event	Date
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
BJ's Wholesale Club	Investor Conference	Nov 20, 2008
Bon-Ton Stores	Quarterly Results	Nov 20, 2008
Borders Group, Inc.	Quarterly Results	Nov 26, 2008
Charming Shoppes, Inc.	Quarterly Results	Nov 25, 2008
Chico's FAS	Quarterly Results	Nov 25, 2008
Children's Place Retail Stores	Quarterly Results	Nov 20, 2008
Citi Trends	Quarterly Results	Nov 24, 2008
Coldwater Creek	Quarterly Results	Nov 25, 2008
Collective Brands	Quarterly Results	Dec 3, 2008
Conn's	Quarterly Results	Nov 26, 2008
Cost Plus	Quarterly Results	Nov 20, 2008
dELIA's	Quarterly Results	Nov 25, 2008
Dick's Sporting Goods	Quarterly Results	Nov 20, 2008
Dollar Tree	Quarterly Results	Nov 25, 2008
Dress Barn	Quarterly Results	Nov 19, 2008
Fred's	Quarterly Results	Nov 26, 2008
GameStop	Quarterly Results	Nov 20, 2008
Gap Inc.	Quarterly Results	Nov 20, 2008
Hibbett Sporting Goods	Quarterly Results	Nov 20, 2008
Ingram Micro	Investor Conferences	Nov 18-19, 2008
Jo-Ann Stores	Quarterly Results	Dec 3, 2008
Limited Brands	Quarterly Results	Nov 20, 2008
Metro Inc.	Quarterly Results	Nov 19, 2008
Mothers Work	Quarterly Results	Nov 18, 2008
Neiman Marcus, Inc.	Quarterly Results	Dec 10, 2008
PC Connection	Investor Conference	Nov 18, 2008
PC Mall	Investor Conference	Nov 18, 2008
Rite Aid	Investor Conference	Nov 21, 2008
Ross Stores	Quarterly Results	Nov 19, 2008
Sears Holdings	Quarterly Results	Dec 2, 2008
Stage Stores	Quarterly Results	Nov 20, 2008
Systemax	Investor Conference	Nov 18, 2008
Tech Data Corp	Investor Conference	Nov 18, 2008
Tech Data Corp	Quarterly Results	Nov 25, 2008
Trans World Entertainment	Quarterly Results	Nov 20, 2008
Tween Brands, Inc.	Quarterly Results	Nov 19, 2008
Wal-Mart	Investor Conference	Nov 18, 2008
Wet Seal	Quarterly Results	Nov 20, 2008
Zumiez	Quarterly Results	Nov 20, 2008

### Did You Know...?

U.S. retail foot traffic fell 12.4% in October, according to Shopper-Trak's Retail Traffic Index. September saw a 9.3% decline.

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