

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

Curiosity is one of the permanent and certain characteristics of a vigorous mind.

Worst Yet To Come?

Retailers that survive the 2008 holiday season shouldn't pin their hopes on the new year, as retail sales will remain weak throughout 2009 and won't rebound until 2010, according to a forecast produced by TNS Retail Forward.

For 2009, sales growth for the year (excluding automobiles and gasoline) is forecast to approach 2% compared with the 2.3% average growth for 2008 through November, based on data reported by the U.S. Department of Commerce.

TNS Forward anticipates a rebound to occur in 2010 and gain momentum through 2013, when annual increases in sales will again approach the 5% growth rate of the past 10 years. When adjusted for inflation, however, growth is forecast to remain below average in the forecast period.

"Although inflation-adjusted growth in core retail sales should rebound toward 4%, this will represent a decline from the 5% pace averaged during the 10 years prior to 2008," according to Frank Badillo, senior economist to TNS Retail Forward. "The difference represents the demand-dampening effect of inflation."

Inflation is forecast to ease from its highs of early 2008, but price pressures are expected to resume and persist in categories such as fuel and food despite some letup in the short term.

The housing and financial crises will exact the deepest toll on the homegoods sector through 2009. However, in terms of average growth over the forecast period, softgoods retailers will register the slowest pace of growth among the four broad retail sectors: food, drug, and mass; homegoods; softgoods; and non-store.

TNS Retail Forward's Economic Forecast report series forecast retail sales for key lines of trade and product categories.

FOOD DRUG MASS CHANNELS

The FDM channels will be the least affected by the dramatic letup in retail sales growth during *(continued on page 2)*

Retailer of the Week: Pier 1 Imports

Pier 1 Imports' slow road to recovery got seriously derailed in the third quarter as operating losses soared more than four fold over what was recorded for the third quarter of fiscal 2008. The ailing economy and too many retail stores by Pier 1 and other chains have played into this unfortunate turn of events. With the sizable losses incurred in the third quarter, Global Credit will downgrade its credit rating for Pier 1 Imports from a "D-" to an "E", reflecting a high degree of credit risk to vendors shipping merchandise or providing services to the Company on open credit terms. Unfortunately, we see no evidence that the situation will improve and may very well likely get worse in the upcoming months as the economy stalls even more.

BACKGROUND

Pier 1 Imports is a global importer of home furnishings and decor offering that merchandise through 1,108 in the US and Canada as of November 29, 2008. Over recent months, Pier 1 has *(continued on page 9)*

Feedback?

Questions?

Suggestions?

[Click Here](#)

Worst Yet To Come?

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2008 and 2009. However, nominal sales growth for the combined FDM channels—convenience stores, discount department stores, drug stores, food service, small-format value retailers, supercenters, supermarkets, and warehouse clubs—is forecast to slow to a 4.6% average annual rate from 2008 to 2013, a decline of 0.7 percentage points from the prior five-year period.

Among the FDM channels, supercenters and warehouse clubs are expected to generate the strongest sales growth, while discount department stores and supermarkets will be the weakest performers.

HOMEGOODS CHANNELS

Homegoods channels will undergo the strongest decline in sales in 2009. However, TNS Retail forecasts that sales growth for the combined homegoods channels—appliance stores, book stores, building materials, hardware and garden supply stores, consumer electronics stores, furniture stores, home furnishings stores, office supply stores and sporting goods stores—will begin to rebound in 2010.

Sporting goods and consumer electronics stores boast the best growth prospects through 2013.

SOFTGOODS CHANNELS

Softgoods retailers will register the slowest pace of growth among the four broad retail sectors. The only good news for the softgoods sector—apparel and accessory stores, shoe stores, and conventional and national department stores—is that 2008 is over, ending the worst year of the five-year forecast period.

Although a decline in sales is forecast for 2009, the sector is expected to mount a strong recovery in 2010 before improving sales growth in each of the next three years.

Although apparel and accessory retailers have the strongest growth prospects, their pace of sales growth will continue to lag that of supercenters, warehouse clubs, and e-commerce and non-store retailer sales, all of which compete for consumer spending on softgoods categories.

FYI for the DIY

MSC Industrial Direct Co., Inc. sales fell 1.1% to \$433.0 million for the fiscal 2009 first quarter ended November 29. Net income was down 3.8% to \$45.1 million. For the fiscal 2009 second quarter, MSM expects sales of \$354 to \$366 million, and earnings between \$0.39 and \$0.43 per share.

Building Materials Holding Corp. said it will close facilities in Reno and Sparks, Nevada, exiting northern Nevada. It will also close plants in Sherwood, Oregon and Marysville, California, consolidating operations into other facilities.

Other consolidations will occur in Texas, Colorado and Arizona. All closures are expected to be completed in Q1 2009, affecting approximately 260 employees.

United Rentals, Inc. enters into a new \$325 million accounts receivable securitization facility with a consortium of lenders, replacing its current \$300 million facility. The new agreement accommodates a like-kind exchange asset management program, which allows United Rentals to defer taxes on gains from the disposal of certain revenue-earning equipment.

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

A rush of bankruptcies in December catapulted total 2008 Chapter 11 filings past the 10,000 mark, an increase of nearly 62% from 2007. Last month 1,139 businesses and individuals sought Chapter 11 protection, the greatest number to do so in three years.

Circuit City Stores Inc. is in talks with two parties, including Mexican billionaire and electronics chain executive **Ricardo B. Salinas Pliego**, about a possible sale or a cash infusion that could help the company continue operating. However, the company is facing a January 16th deadline to reach a sale agreement or be forced to liquidate soon after.

Goody's Family Clothing began the liquidation process last week after efforts to wring better credit terms from its vendors proved fruitless. The firm is in the process of obtaining all bids to sell substantially all of its assets.

A group of liquidators, **SB Capital Group LLC**, **Tiger Capital Group LLC** and **Hudson Capital Partners LLC**, are fighting to collect nearly half a million dollars for helping defunct **Tweeter** conduct GOB sales last year. The liquidators are looking to keep the trustee in the Chapter 7 liquidation from using any available cash for anything until they are paid.

Gift retailer **Blue Tulip Corp.**, which was an early bet of **Highland Capital Partners' Consumer Fund**, filed for Chapter 11 protection. Blue Tulip has 24 retail locations in the Northeast primarily in the Tri-State area and is still operating while it goes through the bankruptcy process.

Friedman's Inc. filed a debt payment plan under which its former owner, hedge fund **Harbinger Capital Partners**, has agreed to not seek payment of about \$30.5 million in claims.

Harbinger will, however, receive \$500,000 from Friedman's affiliate **Crescent Jewelers**.

Mervyn's LLC will put its name and other trademarks on the auction block at the end of January in a bid to scrape up more cash for creditors left hanging by its collapse. Buyers will have to be ready to close by February 6th.

Against All Odds USA Inc., whose 64 stores sell clothing brands from hip-hop stars like **Sean "Diddy" Combs** and **Russell Simmons**, filed for Chapter 11 protection in New Jersey, vowing to close its unprofitable West Coast locations and either reorganize or sell its remaining business.

Tom Jones Inc., the company that operates a chain of upscale New York City retail shops known as **Searle** sought bankruptcy protection after failing over the holiday shopping season to reverse a dramatic drop in sale that plagued the company for all of 2008. **Searle Blatt & Company Ltd.**, which manufactures the clothing and accessories sold at the company's seven stores also filed for bankruptcy protection.

Smitty's Building Supply, a five unit pro dealer based in Alexandria, Virginia, filed to Chapter 11 protection in Virginia. **Bank of America** is providing Smitty's with a maximum line of credit totaling \$10.5 million, including \$3.75 million in post-filing DIP financing.

Interstate Bakeries Corp.'s move to hire a new law firm to pursue a lawsuit to enforce commitments made by lenders **GE Capital**, **Silver Point Finance** and **Monarch Master Funding Ltd.** to fund the company's emergence from Chapter 11 indicates that the company's exit plan may be jeopardy.

Did You Know...?

U.S. factory shipments fell a record 5.3% in November, the Commerce Department reported, while orders and shipments of nondurable goods dropped a record 7.4% in November.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook	
	Current	Prior	Current	Prior
AMERICAN STORES COMPANY	NR	BBB-	NR	NM
STATER BROS HOLDINGS INC	B+	B+	STABLE	NEGATIVE
MAPCO EXPRESS INC	B	B-	STABLE	NEGATIVE
WALGREEN COMPANY INC	A+	A+	NEGATIVE	STABLE
BRODER BROS CO/ SPORTSWEAR DISTRIBUTOR	B-	B	NEGATIVE	NEGATIVE
NEBRASKA BOOK COMPANY INC	B-	B-	NM	STABLE

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Off the Rack

Sears Holdings Corp. updated fourth quarter and full year guidance. For Q4, earnings are expected to be between \$300 and \$380 million, or between \$2.44 and \$3.09 per share. For the full year the company expects income of \$163 to \$243 million, or between \$1.27 and \$1.90 per share. Both estimates exclude possible one-time charges.

Also, **Sears** and Card Activation Technologies settled their lawsuit over Card Activation's gift card patents. Terms of the settlement were not disclosed.

Gap Inc. lowered fiscal year 2008 earnings guidance slightly to \$1.27 to \$1.30 per share from its previous guidance of \$1.30 to \$1.35 per share.

Macy's, Inc. lowered fourth quarter earnings guidance to \$.90 to \$1.00 per share, excluding one-time costs, compared with previous guidance of \$1.10 to \$1.30 per share. For the full year, earnings are now projected to be \$1.10 to \$1.20 per share, excluding one-time charges, compared with previous guidance of \$1.30 to \$1.50 per share. Macy's also announced the closing of 11 underperforming Macy's stores, which will result in an estimated \$65 million charge in the fourth quarter, \$12 million of which will be cash.

Talbots has entered into revolving credit agreements with Mizuho Corporate Bank, Sumitomo Mitsui Bank, and Norinchukin Bank to convert each of the existing uncommitted working capital lines of \$75 million, \$50 million and \$25 million, respectively, to committed lines. Of the firm's \$215 million in borrowing capacity, \$200 million now classifies as committed. The firm is working with the fourth lender to convert the remaining \$15 million to committed.

TJX Companies, Inc. now expects fourth quarter earnings from continuing operations of \$.48 to \$.52 per share. Comp store sales for the fourth quarter are expected to fall 3% on a constant currency basis, with a six percentage-point negative impact from foreign currency exchange rates. For the full year, earnings from continuing operations are expected to be \$1.97 to \$2.01 per share.

Pacific Sunwear lowered its Q4 loss estimate to a range of \$0.38 to \$0.43 per share despite a \$0.10 a share gain from the sale of its Anaheim, CA distribution center. In November, it had forecast a loss of \$0.03 to \$0.08 per share. Approximately \$0.19 (\$12.5 million) of

the estimated loss is related to markdown reserves. Pacific Sunwear ended Dec. with inventories down 12% on a per sq. ft. basis. They are expected to fall further on a per sq. ft. basis, to 20%, by FY end.

Dress Barn, Inc. now estimates earnings for fiscal 2009 will be \$0.70 to \$0.85 per share, versus previous guidance of \$0.90 to \$1.00 per share. This assumes a comp store sales decrease in the mid-single digit range, and lower than previously anticipated margins in the second half of the fiscal year.

Following a disappointing December, **Limited Brands, Inc.** now projects a January comp sales decline in the mid-to-high teens. LTD also revised fourth quarter earnings guidance to \$0.55 to \$0.70 per share.

Ross Stores, Inc. said earnings for the fourth quarter will come in at \$.73 to \$.75 per share, the high end of previous guidance of \$.69 to \$.75 per share.

New York & Company, Inc. plans to save \$175 million pre-tax over the next five years with a multi-year restructuring and cost reduction program. The plan includes personnel reductions of 12% in field management and 10% in the corporate office, closure of 40 to 50 underperforming stores, broad based cost reductions and reductions in CapEx plans. Also, NWY said it expects the fourth quarter loss to be at the low end of its previously issued guidance range of -\$0.05 to -\$0.20 per share.

Men's Wearhouse updated fourth quarter earnings guidance to the lower end of its previously issued range of breakeven to a loss of \$0.18. Sales results from the company's Canadian operations quarter-to-date were below expectations.

Following a difficult Holiday season, **Stein Mart** is taking additional steps to reduce expenses, including laying off 178 assistant store managers and contracting some store workforce hours. Also, 31 field and corporate positions are being eliminated; all remaining management will take a 5% pay cut, and 401(k) matching is being stopped. The company expects aggregate savings of \$25 million in 2009 from these and prior cuts.

J. Crew Group, Inc. lowered fourth quarter earnings guidance to a loss of \$0.24 to \$0.29 per share compared to previous guidance of
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Did You Know...?

The U.S. existing home sales contract index fell 4% in November vs. October, and 5.3% y-o-y, the National Association of Realtors reported.

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Off the Rack

(continued from page 4)

earnings of \$0.05 to \$0.10 per share. Sales are expected to be in the negative mid-to-high single digit range, with comp store sales of negative mid teens. For the full year, earnings are forecast to be \$0.77 to \$0.82 per share down from previous guidance of \$1.11 to \$1.16 per share.

American Eagle Outfitters, Inc. reduced its fourth quarter earnings guidance to \$0.19 to \$0.21 per share from previous fourth quarter earnings guidance of \$0.30 to \$0.36 per share.

Cato Corp. expects fourth quarter earnings will be at or slightly above the high end of previously issued guidance of -\$0.01 to \$0.04 per share. During December, the company closed 27 stores.

Abercrombie & Fitch warned that net income per diluted share for the fourth quarter will be "significantly below" previous guidance of \$1.00 to \$1.05 per share.

Aeropostale, Inc. now expects fourth quarter earnings of \$0.90 to \$0.92 per share, up from previously issued guidance of \$0.84 to \$0.90 per share.

Nordstrom, Inc. warned that its fourth quarter earnings will not meet its previously announced outlook of \$0.35 to \$0.45 per share.

Syms Corp. sales decreased 8.1% to \$64.3 million for the third quarter ended November 29. Same store sales were off 6.4%. Syms had a loss of \$0.9 million vs. income of \$1.3 million for the quarter.

Christopher & Banks Corp. sales fell 7.9% to \$143.0 million in its third quarter ended November 29. Comp store sales decreased 14%. Net loss was \$1.4 million compared to income of \$10.2 million in the third quarter of FY08. Costs related to the closure of 29 Acorn stores accounted for \$1.3 million of the loss. Looking to the fourth quarter, CBK continues to see comps in the negative mid to high teens and will remain focused on expense control and cash flow.

Cache Inc. revised guidance downwards, and now expects a fourth quarter loss of \$0.36 to \$0.38 per share. For the full fiscal 2008 year, the company forecasts a loss of \$0.48 to \$0.50 per share including \$0.21 per share for store closures, store impairment and a management change. Also, the Cache board approved a stock buyback program for 1 million shares.

Beall's sales fell 3.4% to \$1.171 billion for the fiscal year ended August 2. Comp stores sales were down 2.2%. Net loss was \$8.1 million compared to income of \$8.5 million the previous year. Beall's closed the year with 520 locations, down from 547 at the same point last year.

Bebe Stores, Inc. sales fell 12.7% to \$176.3 million for the second fiscal quarter ended January 3. Same store sales fell 20.1%. BEBE lowered earnings guidance for the quarter to \$0.05 to \$0.09 per share from prior guidance of \$0.12 to \$0.16 per share.

The Wet Seal, Inc. narrowed its fourth quarter earnings guidance to \$0.06 to \$0.08 per share, the low end of the previous guidance range of \$0.06 to \$0.10 per share.

Health & Beauty Aids

Walgreen Co. will be reducing its workforce by 1,000 by mid-2009. Store employees will not be included as part of these headcount reductions. Following an initial round of voluntary buyouts, Walgreen will commence layoffs next month. These job cuts are part of a larger expense reduction plan, which if successful, could save the drugstore chain \$500 million in fiscal 2010 and \$1 billion annually in the years that follow.

Also, **Walgreens** has priced a \$1 billion offering of 5.25% notes due 2019. Proceeds will be used for repayment of short-term debt and general corporate purposes. The offering is expected to close on January 13.

Jean Coutu Group sales rose 6.4% to C\$620.3 million for the third quarter ended November 29. Net loss was C\$399.2 million vs. a profit of C\$9.5 million. C\$73.9 million of the loss came from the company's 30% stake in Rite Aid, and it recorded a preliminary provision of C\$357.8 million against future Rite Aid losses.

Cardinal Health issues earnings guidance for the second quarter ended December 31, of "at least" \$0.90 per share on a non-GAAP basis. For the full year, CAH estimates non-GAAP earnings of \$3.50 to \$3.60 per share versus a previously provided range of \$3.80 to \$3.95.

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Management on the Move

Wal-Mart Stores, Inc. named 18-year company veteran **Doug McMillon** President and CEO of Wal-Mart International. McMillon is currently President and CEO of Sam's Club.

Charming Shoppes, Inc. promoted **MaryEllen MacDowell** President of Charming Outlets. MacDowell has been SVP and GMM of Apparel and Accessories at Lane Bryant since 2007.

Borders Group Inc. named **Ron Marshall** President and CEO, replacing the departing George Jones. Marshall is the founder of private equity firm Wildridge Capital Management and has a long resume of retail and turnaround experience.

Also, **Borders** promoted SVP Finance **Mark Bierley** to CFO, and EVP Human Resources **Dan Smith** will add chief administrative officer responsibilities.

Lowe's Companies, Inc. named **Marshall A. Croom** SVP and Chief Risk Officer. Croom has served previously as SVP of Merchandising and SVP of Finance for the retailer.

Chico's FAS, Inc. named **David F. Dyer** President and CEO. Dyer was formerly President and CEO of both Tommy Hilfiger and Land's End. He replaces **Scott A. Edmonds**, who has retired.

Bebe Stores, Inc. CEO **Gregory Scott** has left the company. Chairman and founder **Manny Mashouf** will assume the CEO responsibilities.

Shoppers Drug Mart Corp. appointed **Bradley Lukow** EVP & Chief Financial Officer, replacing **George Halatsis** who will be leaving the company later this month. Lukow is a 14 year Shoppers Drug Mart veteran and is currently SVP Finance.

Save Mart Stores named **Steve Junqueiro**, currently COO, as President. Junqueiro started at Save Mart in 1974 as a produce clerk.

Barnes & Noble, Inc. named **William J. Lynch, Jr.** President of Barnes & Noble.com. Lynch was EVP Marketing and General Manager of HSN.com for HSNi prior.

Modell's Sporting Goods promoted **Seth Horowitz** to President. He is the former President and CEO of Everlast Worldwide prior to joining the family-owned chain a year ago.

Retail Ventures, Inc. SVP and Controller **Steven E. Miller**, has resigned. No word on a replacement yet.

The Finish Line, Inc. board elected CEO **Glenn S. Lyon** as a new director of the company.

Did You Know...?

The U.S. private-sector lost 693,000 jobs in December, according to ADP, worse than expected.

The Global World of Sports and Footwear

Finish Line sales dropped 4.4% to \$256.9 million for the third quarter ended November 29, as overall same store sales dipped 3.6% (-3.3% Finish Line doors; -6.8% in Man Alive banners). Net loss shrunk 45% to \$8.8 million, as last year included \$9.7 million in costs related to the terminated merger with Genesco. FINL says it will be in a position to renegotiate lease terms on 40% of its 699 stores, or nearly 300 units, over the next 12-15 months. FINL said that it has re-set the Man Alive chain of urban doors but that if it does not see marked improvement by the Holiday season of 2009 at the chain, it will explore ways to increase shareholder value as regards Man Alive.

U.S. winter sports equipment sales rose 3.0% to \$917.2 million in the August to November timeframe. Sales in specialty shops, which accounted for 61% of the total, rose 1% in U.S. dollars to \$558.7 million; chain store sales, 17%

of the total, declined 3% to \$156.3 million and Internet/Online, representing 22% of the total, rose nearly 13% to \$202.1 million. Carryover and juniors' equipment continue to pace the winter equipment market, confirmed SnowSports Industries America (SIA) citing statistical data compiled by Leisure Trends Group. During the four-month period, carryover gear accounted for 30% of skis, 23% of snowboards, 21% of ski boots and 23% of snowboard boots. And in Nov. alone, junior equipment sales jumped 12% with junior ski sales rising 21% in dollars and junior snowboards up a more modest 1%.

Big 5 Sporting Goods now expects that fourth quarter earnings will come in at the upper end of its \$0.13 to \$0.16 per share guidance. For the full year, earnings are projected in the \$0.61 to \$0.64 per share range. Big 5's per store inventories were down 11% year-over-year.

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Hi Tech Entertainment

Best Buy Co., Inc. narrowed earnings guidance for fiscal 2009 to a range of \$2.50 to \$2.70 per share, from the prior range of \$2.30 to \$2.90. The revised guidance assumes comp store sales will decline 2% to 3%, and excludes one-time charges.

Also, **Best Buy** reported that about 500 if its 4,000 employees at corporate headquarters will take voluntary buyouts.

Conn's, Inc., which doesn't typically report monthly sales, said December revenues were up 15% y-o-y on same store sales growth of approximately 5%. The company expects fourth quarter earnings of \$0.53 to \$0.58 per share, excluding potential fair value and goodwill adjustments.

GameStop Corp. raised its fourth quarter 2008 comp store sales guidance to +9.0% to +9.5% and increased the low end of previously announced earnings guidance by \$0.02 to a range of \$1.31 to \$1.34 per share. For the full year, earnings are forecast at \$2.37 to \$2.40 per share, and comp store sales are projected to increase between +12.0% and +12.5%. Total sales are expected to grow between +24% and +25%.

Amazon.com claimed the Holiday shopping season was its "best ever" based on number of transactions. The release was roundly criticized in the business media for not mentioning average order amount, revenue, margins or any other useful information.

Blockbuster Inc. is reportedly looking to partner with telecom companies as it tries to develop its video on demand business. CEO Jim Keyes mentioned Verizon and AT&T as possibilities.

RadioShack Corp. has begun searching for a new advertising agency for the creative portion of its business. The company spent \$220 million on advertising in FY 2007.

Office Depot Inc. amended its credit card servicing agreement with Citibank following a rating downgrade by Standard & Poor's. ODP could have been forced to purchase back all of \$184 million of its outstanding credit card receivables, but under the terms of the deal established a one-year, \$25 million letter of credit that Citi can draw on in special circumstances.

Also, **Office Depot** has licensed M.H. Alshaya Co. as franchisee for the Kingdom of Saudi Arabia, the United Arab Emirates, Kuwait, the Kingdom of Bahrain, Qatar and Oman. Four stores are scheduled to open in 2009 in Kuwait City and Dubai.

Trans World Entertainment lowered guidance after a disappointing Holiday season. Fourth quarter EBITDA is now forecast at \$15 to \$20 million while fiscal 2008 will have an EBITDA loss in the range of \$20 to \$25 million, expanded from a loss of \$10 to \$15 million guided previously.

Heard in the Grocery Aisle

Supervalu Inc. sales contracted 0.4% to \$10.171 billion in the third quarter of fiscal 2009 ended November 29. Retail grocery sales accounted for 77.3% of the total, with supply chain services the remainder. Identical store sales fell 0.5%. Net loss in the quarter was \$2.944 billion vs. a profit of \$141 million in Q308, on \$3.350 billion in goodwill and intangible asset writedowns. Adjusted for the charge and tax effects, earnings would have been \$132 million. SVU lowered earnings guidance for the full year to a loss of \$12.39 to \$12.14 per share from prior guidance of income of \$2.86 to \$2.96 per share, citing the \$14.57 per share Q3 charge as anticipating another \$.47 to \$.62 per share in Q4 charges related to store closures, expense mitigation and acquisition-related costs.

The Great Atlantic & Pacific Tea Company, Inc.'s third quarter revenues expanded 69.5%

to \$2.121 billion with the addition of Pathmark's sales. Comp store sales were +1.9% for A&P and -0.5% for Pathmark. Loss from continuing operations was \$3.0 million compared to income of \$73.1 million last year, which included a \$106.1 million gain from the sale of Metro, Inc. shares.

Winn-Dixie Stores, Inc. opened a 48,000 sq. ft. prototype store in an existing SaveRite location in Jacksonville, Florida. The concept features everyday low pricing as well as special sales in a warehouse format.

Whole Foods sees Yucaipa Companies LLC, the investment fund run by Ron Burkle, take a 7% stake. This follows the recent \$425 million preferred stock investment by Leonard Green & Partners.

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Specialty Items

Bed Bath & Beyond Inc. sales fell 0.7% to \$1.783 billion for the fiscal third quarter ended November 29. Comp store sales were off by 5.6%. Net earnings fell 36.5% to \$87.7 million. BBBY estimates fourth quarter earnings will be \$.40 to \$.46 per share assuming a mid-single digit percentage decrease in comp store sales. Full year earnings are estimated to be \$1.50 to \$1.56 per share for FY2008 ending February 28.

Cost Plus, Inc. plans to close 26 stores and to exit eight media markets in 2009. Other planned cost reductions include cutting corporate and distribution center staff by 18%. The company expects to see annual savings of approximately \$21 million from the changes, but will take a fourth quarter asset impairment charge of \$4 million plus \$2 million for severance arrangements, as well as \$23 million of further restructuring charges in 2009.

Also, **Cost Plus** has allowed Stephens Investments Holdings LLC to acquire up to 19.9% of the company's stock, subject to a confidentiality and standstill agreement that prevents the hedge fund management company from directing or influencing Cost Plus management.

Ulta Salon, Cosmetics & Fragrance, Inc. cut its fourth quarter sales guidance to \$339 to \$343

million from a \$354 to \$368 million range guided previously. Comp store sales are now expected to be -6.0% to -5.0% vs. -2% to +2% guided previously. Income is currently estimated to be \$0.18 to \$0.19 per share, down from previous guidance of \$0.24 to \$0.28 per share. For the full fiscal 2008 year, the company now estimates sales of \$1.082 to \$1.086 billion, with comp store sales flat to +0.4% and income of \$0.41 to \$0.42 per share.

The Sharper Image will license its brand to London Luxury for bedding, bath, and other home textile products. The five year agreement is the first following the retailer's bankruptcy. The licensed Sharper Image lines will be launched this spring.

Ethan Allen will close its Eldred, Pennsylvania upholstery factory and consolidate operations into plants in California and North Carolina. The company will also close several retail service centers, eliminating 350 jobs. The moves are expected to incur pretax charges of \$8 to \$9 million, mostly in the March 31 quarter.

Williams-Sonoma, Inc. maintained earlier guidance for FY 2008 (EPS of \$0.27 to \$0.47 on sales of \$3.294 to \$3.354 billion) but said it expected year-end inventories to be \$599 to \$624 million versus prior guidance of \$624 to \$659.

General Retail News

U.S. retail weakness may be bottoming out say economists for TNS Retail Forward in spite of retailers cutting profit outlooks after reporting Dec. results. Overall Dec. same store sales fell 1.5%, but the decline was not as severe as in Nov. (-2.5%) for the approximately 40 retailers that reported monthly results. Still, overall holiday sales for the Nov-Dec. period dipped 2.2%, according to the International Council of Shopping Centers (ICSC), the worst performance for the period since 1970. Wal-Mart, citing the difficult economy and severe winter weather in parts of the U.S., reported a Dec. comparable sales gain of 1.9% versus a 2.6% increase in Dec. 2007 and the market reacted unfavorably. As retailers right size themselves in 2009, in terms of inventories and doors, more retail jobs are likely to be lost. In Nov. alone, the entire U.S. retail industry shed 91,300 jobs.

U.S. Retail Container Imports: Cargo volume at the major retail container ports in the U.S. fell for a 17th consecutive month in Dec., pushing annual container volume to its lowest point since 2004. CY08 TEU (Twenty-Foot-Equivalent Units) fell 7.3% to 15.3 million TEU from 16.5 million TEU in CY07, according to data compiled by the National Retail Federation (NRF). Meanwhile, the container import outlook for the first five months of 2009 suggests declines until Mar. The current month forecast is for 1.16 million TEU, down 6.3% year-over year; Feb. TEUs are projected to decline 11.1% y-o-y to 1.1 million; Mar. TEUs are forecast to rise 1.1% to 1.17 million but fall again in both April (-2.6% to 1.23 mm TEU) and May (-4% to 1.25 million).

Did You Know...?

The U.S. lost 524,000 jobs in December, the Labor Department reported. For the full year, the economy lost 2.6 million jobs.

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Mass Merchant Musings

Wal-Mart made several adjustments to guidance after reporting December sales. January comp store sales are projected to be between flat and +2%. Fourth quarter earnings guidance was lowered to \$0.91 and \$0.94 per share from previous guidance of \$1.03 to \$1.07 per share partially reflecting a \$.06 per share litigation charge.

Wal-Mart and **Netflix** have been sued in San Francisco by a consumer group, accusing the companies of conspiring to limit competition in the movie rental market. Wal-Mart exited the on-line movie rental business in 2005 and has been referring customers to Netflix.

Wal-Mart paid the U.S. Southern District of Texas a \$637,000 fine to resolve alleged record-keeping violations of the Comprehensive Drug Abuse Prevention and Control Act, according local media.

Wal-Mart de Mexico sales rose 11% to 244 billion pesos (\$17.7 billion) in 2008. Same store sales rose 4.6% for the year.

Family Dollar Stores, Inc. sales rose 4.2% to \$1.754 billion in the fiscal first quarter ended

November 29. Comp store sales increased 2.1%. Net income increased 14.1% to \$59.3 million in the quarter. Looking ahead to the full year, FDO expects sales will increase 4% to 6% with comp store sales up 2% to 4%. Earnings for the year are forecast at \$1.63 to \$1.81 per share. For the second quarter ending February 28, the company expects comp store sales of +3% to +5% and earnings between \$0.48 and \$0.52 per share.

99c Only Stores sales increased 8.0% to \$351.1 million for the third quarter ended December 27. Non-Texas retail sales were \$307.3 million. Same-store sales increased 4.2%; 4.4% at non-Texas stores. The company plans to exit the Texas market.

PriceSmart Inc. sales grew 21.9% to \$305.2 million for its fiscal first quarter ended November 30. Comp store sales increased 13.8%. Net income rose 59.9% to \$10.7 million. PSMT operates 25 warehouse clubs in the Caribbean.

Target Corp. has renewed its direct-to-retail license agreement with Iconix Brand Group for the Mossimo brand through January 31, 2012.

Retailer of the Week: Pier 1 Imports

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continued to shutter under performing stores, revamp the merchandise selection, and reduce administrative expenses. However, recently these initiatives have not been enough to slow the level of red ink.

Currently, Pier 1 is seeking to achieve rent concession from landlords. We anticipate seeing further store closings the number depending upon the success of concessions granted by landlords. The Company will minimize margin erosion by being more disciplined about inventory procurement. The Company will also cut costs more as sales slow down.

OPERATING PERFORMANCE

Income Statement	3RD QTR FY 08	3RD QTR FY 09	YTD FY 08	YTD FY 09
Net Sales	\$374.2 mm	\$300.9 mm	\$1.07 b	\$931.4 mm
Comp Store Sales	(-1.7%)	(-17.8%)	(-3.5%)	(-8.9%)
Store Count			\$1,128.0	\$1,108.0
Gross Margins	\$125.9 mm (33.6%)	\$87.9 mm (29.2%)	\$300.6 mm (27.9%)	\$261.6 mm (28%)
Overhead	\$134 mm (35.8%)	\$122.7 mm (40.7%)	\$404.6 mm (37.6%)	\$355.3 mm (38.1%)
Operating Loss	(\$8.15) mm	(\$34.8) mm	(\$104) mm	(\$93.6) mm
Interest Expense	\$3.76 mm	\$3.8 mm	\$11.7 mm	\$11.1 mm
Interest and Other Income	\$2.3 mm	\$1.91 mm	\$8.32 mm	\$5.54 mm
Net Loss	(\$9.96) mm	(\$36.9) mm	(\$109.7) mm	(\$99.8) mm

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Retailer of the Week: Pier 1 Imports

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As noted above, comp store sales took a dramatic turn for the worse in the third quarter having more modest declines of (5.4%) for the first quarter and an even milder (1.7%) decrease for the second quarter of this year. Post third quarter for the month of December 2008 Pier 1 reported a comp store sales decline of (10%) with US stores dropping by (8%). So at least Pier avoided severe double digit declines during the bulk of the holiday shopping season.

The inability to leverage occupancy expenses against the sizable comp store sales decline forced margins to decrease in percentage of sales terms, a full 440 basis points. However, Pier 1 was able to hold up price points, despite the sales declines, which lead to a small gain in the fiscal year percentage. Margin dollars fell in both periods due to the lower sales volume.

SG&A expenses, when also viewed as a percentage of sales, jumped 490 basis points in the (third) quarter to quarter period and a significantly smaller 50 basis points fiscal year to date. The inability to leverage other expenses against falling sales, particularly in the third quarter, and the expense resulting from the introduction of television advertising in the middle of November forced the increase. Interest paid on invested cash declined due the lower interest rate environment.

Did You Know...?

First-time unemployment claims fell 24,000 to a seasonally adjusted 467,000 in the week ending January 3, the Labor Department reported.

BALANCE SHEET/LIQUIDITY	12/1/2007	11/29/2008
Cash	\$82.7 mm	\$117.4 mm
Inventory/Inventory Days Turnover	\$432.8 mm/138 days	\$398.7 mm/148 days
Receivables	\$28.2 mm	\$22.8 mm
Adjusted Current Assets (cash, inventory, receivables)	\$543.7 mm	\$538.9 mm
Total Assets	\$853.6 mm	\$722.5 mm
Payables/Payable Days Turnover	\$138.9 mm/44 days	\$98.4 mm/37 days
Long Term 6.375% Notes Due 2036	\$165 mm	\$165 mm
Industrial Revenue Bonds Due 2026	\$19 mm	\$19 mm
Total Liabilities	\$599.9 mm	\$550.9 mm
Adjusted Current Ratio	1.7:1	2.0:1
Leverage Percentage	70%	76%

The rise in cash was connected to Pier 1 selling off its headquarters building earlier this fiscal year for \$102.4 million in cash. This has allowed Pier 1 to avoid borrowing under its revolver thus allowing for self funding of money losing operations. While we do not see liquidity as an immediate issue due to the stockpile of cash, having the cash and credit resources to meet obligations could become an issue in the second half of fiscal 2010 if losses continue to escalate.

We do note that Pier 1 did a good job of keeping inventory levels in line with sales also enabling the Company to reduce trade payables. The Company appears to be paying suppliers as agreed.

Pier 1 remained fairly leveraged as asset values declined year over year from the sale of real estate. Working capital coverage was approximately eight months at the most recent quarter end.

OUTLOOK

Luckily for Pier 1 Imports it has the balance sheet strength to stand some of the economic pain for a while. Still, the cash will evaporate quite quickly if losses cannot be stemmed. Given the bleak prospects for sales, decreasing losses will become dependent upon the ability to reduce lease costs and/or exit under performing locations, effectively control inventories, and cut costs. If sales take an even more downward track in fiscal 2010, the pressure is intensified even more.

Global Credit will be paying particular attention to final fiscal year results for the twelve-month period ending on February 28, 2009. Fourth quarter and full year results should be announced in April with the appropriate annual report, Form 10K, filed with the Securities and Exchange Commission around mid May. Upon Form 10K being released, Global Credit will provide a full analysis shortly thereafter.

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Fourth Quarter Scorecard

\$ in Millions. Quarter ended closest to 1/31/09	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
Apparel							
Destination Maternity Corp.	\$134.8	\$142.9	-5.7%	-0.5%	tba	(\$0.4)	tba
Specialty							
Haverty Furniture	\$161.9	\$205.8	-21.3%	-22.6%	tba	\$1.6	tba
Sports & Footwear							
Big 5 Sporting Goods Corp.	\$219.6	\$232.1	-5.4%	-8.6%	tba	\$6.2	tba

Upcoming Reporting Dates

Company	Event	Date
CVS Caremark	Investor Conference	Jan 13, 2009
Abercrombie & Fitch	Quarterly Results	Feb 13, 2009
American Eagle Outfitters	Investor Conference	Jan 15, 2009
AmerisourceBergen	Quarterly Results	Jan 22, 2009
Bebe Stores	Quarterly Results	Feb 5, 2009
Big 5 Sporting Goods	Investor Conference	Jan 14, 2009
Brown Shoe	Investor Conference	Jan 15, 2009
Cabela's	Investor Conference	Jan 14, 2009
Cache	Investor Conference	Jan 14, 2009
Cardinal Health	Investor Conference	Jan 12-15, 2009
Cardinal Health	Quarterly Results	Feb 5, 2009
Charlotte Russe Holding	Quarterly Results	Jan 21, 2009
Christopher & Banks	Investor Conference	Jan 15, 2009
Coldwater Creek	Investor Conference	Jan 15, 2009
Conn's	Investor Conference	Jan 12, 2009
Cost Plus	Investor Conference	Jan 13, 2009
Destination Maternity	Investor Conference	Jan 13, 2009
Dress Barn	Investor Conferences	Jan 13 & 14, 2009
Golfsmith	Investor Conference	Jan 14, 2009
Gymboree	Investor Conference	Jan 14, 2009
JoS. A. Bank Clothiers	Investor Conference	Jan 12, 2009
McKesson Corp.	Quarterly Results	Jan 26, 2009
New York & Company	Investor Conferences	Jan 13 & 15, 2009
Pacific Sunwear	Investor Conference	Jan 14, 2009
Rent-A-Center	Quarterly Results	Feb 3, 2009
Ulta Salon, Cosmetics & Fragrance	Investor Conference	Jan 14, 2009
WESCO International	Quarterly Results	Jan 29, 2009
Wet Seal	Investor Conference	Jan 14, 2009
Zumiez	Investor Conference	Jan 15, 2009

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