

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### Remember...

*It is our responsibilities, not ourselves, that we should take seriously.*

## Foreclosures, Delinquencies Hit Record High

The percentage of U.S. mortgage holders who were behind in their payments soared to a record 6.99% of liens outstanding in the third quarter, the Mortgage Bankers Association said, and the number of mortgages somewhere in the foreclosure process was also at a new high.

But the number of mortgages on which foreclosure proceedings was started actually fell slightly during the third quarter compared with the second quarter, according to the Mortgage Bankers Association's quarterly delinquency survey. That doesn't necessarily indicate a slowdown in foreclosures, said Jay Brinkmann, MBA's chief economist.

"An initial look at the number of foreclosure starts would seem to indicate at least a leveling off of foreclosures. These number, however, are being influenced by several factors including various moratoria on foreclosure filings and by mortgage companies holding loans in the 90-plus-day bucket during the modification and workout process," said Mr. Brinkmann.

"Evidence of this can be seen in the large increase in loans 90 days or more past due but not yet in foreclosure. This rate jumped by 45 basis points, the highest increase in this category ever recorded in the MBA survey and far above the average 4 basis point jump we would expect to see."

Mortgages entering the foreclosure process fell to 1.07%, from 1.08% in the second quarter but were up from 0.78% a year ago. The delinquency rate for mortgage loans on one- to four-unit properties was a seasonally adjusted 6.99% of all loans outstanding at the end of the third quarter and 5.59% a year ago, according to the survey.

The percentage of loans somewhere in the foreclosure process also rose in the third quarter to 2.97%, up from 2.75% in the second quarter and 1.69% a year ago. Subprime mortgages continued to perform poorly, with more than 19.5% of those loans seriously delinquent in the third quarter, *(continued on page 2)*

## Retailer of the Week: Michaels Stores

Michaels Stores saw operating earnings fall in the third quarter and first nine months of fiscal 2009 as compared to fiscal 2008. Losses after covering sizable interest expense were also up in the third quarter but lower fiscal year to date due mainly to a higher tax benefit realized during last year. Given that comp store sales declined in the third quarter at a rate not seen in any recent memory, if ever at all, we are not optimistic about a fourth quarter gain in operating performance. And since the Company's remains extremely leveraged with billions of debt, Global Credit will maintain its "E+" credit rating for Michaels Stores, reflecting fairly high credit risk to vendors shipping merchandise or providing services to the Company on open credit terms. We anticipate possibly seeing a net loss for fiscal 2009.

### BACKGROUND

Michaels Stores is the nation's largest arts, crafts, and hobby retail chain. The Company trades under the Michaels name and on the West Coast under the Aaron Brothers name. As of November 1, 2008, there were 1,013 Michaels Stores and 163 Aaron Brothers stores in operation. Just about all of the recent store expansion has been within the Michaels chain. Michaels Stores is considering several options with respect to the Aaron Brothers chain, including closing some or all of that chain. *(continued on page 7)*

## Foreclosures, Delinquencies Hit Record High

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meaning homeowners were more than 30 days past due on payments. Both prime and subprime adjustable-rate mortgages continue to have the highest share of foreclosures, and California and Florida continue to drive national numbers on foreclosure starts.

In past quarters, the main reasons that California and Florida had some of the highest foreclosure starts had to do with a combination of too many houses built, speculation and weak underwriting. Those states still have the highest shares of foreclosure starts, but now people are also falling behind because of job losses.

The job losses make it more difficult to anticipate when foreclosure problems will ease. Foreclosure starts are on pace to end up at 2.2 million for 2008, but with more than a million jobs lost in November, that figure will only continue to grow in the next few quarters.

In the third quarter, the delinquency rate for mortgages 30 days or less past due was still below levels seen in 2002, but loans that are in that delinquency category are more likely to end in foreclosure these days. In the past, 12% to 15% of mortgages that were 30 days or less overdue on one quarter ended up in foreclosure the next quarter. In 2007 and 2008, 30% of those loans ended up in foreclosure the following quarter. And in California, 75% of loans overdue by a month or less are ending up in foreclosure the next quarter.

### FYI for the DIY

**Home Depot** and **Lowe's Inc.** will pay over \$560,000 in civil penalties and costs to settle civil complaints in Ventura County, California. The complaints alleged that the retailers sold water heater installation services and charged customers for nonexistent building permits.

**Keith Brown Building Materials** shut its doors for good on December 2nd. The company operated 10 units in California and Oregon, down from 14 at the beginning of the year.

**Stock Building Supply** is closing its Phoenix location next month, according to the *Phoenix Business Journal*, which obtained the news from the Arizona Department of Economic Security. Approximately 123 workers will be laid off,

according to the newspaper. On October 23rd, Stock's parent company, U.K.-based Wolseley, announced a major consolidation at Stock that will ultimately result in the closure of 86 units.

**Building Materials Holding Corp.** will change its corporate headquarters on January 1 to 720 Park Boulevard, Suite 200, Boise, Idaho 83712. The current San Francisco headquarters will be closed as part of the company's restructuring and cost reduction efforts.

**Sherwin-Williams Co.** has reached an agreement to acquire marine and protective coatings manufacturer Euronavy-Tintas Maritimas e Industriais S.A. of Portugal. Terms were not disclosed.

### Upcoming Reporting Dates

Company	Event	Date
Bed Bath & Beyond	Quarterly Results	Jan 7, 2009
Quiksilver, Inc.	Quarterly Results	Dec 18, 2008
Rite Aid	Quarterly Results	Dec 18, 2008
Walgreens	Quarterly Results	Dec 22, 2008

### 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](mailto:inbox@globalcreditservices.com).

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## Bankruptcy Blotter

Moody's is reporting that the default rate for speculative grade, or junk, companies is expected to jump to 10.4% in the next 12 months – implying about 225 companies will fail. In November, the speculative-grade default rate reached 3.1% up from 2.9% in October, their highest levels in more than four years.

Retailers grappling with the grimmest holiday shopping season in decades face another threat: a boom in liquidation sales by competitors. Through the third quarter, large U.S. retailers announced 4,632 store closings, according to the **International Council of Shopping Centers**.

**KB Toys**, which filed for Chapter 11 for a second time, filed an emergency motion to allow the company to immediately engage **Gordon Brothers** and **Great American Group LLC** to begin GOB sales right away. The quick approval is needed in other for KB Toys to take advantage of the holiday shopping season. KB indicated that with the help of FTI Consulting several firms were contacted with this group providing the best offer.

**Value City's** creditors won court approval to hire **Otterbourg, Steindler, Houston & Rosen P.C.'s** to represent the committee, despite claims by the federal trustee that the law firm has connections to the equity holders, lenders and liquidator that the committee is seeking to investigate. However, the law firm is barred from rendering services involving probes into pre-bankruptcy transactions between Value City, lender **Wells Fargo Retail Finance LLC**, liquidator **Tiger Capital Group LLC** and the retailer's equity owners.

The Unsecured Creditors' Committee is objecting to the Disclosure Statement and accompanying Plan of Reorganization for be filed by **Shoe Pavilion**, claiming the statement fails to provide a completed description of

assets and the fair value of those assets; fails to provide an adequate value of the business as a going concern; fails to account for discrepancies with regards to the amount of cash on hand; and fails to provide an analysis of administrative expenses.

In other news, the court gave approval for **Circuit City** to proceed with the closure of 154 of its 721 U.S. locations. The liquidation sales are being conducted by **Hilco Merchant Resources** and **Gordon Brothers Retail Partners**. The company is still awaiting final court approval for it to borrow on its \$1.1 billion DIP facility. Final approval on the DIP facility for **Circuit City** has been postponed until December 22<sup>nd</sup> at 10 a.m.

**Linens 'n Things'** newly drafted plan to divvy up its remaining assets could leave senior noteholders with only a 25% to 30% recovery on their claims and unsecured creditors virtually empty-handed.

**Kohl's** prevailed in a joint bid with **Forever 21, Inc.** in an auction of leaseholds held yesterday for **Mervyns** sites. Together, the retailers acquired 46 locations for approximately \$6.25 million with Kohl's assuming 31 of the locations while Forever 21, Inc. will assume 15, pending court approval.

Underscoring the industry's plight, **General Motors** management recently tapped bankruptcy veteran **Harvey Miller** of **Weil Gotshal & Manages LP** to handle what would be on of the largest and most controversial bankruptcy filings in U.S. history. Others involved in the matter include restructuring veterans **Jay Alix**, **Evercore Partners' William Repko**, **Blackstone Group's Arthur Newman** and **Martin Bienenstock** at the law firm of **Dewey & LeBoeuf LLP** who worked on the Enron bankruptcy.

### Did You Know...?

*Retail sales fell 0.7% and foot traffic to stores dropped 16.7% in November, according to ShopperTrak RCT Corp.*

## Mass Merchant Musings

**Wal-Mart Canada** saw employees of its Weyburn, Saskatchewan store granted union status by the Saskatchewan Labor Relations Board. Workers at two other Saskatchewan stores have also applied for unionization. Wal-Mart will appeal to the labor board, as the workers never voted for unionization with a secret-ballot vote.

**Wal-Mart Stores, Inc.** has settled a wage and hour class action suit in Minnesota. The retailer

will pay up to \$54.25 million to settle the claims of approximately 100,000 current and former hourly workers at Minnesota Wal-Mart and Sam's Clubs. Wal-Mart also ensure compliance with state wage and hour laws going forward.

**PriceSmart, Inc.** sales increased 21.7% to \$298.5 million in the fiscal first quarter ended November 30. Comparable warehouse sales rose 14.3%. PriceSmart operates 25 warehouse clubs in Central America and the Caribbean.

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## Heard in the Grocery Aisle

**Loblaw Cos.** Majority shareholder George Weston Ltd. is selling its U.S.-based baking business to Grupo Bimbo of Mexico for US\$2.5 billion. The company announced it plans to use the cash for acquisitions, and there has been speculation that it may try to buy out the other Loblaw shareholders.

**Whole Foods Market** filed an action in the D.C. U.S. District Court to prevent the FTC from hearing the case against WFMI itself. The lawsuit accuses the FTC of publicly prejudging the case and rushing to trial, and asks the agency to recuse itself and allow a U.S. Judge to hear the case.

**Giant Eagle** is taking aim at value chains like Aldi with a new price-impact format Valu King Food Market in suburban Cleveland, Ohio. The 28,000 sq ft store offers a reduced assortment of lower-priced packaged goods, meat and produce, along with a dollar store section. Giant Eagle says the store is just a test, and there are not currently plans for more locations.

**Kroger Co.** said it continues to expect identical store sales growth for FY08 of 4.5% to 5.5%,

excluding fuel. Earnings guidance for the year was raised to a range of \$1.88 to \$1.91 per share following a strong third quarter. Kroger's guidance includes a charge of \$15.9 million after tax for Hurricane Ike damage.

**Safeway** is getting into the shopping mall development business, with an eye toward the many opportunities in undervalued real estate. The company has created a real estate development arm that is reviewing 36 potential projects, according to management.

**Aldi Inc.** will open at least 25 stores in Dallas-Fort Worth in spring 2010, according to *The Dallas Morning News*. The original plan for Florida and Texas expansion projected Texas stores opening in 2009. Aldi opened its first stores in Florida in September.

**Unified Grocers** sales rose 31% \$4.105 billion for the fiscal year ended September 27. Net income was up 20.6% to \$17.4 million. \$805.7 million (25.7%) of its sales growth came from the acquisition of Associated Grocers, Inc.

### Did You Know...?

*Chinese exports dropped by 2.2% in November, the first decline since June 2001, the BBC reported.*

## General Retail News

**E-commerce spending** for December 1 through 5 totaled \$3.743 billion, according to comScore, up 9% from last year. Retail site traffic is up 2% y-o-y. Top categories were Sports & Fitness (+35%) and Consumer Electronics (+24%). According to comScore, the websites registering the highest increases in unique visitors this holiday season include Amazon (+10%) and Wal-Mart (+7%) while the number of y-o-y unique visitors has fallen at the likes of Target (-2%), JC Penney (-3%) and Overstock.com (-15%).

**Holiday marketing and advertising budgets** at 32% of major retailers have been reduced this season, according to a survey of chief marketing officers by BDO Seidman. 43% of the retailers project a flat budget and 25% will increase advertising and marketing spending.

**Tesco** will pass **Carrefour** for second place (behind **Wal-Mart**) on the world's largest retailers list by 2012, according to market research company IGD. IGD forecasts that Tesco will have CAGR of 11% over the next five years, based on its aggressive international expansion.

Manpower Inc.'s quarterly **Employment Outlook Survey** finds that 67% of U.S. employers are planning no change in their workforce in the first quarter of 2009, up 8% from last quarter. This change possibly signals a slowdown in the pace of downsizing.

December **container traffic** into U.S. ports fell for the 16th consecutive month in Nov., leaving 2008 to be slowest year since 2004. According to data supplied by the National Retail Federation (NRF), annual volume is now pegged at 15.3 million Twenty-Foot-Equivalent (TEU) units vs. 16.5 million TEU in 2007, a year-over-year decline of 7.1%.

**Retail crime** is on the rise this holiday season, according to the Current Crime Trends Survey from Retail Industry Leaders Association. The survey of 52 major retailers found that:

- 84% report an increase in theft/amateur shoplifting
- 76% report an increase in financial fraud
- 80% report increases in organized retail crime

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## Management on the Move

**The Talbots, Inc.** named **Michael Scarpa** Chief Operating Officer. Scarpa was COO at Liz Claiborne previously.

**BJ's Wholesale Club, Inc.** named President and COO **Laura Sen** CEO, effective February 1, 2009. She will retain the title of president and continue to serve on the board of directors. Outgoing CEO **Herb Zarkin** will continue as Chairman.

**Duckwall-ALCO Stores, Inc.** named **Jim Spencer** SVP – Operations. Spencer is an 18-year Wal-Mart veteran, and was most recently VP of Operations for its international division.

**Dollar General Corp.** appointed CEO **Richard W. Dreiling** Chairman of the Board, effective immediately.

**Fred's Inc.** promoted President **Bruce A. Efird** to CEO, effective February 1, 2009. Efird will retain the title of President and remains a director of the Company. Current CEO **Michael J. Hayes** will continue as Chairman of the company's board.

**Delhaize Group** appointed **Stefan Descheemaeker** Chief Financial Officer, effective January 2009. He has spent the last 12 years working in several managerial roles at Anheuser-Busch InBev.

**Big Lots** appointed **Peter J. Hayes** to the company's board. Hayes is a 35-year retail

veteran who was most recently COO of Variety Wholesalers, Inc.

**HSN Inc.** appointed **John "Jay" Morse Jr.** to fill a newly expanded tenth seat on the company's board. Morse is CFO of The Washington Post Co.

**Duane Reade** appointed **Frank Scorpiniti** as SVP Pharmacy Operations. Scorpiniti was most recently VP Pharmacy Operations for Longs Drug Stores.

**Costco Wholesale Corp.** elected **Jeff Raikes** to its board. Raikes is the CEO of the Bill and Melinda Gates Foundation.

**ABC Carpet & Home** sees VP Merchandising **Steve Goldberg** and DMM **Victor Hollingsworth** depart, according to *Furniture Today*.

**Pacific Sunwear** Division President **Thomas Kennedy** is leaving the company. His responsibilities are being re-assigned to other members of PacSun's management team.

**Retail Ventures, Inc.** promoted EVP and CFO **James A. McGrady** to President and CEO. He will continue to hold the CFO position. McGrady's term will begin on February 1, 2009, upon the departure of Heywood Wilansky.

**Ingram Micro** named **Mario F. Leone** SVP and Chief Information Officer. Leone previously held the same position at Federal-Mogul Corp.

### Did You Know...?

*First-time state unemployment filings rose by 58,000 to 573,000 in the last week of November, according to the Labor Department. Continuing unemployment claims were up 338,000 to 4.43 million.*

## Off the Rack

**Neiman Marcus Inc.** sales fell 12.9% to \$985.8 million for the fiscal first quarter ended November 1. Comp store sales declined 14.5% during the quarter. Specialty retail revenues were 14% to \$827.1 million, while Direct marketing revenues were down 7% to \$158.7 million. Earnings fell 83.6% to \$12.9 million.

**Mothers Work, Inc.** has changed its corporate name to **Destination Maternity Corp.** as part of the company's strategic restructuring. The company's Nasdaq symbol has changed from MWRK to DEST.

**Casual Male Retail Group, Inc.** adopted a "poison pill" rights plan, consisting of one preferred stock purchase right distributed as a

dividend for each outstanding share of common stock. The rights are triggered if an entity accumulates or makes an offer for 15% or more of the company's stock.

**JC Penney** has stopped using Oak Harbor Freight Lines following a report by the International Labor Rights Forum that Oak Harbor has violated international labor rights standards. Teamsters have been striking the company since September.

**Talbots Inc.** will open 12 outlet stores in 2009 and plans to open up to 30 over the next three years. The stores will be located in premium outlet malls and will carry outlet-specific merchandise.

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## The Global World of Sports and Footwear

**Lululemon Athletica Inc.** lowered guidance after reporting a disappointing third quarter. For Q408, revenue is expected to be \$90 to \$95 million, based on a comp store sales decline in the low double digits (constant \$). Earnings are expected to be \$0.15 to \$0.17 per share. For the full year, LULU expects earnings of \$0.55 to \$0.57 per share—down from previous guidance of \$0.68 to \$0.71 per share—on revenues of \$340 to \$345 million.

**Snow Sports** merchandise sales rose 9% between Aug. 1 and Oct. 31, according to data compiled by Leisure Trends Group and reported by SnowSports Industries America (SIA). E-commerce sales of snow sports merchandise rose 27% in dollars (and 36% in units) to \$131 million between Aug. and Oct. Meanwhile, specialty shop sales rose 3.8% y-o-y to \$297 million with alpine skis flat and snowboards up 7% in dollars. Chain store sales, meanwhile, were \$78 million during the timeframe with skis (-21%), snowboards (-17%) and equipment (-8%) and accessories (-8%) all off in dollars spent.

**Boot Barn**, controlled by private equity firm Marwit Capital Partners, completes the acquisition of 14 retail stores and certain trademarks from bankrupt BTWW Retail. Financial terms were undisclosed. Based in Orange, CA, Boot Barn is now the largest specialty retailer of western and work footwear and apparel in the U.S with 81 doors in five states.

**SG/Hobby/Book & Music Store** sales fell 4.3% on a non-adjusted basis in Nov. to \$7,622 million, according to monthly data released by the U.S. Census Bureau. On an adjusted basis, category sales were off 0.9% year-over-year to \$7,350 million. All U.S. retail and food service sales for Nov. were down 7.4% y-o-y to \$355.7 billion.

**Gander Mountain** estimated fourth quarter comps will be negative mid single digits, but said they were running ahead of those expectations in November. Total CapEx for 2008, including capital leases, is expected to be less than \$25 million versus the \$50 million spent in 2007.

**The Sports Authority** is closing one of its three Albuquerque, NM stores by year-end due to low foot traffic.

**Academy Sports** is adding two 75,000 sq. ft. stores in the Alabama markets of Montgomery and Prattville next year. The chain currently has 112 doors in 11 Southern U.S. states.

Chinese joint venture **USG Sports**, which was attempting to merge retailers Shanghai Rui Li, Shenyang Peng Da, Jin Lang and Shenzen Ling Pao, has collapsed due to financial difficulties, management disagreements and a sudden deterioration in the Chinese sports retail segment. The venture was backed by former Adidas CEO Robert Louis-Dreyfus' United in Sports.

### Did You Know...?

*U.S. households' total outstanding debt shrank 0.8% to \$13.91 trillion in the third quarter, the first decline in household debt ever recorded, according to the Federal Reserve.*

## Specialty Items

**Pep Boys** has secured commitments from a syndicate led by Bank of America for a \$300 million credit facility to replace its existing revolving credit facility, which was set to mature on December 9, 2009.

**AutoZone, Inc.** sales increased 1.6% to \$1.478 billion in the first fiscal quarter ended November 22. Same store sales decreased 1.5%. Net

income was off 0.8% to \$131.4 million, as a slight increase in operating expenses offset a 20 basis point improvement in gross margin. AutoZone has 4,272 stores in North America.

A Detroit area **La-Z-Boy** retail licensee is closing seven La-Z-Boy Furniture Galleries, according to the *Detroit Free Press*. Showcase Shoppe of Detroit Inc. owns the stores.

## Health & Beauty Aids

**Rite Aid** agreed to pay up to \$1.3 million to settle accusations that it sold expired products, including OTC drugs, baby formula, milk and eggs in its stores in New York state. The state is currently pursuing legal action against **CVS** over the same issue.

**Walgreens'** Take Care Health Systems now has

15 in-store clinics in Pennsylvania. Four clinics just opened in the Pittsburgh metro region following seven that opened recently in the Philadelphia area.

**Big Y Foods** added its 33<sup>rd</sup> pharmacy, purchasing Vincent's Pharmacy in Rockville, Connecticut.

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## Hi Tech Entertainment

**Office Depot, Inc.** updated its strategic restructuring plan, and now plans to close 112 stores in the next three months. Just 20 new stores will open in 2009, down from the previous estimate of 40. CapEx will be less than \$200 million in 2009. The company will also close six of its 33 distribution facilities in North America. ODP will take \$270 to \$300 million in charges over the next five quarters for these actions, of which \$40 million will be in cash. The company projects that 2009 EBIT and cash flow will benefit by \$90 million and \$70 million respectively.

Consumer electronics sales through retail stores fell 8.4% Thanksgiving week, according to the NPD Group. Some strong sellers included notebook computers and LCD TVs above 30 inches, both up 9% in dollars.

**REX Stores Corp.**'s third quarter results in the scorecard include its ethanol business. RSC's retail stores segment revenues fell 22.8% to \$41.2 million, with comp store sales declining 13.6%. Net income for the retail business was \$2.8 million vs. \$2.5 million in Q307.

## Retailer of the Week: Michaels Stores

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In October 2006, Michaels Stores was acquired by Bain Capital Partners and The Blackstone Group using assets of the business to pledge for debt. This transaction left the Company with more than \$4 billion of debt on the balance sheet. Most of that debt was then subsequently resold in the open market, which in turn requires Michaels Stores to file financial statements with the Securities and Exchange Commission.

Currently, Michaels Stores pays a quarterly management fee of \$4 million to this group. Bain and Blackstone also provide Michaels Stores with certain vendor services such as printing and ad support through various of its subsidiaries.

### OPERATING PERFORMANCE

INCOME STATEMENT	3RD QTR FY 08	3RD QTR FY 09	YTD FY 08	YTD FY 09
Net Sales	\$934 mm	\$906 mm	\$2.56 b	\$2.55 b
Comp Store Sales	1.9%	(-6.5%)	0.7%	(-4.1%)
Store Count			1,128	1,176
Gross Margins	\$343 mm (36.7%)	\$322 mm (35.5%)	\$959 mm (37.4%)	\$926 mm (36.3%)
Overhead, also includes management fee and store pre opening costs	\$268 mm (28.6%)	\$254 mm (28%)	\$776 mm (30.3%)	\$783 mm (30.7%)
<b>Operating Income</b>	<b>\$75 mm (8%)</b>	<b>\$68 mm (7.5%)</b>	<b>\$183 mm (7.1%)</b>	<b>\$143 mm (5.6%)</b>
Interest Expense	\$95 mm	\$77 mm	\$285 mm	\$231 mm
Transaction Expenses from buy out by Bain & Blackstone	\$8 mm	\$0	\$29 mm	\$0
Other Income/Expense (net)	\$6 mm	(\$3) mm	\$11 mm	\$3 mm
Loss from Discontinued Store Operations	\$5 mm	\$0	\$7 mm	\$0
<b>Net Loss (income tax benefit for both FY 2008 periods and YTD FY 90 period)</b>	<b>(\$18) mm</b>	<b>(\$20) mm</b>	<b>(\$85) mm</b>	<b>(\$70) mm</b>

*(continued on page 8)*

### Did You Know...?

U.S. retail sales fell 1.8% in November, the Commerce Department reported. Excluding gasoline, retail sales only dropped 0.2%.

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## Retailer of the Week: Michaels Stores

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The negative comp store sales did not allow Michaels Stores to sufficiently leverage rising occupancy expenses against sales. This in turn led to a lower margin rate for both this fiscal year's period. Along with lower sales, the lower margin performance forced the decline in operating income in both dollar and percentage of sales terms.

The cost structure for the (third) quarter to quarter period decreased by 60 basis points due to lower bonus pay, partially offset by higher ad spend. For the fiscal year to period, expenses rose by 40 basis points due to remodeling activity undertaken in stores during the first half to keep sites "fresh looking."

Interest expense benefited from lower LIBOR rates charged on term loan and long term notes. New store opening expenses remained at \$3 million for the third quarter and \$6 million fiscal year to date.

BALANCE SHEET/LIQUIDITY	11/3/2007	11/1/2008
Cash	\$57 mm	\$92 mm
Inventory/Inventory Days Turnover	\$1.03 b/154 days	\$1.08 b/162 days
Adjusted Current Assets (cash and inventory)	\$1.08 b	\$1.17 b
Tangible Assets	\$1.85 b	\$1.82 b
Payables/Payable Days Turnover	\$282 mm/42 days	\$274 mm/41 days
Revolver Borrowings	\$449 mm	\$407 mm
Term Loan Debt and Notes	\$3.73 b	\$3.78 b
Total Liabilities	\$4.9 b	\$4.88 b
Debt to Tangible Assets	202%	208%
<b>Adjusted Current Ratio</b>	<b>1.0:1</b>	<b>1.1:1</b>
<b>Tangible Leverage</b>	<b>265%</b>	<b>268%</b>

### Did You Know...?

The U.S. producer price index fell 2.2% in November, largely driven by the drop in energy prices. The core PPI-excluding food and energy-rose 0.1%.

Needless to say, the Company's balance sheet remained extremely weighed down with debt. Availability as of November 1, 2008 under a \$1 billion secured revolver was \$510 million and then had risen to \$630 million on December 1, 2008. While the credit facility should provide liquidity for the short term, we are concerned about this mountain of debt, and the interest expense therein, and how it will stifle Michaels Stores if operating earnings continue to erode.

As of November 1, 2008, there was a little more than \$2.3 billion owed under the term loan. This loan requires regularly scheduled quarterly payments.

### OUTLOOK

Again, for the short term we see no liquidity emergency, particularly as there was \$94 million of depreciation and amortization expense fiscal year to date 2009. This is a non cash expense within SG&A expenses. Still if operating earnings continue on a downward path, the Company may need to eventually borrow under its credit facility to fund losses. Unfortunately, little can be done with the long term debt other than having the pressure of the resulting burdensome interest expense probably for years to come.

Clients will certainly be very interested in fourth quarter results as that may be a indicator of what fiscal 2010 may shape up to be. The third quarter comp store sales decline, by far greater than anything experience in quite awhile (if ever), is troublesome and makes us wonder what the near term might bring.

Once fourth quarter and full fiscal year results are made available, Global Credit will be in a better position to predict possible future trends. Those results should be released in April 2009, unfortunately, several months still away.

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## Third Quarter Scorecard

\$ in Millions. Quarter ended closest to 10/31/08	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<b>Apparel</b>							
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%
Belk, Inc.	\$741.4	\$808.5	-8.3%	-9.8%	(\$23.5)	(\$6.9)	-240.6%
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%
Buckle, Inc.	\$210.6	\$167.6	25.7%	19.1%	\$29.1	\$22.2	31.1%
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%	\$10.0	\$68.2	-85.4%
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%
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc.	\$41.1	\$40.3	2.0%	4.5%	(\$8.3)	(\$15.3)	45.7%
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	\$269.9	\$259.5	4.0%	-6.5%	\$0.8	(\$5.1)	114.9%
Genesco Inc.	\$389.8	\$372.5	4.6%	2.0%	\$9.4	\$5.6	67.9%
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%
Lululemon Athletica Inc.	\$87.0	\$64.9	34.1%	-2.0%	\$8.8	\$7.6	15.8%
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%

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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>							
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%
<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%
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%
Hancock Fabrics, Inc.	\$70.6	\$69.7	1.3%	2.1%	(\$2.5)	(\$6.1)	59.0%
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%
Pep Boys -Manny, Moe & Jack	\$464.2	\$528.8	-12.2%	-10.4%	(\$7.3)	(\$28.0)	73.9%
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%
<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%	NA	(\$18.9)	(\$12.0)	-57.5%
Building Materials Holding Corp	\$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%
<b>Food</b>							
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%
Empire Company Ltd.	\$3,727.9	\$3,484.8	7.0%	5.4%	\$65.7	\$58.4	12.5%
Kroger Co.	\$17,579.9	\$16,135.6	9.0%	5.6%	\$237.7	\$253.8	-6.3%
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%
Penn Traffic Co.	\$287.3	\$298.7	-3.8%	-0.8%	(\$5.6)	(\$9.6)	41.7%
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%
<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%	(\$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%

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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>High-Tech &amp; Electronics</b>							
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%
Rex Stores Corporation	\$63.7	\$53.4	19.3%	-13.6%	(\$0.7)	\$14.7	-104.4%
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%
<b>Drug</b>							
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, Fragran	\$254.8	\$208.2	22.4%	2.0%	\$5.0	\$4.2	19.0%
<b>Mass Merchants</b>							
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%
Costco Wholesale Corp.	\$16,394.2	\$15,809.5	3.7%	1.0%	\$262.5	\$262.0	0.2%
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%
Duckwall-ALCO Stores, Inc.	\$115.5	\$110.3	4.7%	-6.3%	(\$1.7)	(\$1.6)	-1.8%
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%
Toys R Us Inc.	\$2,770.0	\$2,780.0	-0.4%	-0.3%	(\$104.0)	(\$76.0)	-36.8%
Wal-Mart Stores, Inc.	\$97,634	\$90,826	7.5%	3.3%	\$3,138	\$2,857	9.8%

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook	
	Current	Prior	Current	Prior
DOLLAR THRIFTY AUTOMOTIVE GROUP INC	B-	B	NM	NM
BON TON STORES INC	B-	B	STABLE	NEGATIVE
RITE AID CORP	B-	B	NEGATIVE	NEGATIVE
TEXTRON FINANCIAL CORP	A-	A-	NM	STABLE
SIMMONS/WIGGINS ENTPS LLC	B	B	NM	NEGATIVE
SUPERVALU INC	BB-	BB-	STABLE	POSITIVE
WALGREEN COMPANY INC	A+	A+	STABLE	NM
LANDRYS RESTAURANTS INC	B	B	NM	STABLE

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