

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

If A is success in life, then A equals X plus Y plus Z. Work is X, Y is plan and Z is keeping your mouth shut.

Survey: Credit Noose Tightening

Frosty, with no thaw before the end of next year.

That's the forecast CFOs and other finance execs gave about the state of their affiliations with commercial lenders in a CFO survey conducted in early November. The 115 CFOs and other top-level finance execs that responded said that since September the quality of some services provided by their commercial lenders has deteriorated. A majority said it costs more to borrow; banks are less able to make lending decisions and commitments; and that banks are also less flexible. Surprisingly, 39% said that even the range of services and products available from their commercial lenders had narrowed.

Moreover, many CFOs responding to the survey were pessimistic that the federal government's program to inject \$700 billion of capital into banks will improve things. Much of the criticism and concern over the Treasury Department's Troubled Assets Relief Program center on whether TARP will prod lenders to start opening the doors to borrowers again in the near-term. CFOs, for the most part, don't believe it will. When asked if the TARP plan will help their businesses in the next two months, 78% of survey respondents said they were not at all confident of that.

CFOs are skeptical that banks will set aside an appropriate amount of their newly acquired capital, which they received in return for preferred shares in their company, to lend to commercial borrowers. More than 70% of survey respondents said banks would under-allocate resources in this area. Asked to which areas they expect banks will over-allocate resources, 58% of finance executives said banks would devote a disproportionate amount to acquiring other financial institutions. Respondents were allowed more than one answer, and 48% also thought banks would over-allocate funds to strengthening bank reserves. Forty percent also said that an oversized amount of the \$700 billion would go to executive performance and retention payments.

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Retailer of the Week: Huttig Building Products

Huttig is a distributor of building materials used principally in new residential construction and in home improvement, remodeling and repair work. In the current economic slump and challenging environment, the company continued to focus on controlling expenses, improving operating efficiencies, reducing inventories, generating cash, and gaining market share through the first nine months of fiscal 2008. Progress was made particularly with respect to inventory reduction. During the first nine months of the year, the company reduced inventory levels by \$118 million, while using over \$0.6 million of cash from operations. The company's sales decline for the first nine months of the year was 21.6% versus the comparable period last year, though below the 30% decline in housing starts nationally, indicating some market share gains.

Though the company has expended diligent efforts to reduce costs, increase in market share and control its working capital, we are adjusting our current "E" Credit Rating slightly downward to an "E-" Credit Rating though still with a "Stable" Outlook in spite of the continuing increase in net losses versus prior year. While the company has added to its liquidity through the addition of a real estate portion to its credit facility, we are becoming more concerned about the company's future not necessarily in the next couple of quarters but looking beyond the second quarter next year. Our credit rating is further validated by Global Credit Services' proprietary credit score.

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Survey: Credit Noose Tightening

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Despite being unsettled by the credit crisis and the state of their financing partners, a large majority of finance execs (83%) are confident of the ability of commercial lenders to "support their business adequately in the next year." Which is perhaps why a majority still feel comfortable relying heavily on commercial lenders for basic financial services. Despite the wave of bad news about the financial health of banks since September, the survey found that 83% of finance execs are relying just as much on them for treasury management services. Another 72% are still turning to them for raising capital. One explanation: companies have few alternatives. For capital-raising, many other avenues remain shut to corporations, although some select companies have tapped the bond markets at premium rates. And to even be considered for a loan these days, corporations usually have to give the lender all or some of their treasury services business.

Finally, when asked what courses of action they would recommend to the incoming Democratic presidential administration, CFOs revealed wide-ranging philosophies on the extent to which the federal government should tighten the regulation of financial institutions and provide a stimulus to the broader economy. For instance, one CFO sided with the banking industry and called for an "immediately suspend mark to market accounting rules," while another insisted that the government "outlaw securitization of original debt. If you make the loan, you keep it," asserted the finance chief. But perhaps the simplest advice was the best: "Execute – stop talking – and do something NOW!" wrote one CFO.

Feedback?

Questions?

Suggestions?

[Click Here](#)

Off the Rack

Nordstrom Inc. has delayed plans for its first Tennessee store one year until October 2011, according to *The Tennessean*.

Macy's has produced an animated family Christmas film, "Little Spirit," starring the voices of Danny DeVito, Lucy Liu and Brian Williams, which takes place in Macy's Herald Square store. The production will run on NBC December 10.

Aeropostale, Inc. issued fourth quarter earnings guidance, expecting \$0.84 to \$0.90 per share. Also, the company said that fiscal 2009 CapEx would be approximately \$55 million, down from approximately \$80 million in fiscal 2008.

Jo-Ann Stores, Inc. reduced its fiscal 2009 guidance, now forecasting flat comp store sales down from its previous estimate of a 2.0% to 3.5% gain. Earnings are now forecast to be \$0.75 to \$0.85 per share down from the previously announced range of \$0.95 to \$1.05 per share.

American Eagle Outfitters, Inc. expects that fourth quarter earnings will be \$0.30 to \$0.36 per share, based on negative double digit comp store sales.

J. C. Penney Company, Inc. said it expects a low-double digit decrease in comparable store sales for the five-week period ending Jan. 3, 2009.

Burlington Coat Factory Warehouse Corp. sales from continuing operations increased 5.9% to \$1.002 billion in the second quarter ended November 29. Comp store sales fell 2.1%.

Coldwater Creek sees a U.S. District Court find against it in a copyright and trade dress infringement case brought by Brighton Collectibles. The jury awarded \$6.7 million in damages for intentional violation of Brighton's intellectual property rights. CWTR said it expects to overturn the verdict through post-trial motions, and, if necessary, an appeal.

Options and Resources

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

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Bankruptcy Blotter

Tweeter shut down its 70 remaining stores and let go of its employees last week, days before the liquidators, **Hudson Capital Partners, SB Capital Group LLC** and **Tiger Capital Group LLC**, were scheduled to conclude its liquidation sales. After closing the stores, Tweeter won court approval to convert its Chapter 11 case to a Chapter 7 bankruptcy, freeing up cash to continue liquidating its inventory and real estate.

Creditors of **Circuit City Stores Inc.** mounted a campaign to block the company from making federally required payments under the **WARN Act** to hundreds of workers who lost their jobs when the retailer went bankrupt. While courts in Delaware and Arizona have turned down pleas from workers fired just before a bankruptcy who attempted to collect their WARN Act benefits, the judge in this case approved the payments to the fired employees in order to keep the faith of the company's customers and remaining employees.

The trustee in the **Value City** bankruptcy case is opposing the creditors committee's attempt to hire **Otterbourg, Steindler, Houston &**

Rosen P.C.'s to represent the committee, claiming the law firm has connections to the equity holders, lenders and liquidator the committee is seeking to investigate.

Boscov's Department Store, LLC completed the sale of substantially all of its assets to a family group led by **Albert Boscov** and **Edwin Lakin**. Boscov's is one of the few retailers that have been able to emerge from Chapter 11 this year.

Mervyn's LLC won court approval to auction its 150 store leases, using **Hilco Real Estate LLC** to market the properties and manage the sale of the leases. The auction will be conducted on December 10th, with sale hearings scheduled for December 17th and December 23rd.

The court approved **Interstate Bakeries Corp.'s** Plan of Reorganization, paving the way for the company to exit bankruptcy after more than four years. The plan is premised on **Ripplewood Holdings** pumping \$130 million into the company and taking it private.

Did You Know...?

Single-family home sales fell to a seasonally adjusted annual rate of 433,000 in October, according to the U.S. Department of Commerce, down from 723,000 last year.

Hi Tech Entertainment

Staples, Inc.'s third quarter sales growth (see the Scorecard) was entirely from the Corporate Express acquisition. Sales excluding Corporate Express decreased 3% to \$5.0 billion in the third quarter, with North American Delivery sales down 1% to \$1.7 billion, and North American Retail sales down 6% to \$2.6 billion. The Corporate Express integration is expected to produce annual synergies of \$300 million a year after three years, but SPLS expects charges of \$100 to \$120 million in Q408 and \$380 to \$440 million in 2009 related to the integration. Additionally, Staples took a non-cash, pre-tax charge of \$124 million to write down legacy European brands, as it shifts to using only the Staples brand worldwide.

Blockbuster is testing a new store format, which features Xbox and Wii accessories, personal electronics devices, comfy seating and flatscreen TVs. The pilot store has opened in Reno, Nevada with all ten stores in that market to be revamped, according to local media.

Zones, Inc. said its additional "go-shop" period has expired with no interest from other potential acquirers. Zones now intends to complete the merger with management-controlled Zones Acquisition Corp.

Borders Group Inc. CEO George Jones said that the company is no longer trying to sell itself, and will instead try to survive on its own. A sale of the Paperchase division to Pershing Square is still a possibility, however.

GameStop said it would aggressively expand in Europe, according to a report in the U.K.'s *Retail & Leisure International*. GME management said the U.K. is the largest computer game market in Europe, and GameStop stores will open in 10-15 shopping malls there in the next six months. The company is currently looking at Eastern European countries—Poland, Czech Republic and Hungary—and new stores in the Middle East and India in 2010.

Amazon.com, Inc. completed the acquisition of AbeBooks announced in August. AbeBooks will continue to function as a stand-alone operation, and will maintain its existing web sites.

Overstock.com, Inc. updated its shelf registration Form S-3 with the SEC. The new, \$500 million statement allows OSTK to offer its securities over the next three years.

Conn's, Inc. saw a 64% y-o-y increase in sales on Black Friday, and was +50% for the weekend.

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Management on the Move

Sears Holdings Corp. hired three new senior execs:

- **Scott Freidheim** was named EVP, Operating and Support Businesses. Freidheim was EVP and Chief Administrative Officer of Lehman Brothers prior.
- **Nick Coe** was appointed SVP and President of Lands' End. Coe comes from Banana Republic where he was SVP Merchandising and Interim Head of Design.
- **Mark de Bruin** is the new SVP and President of Pharmacy. De Bruin was previously EVP Pharmacy for Rite Aid.

Also, **Sears Holdings Corp.**'s SVP Finance **Michael D. Collins** will begin serving as the company's CFO immediately, following a faster than expected transition from former CFO J. Miles Reidy.

Citi Trends, Inc. named **David Alexander** President and COO. Alexander was most recently a consultant for private equity firm APAX Partners. Prior to that he was EVP and COO for Family Dollar Stores.

Burlington Coat Factory appointed **Thomas A. Kingsbury** President and CEO. Kingsbury was Sr EVP at Kohl's Department Stores.

Stein Mart, Inc. appointed **David H. Stovall, Jr.** President and CEO. Stovall comes from a 20 year tenure at Belk, Inc. where he was most recently Chairman of Belk Central Division.

Rite Aid Corp. named **Ken Martindale** Sr EVP of Merchandising, Marketing and Logistics. Martindale was Co-President and Chief Merchandising and Marketing Officer for Pathmark Stores.

Building Materials Holding Corp. Chief Information Officer **Jeffrey F. Lucchesi** has resigned. The company announced he would not be replaced.

Ace Hardware hired **Rick Affolter** as VP of Finance. Affolter was previously Finance Director at HD Supply Inc.

Ingram Micro Inc. promoted VP Finance for North America **Lisa Locklear** to SVP and CFO, North America.

NexCen Brands, Inc. Director **Marvin Traub** has resigned from its board, effective immediately.

Collective Brands names **Doug Boessen** SVP and CFO. Boessen had been Collective's controller since January, 2004.

Finish Line co-founder **Alan Cohen** formally retired as CEO on November 30. He remains COB of the specialty chain as outlined in a succession plan detailed by the retailer in early October.

Christopher & Banks Corp. named **Michael Lyftogt** Interim CFO. Lyftogt replaces Andrew Moller, who has resigned. Lyftogt is currently VP Finance of the company and will remain in that role.

Express Scripts, Inc. named **Keith J. Ebling** EVP and General Counsel, replacing Thomas M. Boudreau who announced that he intends to retire effective April 1, 2009. Ebling was most recently VP of Business Development.

Whole Foods has appointed two Leonard Green & Partners executives—managing partner **Jonathan Sokoloff** and partner **Jonathan Seiffer**—to the company's board. Also joining the WFMI board are consultant **Stephanie Kugelman** and **Kip Tendell**, chairman and CEO of The Container Store.

MSC Industrial Direct Co. nominated **Louise Goeser** and **Charles Boehlke** for election to the company's board. Goeser is the retired President and CEO of Ford of Mexico, and Boehlke was formerly MSC's EVP and CFO.

FYI for the DIY

Building products supplier **Louisiana-Pacific Corp.** will cut marketing and sales expenses and lay off 200 salaried employees in an effort to save \$30 to \$35 million a year. The company will take a fourth quarter charge of \$8 to 10 million for severance costs.

Huttig Building Products, Inc. shares were delisted from the NYSE on December 3. The company's shares now trade on the OTC Bulletin Board under the symbol HBPI.

Did You Know...?

The U.S. private sector lost 250,000 jobs in November-158,000 in manufacturing and 92,000 in services-according to the ADP national employment index.

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Heard in the Grocery Aisle

Fresh Market is making a run at eastern Pennsylvania, with two 20,000 sq. ft. stores opening in H109 in the Philadelphia suburbs and eight to ten planned for the region. Fresh Market currently has 86 stores in 18 states, mostly in the southeast. In Pennsylvania, Fresh Market will compete at the high end with Whole Foods, Clemens' The Food Source, and Wegman's.

Hannaford Supermarkets has partnered with **HealthTrans** to offer a community-based prescription benefit plan to companies in Maine, New Hampshire, Vermont, Massachusetts and New York. Hannaford has 127 in-store pharmacies in the region.

Also, **Hannaford Bros.** is reportedly preparing to lay off staff at its corporate headquarters. *Mainebiz* says the company has already offered voluntary buyout packages to employees there.

Portland-based grocer **New Seasons Market** is waging a legal and public relations war against competitor **Whole Foods Market Inc.** New Seasons says Whole Foods used the FTC case as a pretext to subpoena confidential information, including store sales numbers and operations plans. New Seasons filed a motion to quash the subpoena, and CEO Brian Rohter

has blasted WFMI on his blog on the company's web site.

Natural~Specialty Foods Memo posted **Whole Foods'** response that the company has to show competitors are doing well to fight the FTC's allegations, also pointing out that 96 companies were subpoenaed, not just New Seasons.

Supervalu, Inc. declassified the company's board of directors. Starting with the 2009 annual meeting, directors will be elected annually.

Safeway Inc. initiated earnings guidance for 2009 of \$2.34 to \$2.44 per share. The guidance assumes non-fuel sales store sales growth of 2.0% to 3.0%. CapEx will be cut sharply to approximately \$1.2 billion. The company plans aggressive cost reductions in 2009, but with lower everyday pricing to build the top line.

Tesco CEO Sir Terry Leahy said that **Fresh & Easy** stores are growing strongly, according to a report in *Supermarket News*. Fresh & Easy has slowed its expansion rate during the downturn, but expects to be well positioned to grow quickly when the economy recovers.

Village Super Market, Inc. declared a two-for-one stock split effective on January 22, 2009.

Did You Know...?

Initial jobless claims fell to a seasonally adjusted 509,000 for the week ending Nov. 29, the Labor Department reported, the lowest number in a month.

Specialty Items

Residential furniture factory orders were down 12% in September compared to last year, according to consulting firm Smith Leonard.

Bed Bath & Beyond Inc. estimated earnings of \$.31 to \$.35 per diluted share for the third quarter ended November 29. Sales are estimated to be off about 0.7%, with a comp store sales decline of approximately 5.6%.

The first **Habitation** home furnishings store has opened in Louisville, Kentucky. The company plans to open more stores in other U.S. markets in 2009.

Williams-Sonoma, Inc. guided that revenues for fiscal year 2008 would be in the range of \$3.294 to \$3.354 billion with comp store sales down 19.3% to 17.7%. Earnings are projected to be \$0.27 to \$0.47 per share.

The Global World of Sports and Footwear

Sporting Goods Retailers fared well in the third quarter, as they were going up against relatively easy comparisons from the prior year. According to *Sporting Goods Intelligence's* quarterly summary, the retail sector had a 293% increase in net income on a 4% increase in sales. ROS remained modest but improved to 1.87% from 0.49% the prior year. Both **Foot Locker** and **Finish Line** had significant swings from losses last year to modest profits in 2008 in their most important seasonal quarter, accounting for most

of the improvement. **Collective Brands** also had a significant gain, but that related mostly to an inventory charge the prior year related to the Stride Rite acquisition.

Collective Brands said it anticipated a substantial reduction in CapEx for next year from the \$130 million it will spend in 2008. It said it would open fewer stores and only refurbish stores that had a strong need.

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Health & Beauty Aids

Ulta Salon, Cosmetics & Fragrance, Inc. expects fourth quarter sales of \$354 to \$368 million, with comp store sales of minus 2% to plus 2%. Income is estimated at \$0.24 to \$0.28 per share. For the full year fiscal 2008, Ulta estimates sales of \$1.10 to \$1.11 billion, with comp store sales up 1.4% to 2.7% and net income of \$0.47 to \$0.51 per share. CapEx for fiscal 2008 are now expected to be about \$110 million, down from previous guidance of \$115 to \$120 million.

Walgreen Co. has completed its acquisition of McKesson Specialty Pharmacy and IVP CARE from McKesson Corp.

Rite Aid Corp. stockholders approved a reverse stock split in a split ratio to be determined of 1-for-10, 1-for-15 or 1-for-20. The ratio and effective date will be selected by the company's board of directors. Rite Aid has until April 16, 2009 to regain NYSE compliance by getting the share price over \$1.

Also, **Rite Aid** noted that same store sales for the quarter ended November 29 increased 1.4%, with front-end same store sales up 2.3% and pharmacy same store sales up 1.0%.

Shoppers Drug Mart Corp. opened its second **Murale** beauty store concept in Montreal.

General Retail News

Minimum Advertised Price, or MAP, is coming under fire from a group of major retailers, according to the *Wall Street Journal*. The retailers, including eBay and Costco, have called for congress to pass laws that would prevent manufacturers from setting minimum prices. The Supreme Court ruled last year that it was legal for manufacturers to enforce minimum-pricing policies. Enforcement this season has reportedly been draconian, with third party monitoring services threatening discounters with trademark or copyright infringement if they don't conform to the MAP.

Cyber Monday online retail sales were up 15% over last year to \$846 million, according to comScore. Number of shoppers increased by 22% to 9.3 million, but dollars spent per buyer

declined by 5% to \$91.43. Orders from work computers accounted for half of all spending.

The **Infrastructure Cargo Fee** (ICF), forecast to generate more than \$200 million in its inaugural year for infrastructure projects across So. California, is being delayed and pared back. Originally slated to begin Jan. 1 with an additional \$15 charge on all containers coming into the port, the ICF will now begin on July 1, 2009 at a cost of \$6 per twenty-foot-unit (TEU) container and generate an estimated \$70 million in its first year versus an initial forecast of \$200 million. Despite the delayed implementation, local authorities remain convinced that the eight-year program will generate an estimated \$1.4 billion by 2016 for various local bridge, highway and rail projects.

Did You Know...?

The Institute for Supply Management nonmanufacturing index fell to 37.3% in November from 44.4% in October, with 17 out of 18 industries reporting decline.

Upcoming Reporting Dates

Company	Event	Date
Amazon.com, Inc.	Investor Conference	Dec 10, 2008
AmerisourceBergen	Investor Conference	Dec 11, 2008
Bakers Footwear Group	Quarterly Results	Dec 9, 2008
Bed Bath & Beyond	Quarterly Results	Jan 7, 2009
Gander Mountain	Quarterly Results	Dec 8, 2008
Gymboree	Investor Conference	Dec 9, 2008
Kroger	Quarterly Results	Dec 9, 2008
lululemon athletica	Quarterly Results	Dec 11, 2008
Neiman Marcus, Inc.	Quarterly Results	Dec 10, 2008
Retail Ventures, Inc.	Quarterly Results	Dec 9, 2008
Rite Aid	Quarterly Results	Dec 18, 2008
Tractor Supply	Investor Conference	Dec 10, 2008
Walgreens	Quarterly Results	Dec 22, 2008

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Mass Merchant Musings

Sears Holdings Corp.'s third quarter comp store sales declined 10.6% in Sears stores while Kmart's comps declined 7.0%. SHLD also took a \$61 million after tax charge for store closing expenses, but realized a \$29 million after tax gain on Sears Canada hedge transactions. Without one time items, net loss for the quarter would have been \$112 million rather than \$146 million.

Wal-Mart Stores, Inc. expects comp store sales for the December five-week period "near the high end" of the previously issued guidance of up 1% to 3%.

Family Dollar Stores, Inc. net sales increased 4.2% to \$1,753.8 million for the fiscal first quarter ended November 29. Comp store sales increased 2.1%. Full results for the first quarter will be released on January 7, 2009.

Big Lots, Inc. expects fourth quarter non-GAAP income from continuing operations to be \$0.90 to \$0.99 per share, assuming a comp store sales decrease of 2% to 4%. For the full year 2008, non-GAAP income from continuing operations of \$1.79 to \$1.88 per share on positive 1% comps.

Retailer of the Week: Huttig Building Products

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OPERATIONS

(\$ in Millions)	For the Third Quarter Ended			For the Nine Months Ended		
	9/30/2008	9/30/2007	Change	9/30/2008	9/30/2007	Change
Sales	\$182.8	\$233.0	-21.5%	\$545.0	\$694.9	-21.6%
Gross Margin	\$33.0	\$43.3	-23.8%	\$101.8	\$130.8	-22.2%
% of Sales	\$0.2	18.6%	-53 BP	\$0.2	18.8%	-14 BP
Overhead	\$39.2	\$42.3	7.3%	\$117.2	\$132.2	11.3%
Operating Income	(\$6.2)	\$1.0	N/A	(\$15.4)	(\$1.4)	-1000%
% of Sales	N/A	0.4%		N/A	N/A	
Net Income	(\$7.7)	(\$0.1)	-76000%	(\$20.0)	(\$2.4)	-733.3%
% of Sales	N/A	N/A		N/A	N/A	

Sales from continuing operations for the first nine months of 2008 were \$545.0 million, down \$149.9 million or 21.6%, versus the comparable period last year. Sales were impacted by a 30% drop in housing starts to an average annualized rate of approximately 0.99 million, compared to approximately 1.40 million in the first nine months of last year. Sales decreased in all product categories. Millwork sales decreased 29% to \$244.8 million, while Other wood products, mostly commodity products, decreased 30% to \$46.2 million and engineered wood sales were down 41% to \$16.7 million. General building products sales decreased 7% to \$237.3 million.

Exacerbating the sales shortfall, gross margins for the period declined approximately 14 basis points due mainly to the liquidation and write down of inventory at closed branches. In addition, margins were negatively impacted by a less favorable mix of millwork sales, which was substantially offset by higher margins on building products and more favorable inventory variances.

Mitigating the sales and margin shortfalls, management reduced overhead by 11.3%, covering about half of the \$29.0 million decline in gross margin, leaving the company with an operating loss of \$15.4 million, a decline of \$14.0 million versus operating loss of \$1.4 million for the nine months last year.

Management rightfully anticipates that housing starts will continue to decrease for the balance of 2008 and continues to examine its cost structure, looking for additional opportunities to reduce expenses and increase efficiencies. To that end, the company closed its Springfield, Missouri branch. The branch is relatively small and operates in a particularly difficult housing market. Management incurred roughly \$1.1 in closing costs for the branch closure during the third quarter

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Did You Know...?

U.S. factory orders fell 5.1% in October, the biggest drop since 2000, the Commerce Department reported. The decline was led by lower orders for transportation equipment.

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Retailer of the Week: Huttig Building Products

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and expects to incur another \$0.5 million in the fourth quarter. However, the company expects that approximately \$0.4 million of these charges to be cash payment, including the building lease rentals being paid out over the remaining term of the lease in 2008 and 2009.

LIQUIDITY AND CASH FLOW

While the company's balance sheet is nothing to write home about, it does look as though the company will be able to sustain itself over the next several quarters barring significantly more deterioration in the housing market. As of the end of the third quarter the company's current ratio a good measure of liquidity was at 1.4:1, solid though no spectacular and approximately the same as it was at the end of the third quarter last year. Working capital still covers approximately 2.8 months of expenses and is further augmented by a \$160 million revolving credit facility, which has been amended to provide more borrowing base capacity (see our most recent bank reference for details).

The company maintains a fairly stable leverage position with total debt running at approximately 66% of tangible net worth. Our main concern going forward centers on the company's ability to generate sufficient cash flow going forward. It would appear that the company has taken all of the fat out of the business and wrung as much working capital out of the business that it possibly can.

OUTLOOK

This year will, in all probability, separate the well-run from the also-rans in the construction supply market and in retail in general. It is going to take considerable management and financial skill for some companies to be able to wend their way through the difficult market this year. At this point we believe that Huttig is sitting on the edge, though we also believe management has shown some skill and has reacted favorably to adverse conditions. While we believe the company can surely go on for the next several quarters, we are concerned as to how the company will be able to generate sufficient cash flow to continue beyond the next several quarters. We will continue to monitor closely.

Did You Know...?

U.S. nonfarm payrolls fell by 533,000 in November the Labor Department reported Friday. It was the worst single month job loss in 34 years. The unemployment rate is now 6.7%.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook	
	Current	Prior	Current	Prior
SBARRO INC	CCC	CCC+	NEGATIVE	NEGATIVE
FINLAY FINE JEWELRY CORP	NR	SD	NR	NM
SEARS HOLDING CO. F/K/A K MART HOLDING CORP	BB-	BB	NEGATIVE	NEGATIVE
SAKS INC/FKA PROFFITTS INC	B	BB-	STABLE	STABLE
EL POLLO LOCO	CCC+	B-	NEGATIVE	NEGATIVE
CIRCUS AND ELDORADO JOINT VENTURE	B	B	NEGATIVE	STABLE
FINLAY ENTERPRISES INC	NR	SD	NR	NM
CHARMING SHOPPES INC	B-	B	STABLE	NEGATIVE
LIMITED BRANDS INC	BBB-	BBB-	NEGATIVE	NM
OCHARLEYS INC	B+	B+	NEGATIVE	STABLE
MARRIOTT INTERNATIONAL INC	BBB	BBB	NEGATIVE	STABLE
FOOT LOCKER INC	BB-	BB	NEGATIVE	NEGATIVE
ANNTAYLOR INC	BB-	BB-	NEGATIVE	STABLE

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Third Quarter Scorecard

\$ in Millions. Quarter ended closest to 10/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
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%	\$42.6	\$36.0	18.3%
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%	\$42.6	\$99.4	-57.1%
AnnTaylor Stores Corp.	\$527.2	\$600.9	-12.3%	-19.4%	(\$13.4)	\$40.8	-132.8%
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%	(\$14.3)	(\$19.4)	26.3%
Cache, Inc.	\$58.1	\$60.6	-4.1%	-4.0%	(\$1.6)	\$0.2	-1129%
Casual Male Retail Group	\$100.0	\$106.1	-5.7%	-5.3%	(\$3.2)	(\$1.2)	166.7%
Cato Corporation	\$179.8	\$181.9	-1.2%	-2.0%	\$0.8	\$2.9	-72.8%
Charlotte Russe Holding, Inc.	\$206.7	\$190.3	8.6%	-3.8%	(\$6.6)	\$8.4	-178.9%
Charming Shoppes, Inc.	\$553.1	\$599.7	-7.8%	-9.0%	(\$93.0)	(\$3.6)	-2483%
Chico's FAS, Inc.	\$394.2	\$415.9	-5.2%	-13.4%	\$2.0	\$23.6	-91.5%
Children's Place	\$450.6	\$430.6	4.6%	2.0%	\$24.1	\$12.3	95.9%
Citi Trends, Inc.	\$104.9	\$99.5	5.4%	-4.2%	(\$0.7)	(\$0.5)	-33.9%
Coldwater Creek Inc.	\$228.5	\$271.2	-15.7%	-20.5%	(\$1.3)	(\$6.2)	79.0%
dELIA*s, Inc.	\$56.9	\$52.0	9.4%	7.6%	\$3.5	\$0.0	NA
Dillard's, Inc.	\$1,546.1	\$1,674.2	-7.7%	-9.0%	(\$56.0)	(\$11.3)	-393.8%
Eddie Bauer Holdings	\$207.3	\$211.0	-1.8%	-1.1%	(\$18.6)	(\$16.4)	-13.4%
Gap Inc.	\$3,561.0	\$3,854.0	-7.6%	-12.0%	\$246.0	\$238.0	3.4%
Gottschalks	\$119.1	\$137.4	-13.3%	-12.1%	(\$10.1)	(\$4.1)	-146.3%
Gymboree Corporation	\$261.3	\$247.6	5.5%	-2.0%	\$30.9	\$26.9	15.1%
Hart Stores Inc.	\$46.2	\$41.3	11.9%	-2.4%	\$0.8	\$1.8	-57.0%
Hot Topic, Inc.	\$197.3	\$188.5	4.7%	1.0%	\$7.4	\$6.7	11.5%
J. Crew Group, Inc.	\$363.1	\$332.7	9.1%	-3.0%	\$19.0	\$26.8	-29.1%
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%	\$10.2	\$8.0	27.5%
JoS. A. Bank Clothiers	\$149.3	\$131.3	13.7%	7.0%	\$9.3	\$7.1	31.0%
Kohl's Corporation	\$3,803.6	\$3,825.2	-0.6%	-6.7%	\$160.2	\$194.0	17.4%
Limited Brands	\$1,842.2	\$1,923.1	-4.2%	-7.0%	\$4.2	\$12.1	-65.3%
Macy's, Inc.	\$5,493.0	\$5,906.0	-7.0%	-6.0%	(\$44.0)	\$33.0	-233.3%
Men's Wearhouse	\$459.7	\$512.1	-10.2%	-9.6%	\$14.6	\$37.1	-60.6%
New York & Company, Inc.	\$249.0	\$276.4	-9.9%	-14.0%	(\$7.9)	(\$16.0)	50.6%
Nordstrom, Inc.	\$1,805.0	\$1,970.0	-8.4%	-11.1%	\$71.0	\$165.7	-57.2%
Pacific Sunwear	\$323.6	\$341.9	-5.4%	-7.0%	(\$2.5)	(\$20.0)	87.7%
Retail Ventures, Inc.	\$503.5	\$489.4	2.9%	-3.3%	tba	\$68.2	tba
Ross Stores, Inc.	\$1,555.3	\$1,468.3	5.9%	0.0%	\$57.3	\$48.7	17.7%
Saks Incorporated	\$698.0	\$796.1	-12.3%	-11.5%	(\$42.8)	\$21.6	-298.2%
Stage Stores, Inc.	\$333.8	\$355.1	-6.0%	-10.3%	(\$102.8)	\$2.5	-4296%
Stein Mart, Inc.	\$298.8	\$333.3	-10.4%	-12.6%	(\$14.1)	(\$2.7)	-424.2%
Talbots, Inc.	\$357.3	\$414.0	-13.7%	-13.9%	(\$167.2)	(\$9.4)	-1681%
TJX Companies	\$4,761.5	\$4,658.7	2.2%	-1.0%	\$235.8	\$249.5	-5.5%
Tween Brands, Inc.	\$254.3	\$260.9	-2.5%	-11.0%	(\$0.8)	\$13.0	-106.4%
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%	\$6.8	(\$3.3)	304.8%
Sports & Footwear							
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%
Brown Shoe Company, Inc.	\$631.7	\$645.5	-2.1%	-5.0%	\$10.4	\$27.0	-61.5%
Cabela's	\$611.8	\$546.8	11.9%	-9.0%	\$9.7	\$13.2	-26.5%
Collective Brands (Payless)	\$862.7	\$830.7	3.9%	-3.2%	\$47.5	\$25.5	86.3%
Dick's Sporting Goods, Inc.	\$924.2	\$838.8	10.2%	-2.8%	\$7.4	\$12.2	-39.6%
DSW Inc.	\$391.4	\$367.4	6.5%	-4.1%	\$13.2	\$22.4	-41.2%
Foot Locker	\$1,309.0	\$1,356.0	-3.5%	-1.7%	\$24.0	(\$33.0)	172.7%
Gander Mountain	\$270.0	\$260.0	3.8%	-6.5%	\$0.7	(\$5.1)	113.7%
Genesco Inc.	\$389.8	\$372.5	4.6%	2.0%	\$9.4	\$5.6	67.9%

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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
Sports & Footwear							
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%
Hibbett Sporting Goods, Inc.	\$140.1	\$129.6	8.1%	0.4%	\$7.7	\$7.8	-2.1%
Recreational Equipment	\$347.9	\$313.7	10.9%	NA	\$2.1	\$4.6	-54.3%
Shoe Carnival, Inc.	\$170.1	\$173.9	-2.2%	-5.0%	\$2.6	\$4.2	-38.1%
Walking Company, The	\$42.7	\$36.9	15.7%	7.0%	(\$2.9)	\$0.9	-405.1%
West 49 (C\$)	\$61.7	\$59.1	4.4%	2.1%	\$2.1	\$2.6	-19.2%
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%	NA	\$1.4	\$1.1	19.5%
Zumiez Inc.	\$112.2	\$104.0	7.9%	-5.8%	\$6.8	\$8.1	-16.0%
Specialty							
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%
Amscan Holdings, Inc.	\$362.1	\$283.3	27.8%	tba	\$4.6	\$0.4	-1050%
Barnes & Noble, Inc.	\$1,123.4	\$1,175.5	-4.4%	-7.4%	(\$18.4)	\$4.4	-518.2%
Blue Nile, Inc.	\$65.4	\$67.4	-2.9%	NA	\$2.3	\$3.0	-22.6%
Books-A-Million, Inc.	\$111.0	\$117.7	-5.7%	-9.9%	(\$2.2)	(\$0.6)	294.1%
Borders Group, Inc.	\$693.4	\$765.2	-9.4%	-12.8%	(\$175.4)	(\$161.1)	-8.9%
Brookstone, Inc.	\$89.5	\$91.3	-2.0%	-5.9%	(\$10.4)	(\$10.2)	-2.0%
Cost Plus, Inc.	\$213.0	\$214.6	-0.8%	-3.4%	(\$25.8)	(\$13.9)	-85.6%
Ethan Allen	\$205.8	\$248.7	-17.2%	-19.0%	\$7.4	\$17.5	-57.7%
Finlay Enterprises, Inc.	\$160.3	\$141.9	13.0%	-14.9%	(\$20.8)	(\$7.5)	-176.6%
Haverty Furniture	\$175.6	\$200.7	-12.5%	-14.9%	(\$1.5)	\$0.6	-334.4%
Kirkland's, Inc.	\$85.9	\$88.7	-3.2%	1.2%	(\$1.5)	(\$10.7)	86.2%
Leon's Furniture Limited	\$259.2	\$216.2	19.9%	7.9%	\$17.5	\$16.2	8.0%
Michaels Stores, Inc.	\$906.0	\$934.0	-3.0%	-6.5%	(\$20.0)	(\$18.0)	-11.1%
Movado Group, Inc.	\$135.8	\$180.2	-24.6%	NA	\$15.7	\$26.5	-40.8%
Pet Valu Inc.	\$46.6	\$41.5	12.3%	5.8%	\$4.0	\$3.1	29.0%
PetSmart, Inc.	\$1,251.1	\$1,115.9	12.1%	5.4%	\$35.8	\$29.5	21.6%
Tiffany & Co.	\$618.2	\$627.3	-1.5%	-7.0%	\$43.8	\$101.5	-56.8%
Williams-Sonoma, Inc.	\$752.1	\$895.1	-16.0%	-21.4%	(\$11.0)	\$27.1	-140.6%
Home Centers							
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%	NA	(\$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%	11.5%	\$72.9	\$62.1	17.4%
Home Depot, Inc.	\$17,784.0	\$18,961.0	-6.2%	-8.3%	\$756.0	\$1,091	-30.7%
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%	10.0%	\$140.0	\$109.2	28.2%
Wesco International	\$1,628.1	\$1,545.6	5.3%	NA	\$65.9	\$71.8	-8.2%
Food							
Arden Group	\$114.2	\$119.4	-4.4%	-4.4%	\$4.1	\$8.9	-53.9%
Casey's General Stores	\$1,389.2	\$1,189.3	16.8%	4.9%	\$27.3	\$27.7	-1.3%
Loblaws 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%
Village Supermarket, Inc.	\$291.0	\$263.6	10.4%	4.2%	\$6.4	\$4.3	48.8%
Weis Markets, Inc.	\$603.9	\$565.0	6.9%	6.2%	\$8.1	\$10.8	-25.0%

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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
High-Tech & Electronics							
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%	(\$7.7)	\$4.0	-292.5%
GameStop Corp.	\$1,695.7	\$1,611.2	5.2%	-1.8%	\$46.7	\$52.0	-10.2%
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%
Staples, Inc.	\$6,950.9	\$5,168.4	34.5%	-8.0%	\$156.7	\$274.5	-42.9%
Systemax Inc.	\$739.5	\$687.3	7.6%	NA	\$11.3	\$17.6	-35.8%
Tech Data Corporation	\$6,136.1	\$5,923.8	3.6%	NA	\$18.4	\$40.9	-55.0%
Trans World Entertainment	\$195.2	\$260.6	-25.1%	-14.0%	(\$28.4)	(\$14.3)	-98.6%
Zones, Inc.	\$197.7	\$163.0	21.3%	NA	\$1.2	\$2.6	-55.4%
Drug							
Abbott	\$7,497.7	\$6,376.7	17.6%	NA	\$1,085	\$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%
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%
Rite Aid Corp.	\$6,444.0	\$6,499.0	-0.8%	1.4%	tba	(\$84.9)	tba
Shoppers Drug Mart	\$2,793.0	\$2,542.7	9.8%	5.0%	\$162.5	\$141.7	14.7%
Ulta Salon, Cosmetics, Fragra	\$254.8	\$208.2	22.4%	2.0%	\$5.0	\$4.2	19.0%
Mass Merchants							
Big Lots, Inc.	\$1,021.6	\$1,030.6	-0.9%	-0.2%	\$12.2	\$14.3	-14.3%
BJ's Wholesale Club, Inc.	\$2,458.9	\$2,174.4	13.1%	11.9%	\$28.2	\$22.7	24.2%
Canadian Tire	\$2,182.8	\$2,051.3	6.4%	2.0%	\$105.0	\$102.3	2.6%
Dollar General Corporation	\$2,598.9	\$2,312.8	12.4%	10.6%	(\$7.3)	(\$33.0)	77.9%
Dollar Tree Inc.	\$1,114.0	\$997.8	11.6%	6.2%	\$43.1	\$35.9	20.1%
Fred's, Inc.	\$418.0	\$419.9	-0.5%	1.4%	\$6.1	\$4.6	32.3%
Overstock.com	\$186.9	\$160.1	16.7%	NA	(\$1.6)	(\$5.6)	71.4%
Sears Canada Inc.	\$1,442.2	\$1,367.6	5.5%	0.9%	\$68.9	\$104.0	-33.8%
Sears Holding Corp.	\$10,660.0	\$11,622.0	-8.3%	-9.0%	(\$146.0)	\$4.0	-3750%
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%

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