GLOBAL CREDIT SERVICES

Volume 6, Issue 3

January 12 - 18, 2009

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

A synonym is a word you use when you can't spell the word you first thought of.

Shell-Shocked Retailers Seek Stimulus

Can anything lure shoppers back to the stores? Retailers, pondering the miserable sales results for December and the holiday season, are pushing the idea that sales-tax holidays incorporated into the developing economic stimulus package could provide a boost to their troubled industry.

Help is needed. The Commerce Department reported that December retail sales dropped 2.7%, more than double the 1.2% decline that Wall Street expected. It was the sixth straight month of sales declines, and sales fell across virtually all sectors, with the exception of health and personal care stores. At the same time, the National Retail Federation reported that 2008 holiday sales—combining November and December—dropped 2.8%, to $447.5 billion.

The weak shopping season is continuing to take its toll on retailers. On January 14th, California-based department store chain Gottschalks filed for Chapter 11 bankruptcy and put itself up for sale. One day earlier, discount clothing chain Goody's Family Clothing filed for Chapter 11 bankruptcy protection, for the second time in less than a year. The bankruptcies follow widespread cutbacks by retailers, including Macy's, which said earlier this month it would close 11 stores in nine states.

The latest numbers are evidence that a term like "recession-proof" for even essential sectors isn't always applicable. Over the past year, it seems as if every industry has witnesses some slowdown. For instance, in early 2008, when restaurants started hurting, people said the grocery stores would be the beneficiaries, but within a few months premium food marketer Whole Foods was feeling the pain, and by midsummer shoppers were leaving even the mid-tier supermarkets like Safeway and Supervalu and going to the super discounters like Wal-Mart and Costco.

Likewise, industries like toys and pet supplies were considered recession-proof, but in December KB Toys went bankrupt and Toys "R" Us saw comp store sales for the holiday season decrease by 3.4% in the U.S. and 5.1% internationally. Meanwhile, the CEO of PetSmart, Philip Francis, says his business has been affected as customers have deferred making bigger purchases for their pets, though pet food sales have held up reasonably well.

(continued on page 2)

Retailer of the Week: Rite Aid

Rite Aid Corporation remains a high risk, 'E' credit with a negative outlook. Some cost-cutting activity was evident in the third quarter numbers. Availability dipped further in Q3 2009, but rebounded a bit in the opening weeks of the holiday quarter. Just having the more updated layer of transparency likely helped to provide vendors with some degree of comfort. The company basically appears to be maturity-free until its $1.75 billion revolver and $145 million term loan (both of which mature in September 2010) come due. These factors aside, turning this company around against the current economic backdrop would be a tall order for any management team. Although the Christmas season is now in the rearview mirror, keep in mind that Rite Aid's holiday quarter also includes Valentine's Day business. Management's current guidance implies that the firm will actually show in net profit during Q4 2009. Given the weak balance sheet and P&L statement, we see additional cost reductions, fewer one-time items, and higher bank availability as factors that would all be welcome news for vendors in the months ahead. We would anticipate Rite Aid to report its fiscal fourth quarter earnings in mid-April. We advise vendors to monitor their exposures to this chain in a prudent manner.

(continued on page 7)

Shell-Shocked Retailers Seek Stimulus

(continued from page 1)

Retailers say they have a possible solution in the sales-tax holidays applying to most goods, including clothing, home furnishing, restaurant meals, and cars. Under the National Retail Federation play, there would be three tax holidays during the year, in March, July, and October, each lasting 10 days including two weekends. The federal government would reimburse states for lost revenue estimated at $20 billion. The five states that don't have a sales tax would also get some money. The sales-tax savings would amount to about $175 per family, the retail federation estimates.

"I don't think there's one silver bullet that will improve the consumer spending and improve the situation we are in," said Stephen Sadove, chairman and CEO of Saks. "But I believer the tax holiday is a direct benefit to the consumer, and there is a lot of history that shows where cities and states have done tax holidays, it has led to incremental direct consumption, which will stimulate the economy."

Anthony Randasso, a research associate at the Reason Foundation, a libertarian nonprofit policy group, writes on the group's blog that the tax holiday plan "just recycles tax dollars." He notes: Under the NRF plan, the federal government would tax citizens, than give that money to the states, so that the states could in turn give tax breaks to the citizens. Along the way money gets shifted around, and citizens don't really "save" $175 per family. If this was the best way to go, why not just limit federal payroll taxes?" Now that will definitely put money directly into the hands of the consumer.

Health & Beauty Aids

Rite Aid Corp. will pay $5 million to settle allegations of violations of the Controlled Substances Act after DEA audits revealed non-compliance with record keeping and reporting requirements at some stores. Rite Aid will also implement a compliance plan providing for better internal auditing and a pseudoephedrine and ephedrine tracking system in all its locations.

Also, **Rite Aid** remains in negotiations to establish an extension to its receivables financing facility. The company obtained a one-week extension to its existing A/R facility, which now expires on January 22, 2009.

Walgreens will receive a $850,000 property tax rebate from Wisconsin municipalities. The Milwaukee Common Council approved the refund after the state Supreme Court ruled in favor of WAG in a similar case. Walgreens was being charged taxes treating its lease payments as rent, rather than based on the value of comparable properties.

Walgreens is launching "Complete Care and Well-Being" – an integrated pharmacy and health care program designed to reduce employer costs. The company's Take Care Health Systems in-store and workplace clinics will provide primary care, and combine with a discount prescription drug program and store discounts for members. WAG currently operates 360 workplace clinics.

Shoppers Drug Mart Corp. has priced $250 million of 4.80% unsecured medium term notes, Series 3, due January 20, 2012 and $250 million of 5.19% unsecured medium term notes, Series 4, due January 20, 2014. The company will use the proceeds to refinance existing debt.

Feedback?

Questions?

Suggestions?

Click Here

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.

How to Advertise in this Publication: If you wish to advertise in our weekly newsletter please contact us via email at serdenis@gcszone.com.

Subscribe to our Newsletter: Click here to subscribe to *Retail Sector Weekly*.

RETURN TO FIRST PAGE

Bankruptcy Blotter

The global default rate for speculative grade, or junk, companies is expected to climb to 15.1% by the end of 2009, more than triple the current rate of 4.0% according to Moody's.

Unable to work out a sale of the company, **Circuit City Stores Inc**. will go out of business – closing its 567 U.S. stores and eliminating 30,000 jobs. A joint venture group consisting of **Great American Group, LLC, SB Capital Group, LLC** and **Tiger Capital Group, LLC** will be conducting the GOB sales, which are expected to last about six to eight weeks.

Goody's Family Clothing's second Chapter 11 filing this year has prompted objections from an "ad hoc" committee of trade creditors looking to dismiss the filing. The group contends that the liquidation of the company should occur either outside of bankruptcy or under the blanket of the first bankruptcy filing.

In other news, the auction for the right to run the liquidation of **Goody's** was held last week, with **Hilco Merchant Resources** and **Gordon Brothers Retail Partners** designated the liquidators, though final court approval is still pending.

Gottschalk's received court approval for a variety of its first day motion as it began bankruptcy proceedings last week. Among those approvals was a $125 million DIP facility to supplement its working capital and provide additional liquidity during the reorganization process. The financing is being provided by a group of lenders led by **GE Capital**. It appears that the company is looking at a March 24th deadline to find a buyer for the enterprise.

KB Toys Inc. may pay up to $344,000 in incentives to several executives despite objections by the U.S. Trustee, who said the payments wrongly reward the executives for merely staying with the company through its liquidation.

The newly formed unsecured creditors committee in the **Parent Co.'s** bankruptcy case is coming out of the gate in full force, objecting to both the company's proposed sale and its plan to dole out bonuses to five executives. The committee is convinced that the company is rushing into a sale and a potentially unnecessary incentive plan, all at the expense of the unsecured creditors.

Landlords say **Linens 'n Things** can't afford the Chapter 11 liquidation plan allowing it to fade away with $1 billion in unpaid debts. In effect, the company is administratively insolvent.

Did You Know...?

First-time unemployment claims rose 54,000 to a seasonally adjusted 524,000 for the week ending January 10, the Labor Department reported. The four-week average declined 8,000 to 518,500.

Management on the Move

Target Corp. appointed President and CEO **Gregg Steinhafel** to the additional role of Chairman of the Board. Steinhafel will replace retiring COB **Bob Ulrich**.

Minyard Food Stores named company veteran **Ron McDearmon** President and CEO. **Michael Byars**, CEO since 2006, has left the company.

Gander Mountain Co. named **Michael Owens** EVP and COO and **Steven Uline** SVP Marketing. Owens comes from Anheuser-Busch, where he was VP of business operations. Uline is another Anheuser-Busch veteran, most recently VP of geographic marketing, field media and special event marketing.

Giant Food Stores promoted 28-year company veteran **Doug Sternberger** Director of Operations and Merchandising for the grocer's East Region.

Giant Eagle supermarkets founder Stanley Moravitz, 86, passed away January 11.

Carter's, Inc. appointed **Richard F. Westenberger** EVP and Chief Financial Officer. Westenberger was VP of Corporate Finance and Treasurer at Hewitt Associates, Inc.

Borders Group Inc. appointed **Richard McGuire** non-executive Chairman. McGuire is a partner at the company's largest shareholder, Pershing Square Capital Management LP.

American Eagle Outfitters, Inc. appointed former CMO and Co-CEO **Roger Markfield** to Vice Chairman, Executive Creative Director, a new position.

Family Dollar Stores, Inc. shareholders elected **Pamela L. Davies** its board. Davies is currently the president of Queens University of Charlotte.

RETURN TO FIRST PAGE

Heard in the Grocery Aisle

Tesco's UK market share fell to 30.7% from 31.3% in the fourth quarter of 2008, according to TNS Worldpanel. **Asda**'s share rose to 16.9% from 16.7%, **Sainsburys** fell slightly to 16.2% from 16.3%, **Morrisons**' share hit 11.9% from 11.5% and **Aldi** was up to 3.2% from 2.7% in Q4 2007.

Kroger Co. will invest $75 million in the Fort Wayne, Indiana area, including expansions and renovations of five Kroger and Scott's locations, construction of three new stores while closing three others, and building up to ten more Kroger fuel plazas.

Also, **Kroger** plans its third Fresh Fare store for Dayton, Ohio, featuring expanded organics and natural foods as well as more gourmet items and prepared foods. A former Kroger, it will be remodeled starting in February. The prototype Fresh Fare opened in Buckhead, Georgia last spring, and a second store opened recently in Cincinnati.

And **Kroger** will soon face off with UFCW Local 1996 that represents about 12,000 Georgia workers. Both sides say health-care costs and pensions will be contested issues. The current 52-month agreement was reached in the fall of 2005.

Aldi plans to open at least 75 stores in the U.S. in 2009, according to the *Wall Street Journal*. Aldi management believes the current economy plays to the chain's strengths very well. Aldi's prices are reportedly 15% to 20% lower than Wal-Mart and 30% to 40% lower than regional chains in the Midwest.

The *NRF Blog* reports on **Tesco**'s strategy for success in the online grocery business. Orders are fulfilled from Tesco stores, rather than dedicated DCs. Orders are delivered in reusable crates rather than plastic bags, for cost savings and green cred. And quality is a top priority with order pickers coached to ask, "Would I buy it?" when selecting fresh items.

The Federal Trade Commission asked a court to stop **Whole Foods'** integration and rebranding of Wild Oats stores. The FTC also said that it would try to force WFMI to restore the Wild Oats name and have independent management appointed for former Wild Oats stores if the U.S. District Court for the District of Columbia ruled in its favor. In response, **Whole Foods** re-filed its case against the FTC in the same court, charging the FTC with violating its due process and equal protection rights.

Fresh & Easy will create 200 jobs over the next two months to staff new stores, according to local media. **Fresh & Easy** added 3,000 to its workforce in 2008.

Trader Joe's prevailed in court as a judge ordered **Gristedes** to stop using the name "Trader John's" for its new supermarket on 14th Street in Manhattan. Gristedes CEO John Catsimatidis had reportedly argued that the banner should stand, as his name is John and he is certainly a trader.

Publix will open its 1000th store on February 5, in St. Augustine, Florida.

Specialty Items

Jennifer Convertibles, Inc. sales decreased 21.5% to $26.7 million for the first fiscal quarter ended November 29. Comp store sales fell 24.2%. Net loss expanded to $1.9 million from a loss of $.5 million in the same period last year.

Pep Boys has closed a new $300 million senior secured revolving credit facility with a syndicate led by Bank of America, Wells Fargo and Regions Bank. The new facility replaces the company's prior facility that would have expired on December 9, 2009.

Tuesday Morning Corp. sales fell 11.7% to $272.5 million in the second quarter ended December 31. Comp store sales decreased by 14.9%. TUES expects earnings for the second quarter of $0.30 to $0.32 per share. For the full fiscal year, the company projected sales in the range of $800 to $810 million, with earnings of breakeven to $.05 per share assuming comp store sales in the low negative double digits.

Based on Holiday results, **Tiffany & Co.** now expects sales for the fiscal year 2008 ending January 31 of approximately $2.85 billion and income of $2.25 to $2.30 per share, not including one-time charges in the fourth quarter.

Eastern Pennsylvania's **Good's Furniture & Flooring** will close three of its four stores and lay off up to 75 employees. The floor covering store in Lancaster will remain open.

Did You Know...?

U.S. consumer prices increased 0.1% in 2008, the Labor Department reported. That's the smallest increase in 54 years. The consumer price index fell 0.7% in December.

RETURN TO FIRST PAGE

The Global World of Sports and Footwear

Genesco now expects fourth quarter same store sales will be at the lower end of its previously announced target range of -1% to -4%. GCO said it grew its store base 229 in 2007 and 102 in 2008, but will grow less than that in 2009.

West Marine revised earnings guidance for FY2008 to an after-tax loss of $0.44 to $0.50 per share, not including restructuring charges of approximately $0.31 per share and a non-cash deferred tax valuation allowance of approximately $1.09 per share.

Sport Chalet amended its loan facility and forbearance agreement with Bank of America. Additionally, SPCH agrees to hire a consultant for a three-month period to prepare cash flow and operating budgets to all parties. FTI Consulting has been hired for the role.

Golfsmith management has identified $4.2 million in expense reductions for FY09, including $400,000 from zero-based FY09 budgeting, $1 million from a reallocation of marketing dollars to retail stores and $900,000 from job eliminations. Additionally, GOLF thinks it can generate 150 b.p. in gross margin improvement from tighter SKU assortments with a greater focus on top-selling brands, a shift to more part-time associates and a stronger markdown/price optimization strategy. CapEx is being pared back, with one new 36,000 sq. ft. showcase store in Palm Desert, CA.

Cabela's will open two stores in FY09: Billings, Montana and East Rutherford, New Jersey. CAB's goals for 2009 are to improve retail profitability, control costs and conserve cash. In the direct business, the company intends to expand its Web-based technologies and target specific countries for international growth.

Fleet Feet finished 2008 with more than $86 million in total revenues. Annual same store sales rose 12%. The retailer will focus on fundamentals this year to keep its brand strong, work with franchisees and vendors to improve store operations and acquire new customers.

Sport Supply Group has partnered with Nike to build the Swoosh's team sports business. Sport Supply sees it as an opportunity to grow its $150 million catalog segment to $300-500 million in incremental Nike sales over the next 3-5 years. All institutional leads that Sports Supply gets into its Dallas hub will immediately be dispatched to the appropriate parties in its 180-person road sales force.

Big 5 Sporting Goods now forecasts earnings for FY08 at $0.61 to $0.64 per share and at $0.13 to $0.16 per share for Q4.

Brown Shoe Co. now believes earnings for the fourth quarter will be at the low-end of guidance. Street EPS range is for a Q4 loss of $0.30-.40 ($14.8 mm). BWS is working on a renewal of $350 million credit revolver for a five-year term and has already received commitments in excess of $350 million. The company has reduced planned CapEx spending by $72 million for the 2009-2011 period and net store openings for FY09 are reduced to 20-25.

Lululemon's biggest initiative for 2009 is to move up launch of its e-commerce platform to March because sees Internet as good way to reach target customer. It plans a hybrid model where it will control the website, merchandising and customer service while outsourcing the fulfillment and distribution. LULU did not change Q4 guidance, which called for sales of $90-95 million vs. $105.1 million last year and EPS of $0.15-.17 ($11.3 million) vs. $14.6 million last year.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
BURLINGTON COAT FACTORY WAREHOUSE	B-	B	STABLE	NEGATIVE	B-
TEXTRON FINANCIAL	BBB	A-	DEVELOPING	NM	NR
SEARS HOLDING CO. F/K/A KMART HOLDING	BB-	BB	NEGATIVE	NEGATIVE	D-
STAPLES INC	BBB	BBB+	STABLE	NM	C-
DESTINATION MATERNITY CORP	B-	B-	STABLE	NEGATIVE	E+
SBARRO INC	CCC	CCC+	NEGATIVE	NEGATIVE	E+

RETURN TO FIRST PAGE

Off the Rack

J.C. Penney will close its call center in Carmichael, CA in March due to the decreasing phone orders as its e-commerce business grows. 260 workers will lose their jobs.

Charming Shoppes, Inc. will lay off an additional 225 associates as an extension of the restructuring announced last November. The cuts are expected to save $12 million next year, but will result in a $2 million charge in the fourth fiscal quarter ending January 31, 2009. Also, the company renewed the Charming Shoppes Master Trust's $105.0 million credit receivables conduit facility through January 14, 2010.

Sears Holdings Corp. will open a new concept store in Joliet, Illinois, called MyGofer. The warehouse-style store will have a drive through pick-up window for orders placed on-line at www.mygofer.com. No word on whether fries come with that.

Neiman Marcus eliminated about 400 jobs last week including almost 100 workers from its headquarters in the Dallas area. The firm is looking for ways to save money as the high-end retailers continue to be hard hit over the past few periods. The total amounts to slightly less than 3% of the firm's workforce. The company said sales at its Neiman Marcus and Bergdorf Goodman stores fell 31.2% in December.

Saks Inc. will eliminate around 1,100 positions at both the corporate level and at the store level on January 30. The cuts amount to about 9% of the firm's workforce. Saks is also taking other steps to cut costs—eliminating merit-based wage increases and suspending matching 401(k) contributions and pension plan accruals—which are designed to save about $50 million to $60 million annually. Saks will take a charge of about $9 million for the job cuts, most of which will be booked in the fourth quarter this year. The firm has also slashed its CapEx plan for 2009 to $60 million, half of what the firm spent in fiscal 2008.

Pacific Sunwear previewed Q4, saying sales fell 8% with comps down 10%, caused in part from the exit from footwear but also some missed accessories sales. Apparel comps rose 7% with juniors up 20% on top of a 20% comp gain last year. Boys comps fell 3%. CapEx for FY09 is budgeted at $30 million against $75 million in depreciation, so it will have $45 million in free cash flow prior to operations.

Burlington Coat Factory Warehouse Corp. sales increased 5.7% to $1.010 billion in the second quarter ended November 29. Comp store sales fell 2.1%. Net income fell 21.6% to $18.2 million.

Zumiez says its sales breakdown is now footwear 18%, women's 16%, accessories 34%, men's 32%. Its retail foot print is heavily exposed to some weak retail markets right now: 69 stores in CA, 12 in AZ, 16 in FL. New stores expansion had been at 20% annual rate but will be no more than 15% in 2009, but ZUMZ will invest in e-commerce platform in 2009, which grew 60% through nine months.

Did You Know...?

U.S. industrial production was down 2.0% in December, and down 11.5% for the fourth quarter, the Federal Reserve reported.

General Retail News

The **world's largest retailers** rankings were released in a report by Deloitte Touche Tohmatsu which compared them according to FY2007 sales: Wal-Mart and Carrefour retained the top two spots, while Tesco moved from #4 to #3 and Metro moved from #5 to #4, both at the expense of Home Depot, which dropped from #3 to #5.

Interbrand Design Forum ranked the **Most Valuable U.S. Retail Brands**. Walmart was the most valuable retail brand, followed by Best Buy (#2), The Home Depot (#3), Target (#4) and CVS (#5).

On-line retailers suffered a setback as a New York State Supreme Court justice ruled that **Amazon.com** and other e-commerce retailers must collect sales taxes on goods sold to New York residents. The judge said that Amazon's on-line affiliates in New York were enough to meet the "nexus" requirement for collecting sales taxes, even though Amazon has no physical presence in the state. **Overstock.com**, which faces similar litigation, issued a release criticizing the ruling.

L.L. Bean delivers the **best customer service** in all retail formats, according to findings in the fourth annual NRF Foundation/American Express Customers' Choice survey. Survey results were disclosed during the recent National Retail Federation's 98th Convention and EXPO in New York. Following L.L. Bean, from consumer data collected by BIGresearch, were: 2.Overstock.com; 3.Zappos.com; 4.Amazon.com; 5. Lands' End; 6. Newegg; 7. JC Penney; 8. QVC; 9. Coldwater Creek and 10. Nordstrom.

RETURN TO FIRST PAGE

FYI for the DIY

Jewett-Cameron Trading Company Ltd. sales fell to 22.8% to $10.8 million for the first quarter of fiscal 2009 ended November 30. The lumber and building products distributor had a profit of $293,000 compared with $374,000 a year ago.

A third former **Home Depot** employee has pleaded guilty to wire fraud and filing a false tax return. Ronald K. Johnston follows Anthony Tesvich and James Robinson, who guilty to related charges last summer after accepting payments from foreign suppliers in a kickback arrangement.

Former President and CEO of **Builders FirstSource** Kevin O'Meara has partnered with private equity firm Golden Gate Capital to explore strategic investments in the building products industry, with emphasis on opportunities in the manufacturing sector.

Williams Lumber & Home Center opened a new hardware store in Hyde Part, New York. An Ace Hardware affiliate, Williams Lumber is headquartered in Rhinebeck, New York, with locations in High Falls, Hopewell Junction, Hudson, Millbrook, Red Hook, Salt Point and Tannersville.

Do it Best Corp. added three stores in Puerto Rico to the co-op, with a fourth store slated to join soon.

Mass Merchant Musings

Wal-Mart is testing productivity with a smaller format store in Forest Park, Ohio according to the *Cincinnati Enquirer*. The former Supercenter re-opened in November, with selling square footage reduced 42% to 127,000 sq. ft. The store features lower shelving and wider aisles and a new color scheme. It is branded with WMT's new hyphenless logo.

Hi Tech Entertainment

Barnes & Noble, Inc. has cut almost 100 positions in its corporate headquarters, most related to the reduction in store openings and consolidation of operations. BKS will record an after-tax charge of $2.5 million in the fourth quarter of fiscal 2008.

Staples, Inc. announced an offering of $1.5 billion of 9.750% senior notes due 2014. Proceeds from this offering will be used to repay Staples' revolver ($668 million), outstanding borrowings under its 2008 credit agreement ($656 million) and to pay a portion of its commercial paper debt.

OfficeMax has launched its first advertising campaign aimed at women office workers, under the tagline, "Life is beautiful. Work can be too." *AdAge* reports that OfficeMax has redefined its target consumer as females 28 to 45.

Retailer of the Week: Rite Aid

(continued from page 1)

OPERATING PERFORMANCE: 9 MONTHS ENDED NOVEMBER 29, 2008

$ in millions, 39 weeks ended	11/29/2008	YOY Var.	12/1/2007
Revenue	$19,581.7	$0.1	$17,052.0
Comparable Store Sales	1.1%		1.4%
Adj. Operating Profit	$26.5	($0.8)	$157.4
Net Profit	($621.8)	N/M	($126.8)
Gross Margin	27.1%	(1 bps)	27.1%
SG&A Burden	27.0%	75 bps	26.2%
Adj. Operating Margin *	0.1%	(78 bps)	0.9%
Return on Sales	(-3.2%)	(293 bps)	(-0.3%)

* excludes lease termination & impairment charges of $189.7 million in fiscal 2009 and $42.5 million in fiscal 2008, losses on debt modifications & retirements of $39.9 million in fiscal 2009 and $12.9 million in fiscal 2008, and losses (gains) on asset sales of $11.9 million in fiscal 2009 and ($4.7 million) in fiscal 2008.

Through the first three quarters of its fiscal 2009 year, Rite Aid's registers rang in $19.6 billion in receipts, good for 14.8% growth. Remember, however, that fiscal 2009 year-to-date top-line growth

(continued on page 8)

RETURN TO FIRST PAGE

Retailer of the Week: Rite Aid

(continued from page 7)

is essentially artificial due to the Brooks/Eckerd revenues being absent from the Q1 2008 results. More relevant, however, was nine-month comparable store sales growth of 1.1% (rising 1.4% during Q3 2009). Since early-June 2008, the overall same store sales results have included the acquired Brooks/Eckerd stores. Same store pharmacy comps increased 0.7%, while front-end comps rose 2.0% (see Comparable Store Sales). Same store sales guidance for fiscal 2009 was again lowered, this time to a range of 0.5% to 1.5%, versus the previous range of between 1.5% and 3.0%. Total revenues continue to be estimated at $26.0 billion to $26.5 billion.

Rite Aid's gross margin was basically flat on a year-to-date basis but saw a slight decline during Q3 2009. During Q3 2009, Rite Aid cited better markdown control and shrink prevention on the front-end, generic drug penetration as factors benefiting the gross margin line; however, these factors were offset by LIFO charges due to increased product costs and sagging photo margins. In addition to the factors mentioned above, the year-to-date gross margin was also impacted by weaker vendor support and higher distribution costs.

The druggist's SG&A burden rose 75 basis points to 27.0% on a YTD basis but actually showed slight improvement during Q3 2009. The third quarter improvement in this line item was helped by lower integration expense and reduced store & administrative labor costs. Our adjusted operating profit figure of $26.5 million for the first nine months of fiscal 2009, representing a year-over-year 83% decline, excluded a total of $241.5 million of one-time items. Similarly, Rite Aid's year ago nine-month results of $157.4 million excluded a net $50.7 million of one-time items. The footnote in the table above further details these items. While cost cutting initiatives did help somewhat during the recent quarter ended, the adjusted operating margin continues to be a source for concern. The interest expense line rose nearly 13% to $363.4 million through nine months, but fell modestly during Q3 due to reduced LIBOR rates (impacting facility borrowings). Bottom line losses, up to $621.8 million thus far, are expected to tally between $593 million and $773 million during fiscal 2009, worse than the $445 million to $535 million of losses previously (but not originally) projected.

Did You Know...?

U.S. furniture and bedding sales will decline another 2% in 2009 after falling 9.3%, According to Furniture/Today's new consensus forecast for the industry.

LIQUIDITY AND FINANCIAL STRUCTURE

As of November 29, 2008, Rite Aid had revolver availability of $429.7 million after accounting for direct borrowings of $1.146 billion and $174.3 million of L/C usage (see Bank Reference). On the December 18th earnings call, CFO Frank Vitrano was quick to point out that availability had rebounded to $495.0 million as of that date. At November's end, the company had $148.9 million of cash and equivalents on its balance sheet (see Bank Reference). Roughly 43% of Rite Aid's $6.35 billion of total debt was bank borrowings. Beyond the revolver, the drugstore chain was carrying term loan balances of $145 million, $1.099 billion, and $316.9 million on facilities that mature in September 2010, June 2014, and July 2016, respectively.

Rite Aid's $650 million A/R facility was again amended in mid-September 2008. This facility had utilized $545 million of securitization agreements as of late-November. Management is working to renew the commitments of various interests to purchase its pharmacy-related receivables; these commitments are good through January 15, 2009. While management has been in discussions with its banking partners to extend the facility, CFO Vitrano noted that the A/R facility continues to be fully backstopped by standalone bank commitments through September 2010 that could be used to fund CPV entities if the commitments are not renewed. Sale-leaseback activity for the first nine months of fiscal 2009 approximated $192.8 million (most of which shows up in the investing section of the cash flow statement); however, there was no such activity during the recent third quarter ended.

In July 2008, Rite Aid was able to repurchase substantially all outstanding amounts of three separate bond issuances (8.125% senior secured notes due 2010, 9.25% senior notes due 2013, and 7.5% senior secured notes due 2015) that were previously restricting availability on the firm's $1.75 billion revolver. The refinancing of this debt was done via the issuance of a $350 million secured term loan and $470 million worth of eight-year 10.375% senior secured notes. Of note, both components of the new financing were issued at significant discounts to par. In and of

(continued on page 9)

RETURN TO FIRST PAGE

Retailer of the Week: Rite Aid

(continued from page 8)

itself, this refinancing unlocked ~$300 million of availability for Rite Aid (a good thing). In December 2008, shareholders approved a reverse stock split, the specifications of which Rite Aid's board is currently mulling over; this action should help the retailer regain compliance with the New York Stock Exchange and help the firm avoid having to repay its $158 million convertible bond issuance ahead of schedule.

Cash flow from operations through thirty-nine weeks totaled $35.1 million, versus the year-ago level of negative $230.1 million. Unfortunately, neither figure sufficiently covered capital spending needs for each respective period. Better expense control and a reduction in inventory drove the improvement in Rite Aid's cash flow from operations. Capital spending totaled $476.9 million (including $75.4 million of Rx file-buys). As of November 29, 2008, Rite Aid had 4,914 stores due to YTD fiscal 2009 activity that included 9 acquired stores, 26 new store openings, 70 remodeled locations, 46 relocations, and 180 closings.

In the table below, we illustrate how the firm's debt picture has changed over the past nine months. The more than $6.3 billion worth of debt and its associated interest payments remain a significant burden for the company, particularly given its cash flow generating capabilities. In Rite Aid's favor, however, is the fact that maturities remain manageable until the fall of 2010. Not depicted are other sources of liquidity, such as the company's $650 million A/R facility. The firm's tangible net deficit has ballooned to $1.8 billion, though largely exacerbated by the removal of deferred tax assets from the balance sheet towards the end of fiscal 2008.

$ in millions	11/29/2008	3/1/2008
Secured Debt:		
Senior secured revolving credit facility due September 2010	$1,146.0	$849.0
Senior secured term loan due September 2010	$145.0	$145.0
Senior secured term loan due June 2014	$1,099.5	$1,105.0
Senior secured term loan due July 2016	$317.0	-----
7.5% senior secured notes due January 2015 *	-----	$200.0
10.375% senior secured notes due July 2016	$427.6	-----
7.5% senior secured notes due March 2017	$500.0	$500.0
Other secured	$4.4	$2.7
Total Secured Debt	$3,639.4	$2,801.7
Guaranteed Unsecured Debt:		
8.625% senior notes due March 2015	$500.0	$500.0
9.375% senior notes due December 2015	$405.1	$404.5
9.5% senior notes due June 2017	$798.9	$798.0
Total Guaranteed Unsecured Debt	$1,704.0	$1,702.5
Unsecured Debt:		
6.125% fixed rate senior notes due December 2008	-----	$150.0
8.125% senior unsecured notes due May 2010 *	$11.1	$358.5
9.25% senior notes due June 2013 *	$6.0	$148.7
6.875% senior debentures due August 2013	$184.8	$184.8
8.5% convertible notes due May 2015	$158.0	-----
7.7% notes due February 2027	$295.0	$295.0
6.875% fixed rate senior notes due December 2028	$128.0	$128.0
Total Unsecured Debt	$782.9	$1,265.0
Lease financing obligations	$221.3	$216.3
Total Debt	**$6,347.6**	**$5,985.5**
Current maturities of long-term debt and lease financing obligations	($42.1)	($185.6)
Long-term debt and lease financing obligations, less current maturities	**$6,305.6**	**$5,799.9**

* denotes the three issuances that were tendered during Q2 2009. Those three issuances were replaced by a $350 million senior secured term loan and $470 million of 10.375% senior secured notes due July 2016.

RETURN TO FIRST PAGE

Fourth Quarter Scorecard

$ in Millions. Quarter ended closest to 1/31/09	Sales				Net Income		
	2008	2007	Change	Comps	2008	2007	Change
Apparel							
Cache, Inc.	$65.9	$78.5	-16.1%	-17.0%	tba	$4.9	tba
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
Golfsmith International	$68.2	$79.0	-13.7%	-17.3%	tba	($46.7)	tba
West Marine, Inc.	$111.1	$118.3	-6.1%	-5.1%	tba	($65.6)	tba

Did You Know...?

The U.S. trade balance with the rest of the world plunged by 29% in November to $40.4 billion, on a record decline in oil prices and significantly weaker demand for imports.

Upcoming Reporting Dates

Company	Event	Date
1-800-FLOWERS.COM	Quarterly Results	Jan 29, 2009
Abercrombie & Fitch	Quarterly Results	Feb 13, 2009
Amazon.com	Quarterly Results	Jan 29, 2009
AmerisourceBergen	Quarterly Results	Jan 22, 2009
Bebe Stores	Quarterly Results	Feb 5, 2009
Cardinal Health	Quarterly Results	Feb 5, 2009
Charlotte Russe Holding	Quarterly Results	Jan 21, 2009
Fastenal	Conference Call	Jan 20, 2009
Hhgregg, Inc.	Quarterly Results	Feb 5, 2009
McKesson Corp.	Quarterly Results	Jan 26, 2009
Metro	Quarterly Results	Jan 27, 2009
Polo Ralph Lauren	Quarterly Results	Feb 4, 2009
Rent-A-Center	Quarterly Results	Feb 3, 2009
Sherwin-Williams	Quarterly Results	Jan 22, 2009
Shoppers Drug Mart	Quarterly Results	Feb 12, 2009
Spartan Stores	Quarterly Results	Feb 4, 2009
WESCO International	Quarterly Results	Jan 29, 2009

RETURN TO FIRST PAGE