GLOBAL CREDIT SERVICES

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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

If you're walking down the right path and you're willing to keep walking, eventually you'll make progress.

Ten Signs Your Customer Is Tanking

When it comes to credit risk, watch closely for these red flags in companies you depend on.

The shaky credit markets make spotting a soon-to-be insolvent company increasingly difficult for credit managers. "It's hard sometimes to determine who's really about ready to go out of business, versus who is having tough times, but they'll make it," says David Beckel, president of the National Association of Credit Management.

To avoid losing future payments, companies should be on the constant lookout for red flags – signs that a customer is having serious financial problems. The following don't necessarily indicate that a client is in contingency mode, but any of them should trigger a warning bell for you that the customer deserves close monitoring, and that perhaps their payment terms renegotiated.

Changing Payment Patterns – perhaps the most obvious clue that something could be financially amiss, but one that cannot be ignored, particularly these days. Previously reliable customers that suddenly start missing due dates warrant attention: Renegotiation requests—say, if a company asks to spread payment windows from 30 days to 45 or 60 days—should raise an eyebrow. Hone your credit skepticism on request to reschedule payment agreements, such as paying off one service over four months rather than all at once, as previously agreed upon.

Shifty Buying Habits. Even if regular customers are paying on time, are they still purchasing? If their previous buying was consistent, but their manner of placing orders has changed, this could suggest trouble. Also keep lookout for regular customers that suddenly start buying more. Pre-bankrupt companies have been known to stock up on inventory, knowing they won't be liable for the goods later on.

Constant Nitpicking or Higher Demands. Is a customer you once barely heard a peep from now returning items more often, or unjustifiably asking you to make deductions off invoices because of damages? Customers that start making unreasonable demands on delivery could be sending

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Retailer of the Week: Penn Traffic

We are maintaining our high risk, 'E' credit rating on Penn Traffic but **updating our outlook** from a previous level of negative **to a new level of positive**. The grocer's December 2008 transaction with C&S Wholesale Grocers (selling its wholesale business) will enable the firm to focus upon its core retail business and to meaningfully deleverage the balance sheet. Proceeds from the deal, as well as those from a couple of recent store sales, will help Penn Traffic rid itself of more than half of the debt on its books. While we still have concerns about the company's ability to compete in its retail territories, this transaction provides an improvement to the firm's financial strength (hence, the change in our outlook). Perhaps the longer-term goal is to position itself for a sale when business conditions improve? Only time will tell. In the meantime, the economic struggles continue to persist, taking a toll on both sales and margins at Penn Traffic. Management remains committed to pricing for its value-seeking customers and is spending advertising dollars judiciously to drive sales going forward.

As a reminder, Penn Traffic filed for Chapter 11 on May 30, 2003 and emerged on April 13, 2005. As of November 2008, the company was operating 91 supermarkets across Pennsylvania, upstate

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Ten Signs Your Customer Is Tanking

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you a warning. A customer, for example, may start saying his company expects to discount if a shipment doesn't arrive in a certain amount of time that you can barely meet.

Shrinking Cash Flow. Keep watching your customers' cash balances over time, if you have access to their financial statements. Find out how much they rely on equity, short-term debt, or long-term debt.

Large Accruals. Many distressed companies carry sizable accruals on their balance sheets, so these figures need to be explored and justified.

Tight Lips. Customers that previously shared financials with your company, but now suddenly claim it's against their policy to share financial data, could be a pretty big red herring that could distract you from catching problems.

High DSO (Days Sales Outstanding). Companies that have fallen behind on collecting their own receivables may be unable to contribute to yours.

Managerial Shuffling. Changes in management could mean that there's a disagreement between executives and the company's Board of Directors or owner. More obvious signs of trouble in this regard would be the hiring of a chief restructuring officer or turnaround company.

Persistent Rumors. Credit experts recommend keeping your ears open for any negative news about your customers, which may be the only way to garner helpful financial information about privately held customers. Pay attention to news articles, whispers from your sales teams, and other companies' credit managers.

Tax Liens. A tax lien against a company is the number-one indicator that it's going under. If a customer has postponed paying its state and federal taxes, you're not likely to see your overdue payments either.

If you observe any of the above, you should be sure to check with the analyst at Global Credit Services who is monitoring the company in question, or who monitors the industry.

Feedback?

Questions?

Suggestions?

Click Here

Specialty Items

Williams-Sonoma, Inc. is making several end of year moves to reduce its overhead for 2009 by $75 million. The cuts include: an 18% reduction in company-wide full-time headcount —approximately 1,400 positions— as well as closing its Camp Hill, Pennsylvania call center and closing its 500,000 square foot distribution facility in Memphis, Tennessee. WSM will take a $14 to $15 million pre-tax charge in the fourth quarter of 2008 (about $0.08 to $0.09 per diluted share after-tax).

A C Moore Arts & Crafts, Inc. entered into a new $60 million three year senior secured credit facility with Wells Fargo Retail Finance. This facility replaces the prior $30 million revolver that had been in place with Wachovia Bank.

Ethan Allen Interiors Inc. is establishing a Contract Division, which will be headed by Daniel Grow, former President and CEO of Drexel Heritage Furniture.

Options and Resources

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Bankruptcy Blotter

Companies now eyeing bankruptcy courts for protection would do well first to look ahead at the credit markets they will eventually need to get them back into the business world. At a time when a battered economy and a fragile lending environment are forcing more companies into bankruptcy, those same conditions imperil the financing that companies require both to enter Chapter 11 and again to emerge once they have restructured.

Defaults by junk-rated U.S. companies are expected to soar in 2009 to an all-time high of 14% according to Standard & Poor's. The projection is the highest since the ratings agency began issuing the annual default-outlook report in 1981.

The Source by Circuit City was put on the auction block last week as bidders vied for the national chain of Canadian electronics stores, which formerly operated under the **Radio Shack** banner. Some analysts say the small-scale stores, many of them in shopping malls and neighborhood plazas, could offer up an attractive opportunity for **Best Buy Canada**.

While many industry analysts say **Gottschalks Inc**. is unlikely to find a buyer in time to rescue it from liquidation, **Karla Martin** of **Booz & Co**., believes the company can shrink itself into an attractive acquisition for a buyer who will want to keep the historic name in business. However, Karla is definitely in the minority.

KB Toys is seeking court approval to employ **DJM Asset Management, LLC** to assist with the disposition of leases for approximately 400 stores. DJM will attempt to remarket any leases, for which it would be paid a commission of 4%. In addition, DJM will work to reduce landlord cure amount claims for leases sold for which DJM would receive a commission of 4% to 5%.

The Parent Co. won approval to sell itself through a court auction and to pay its executives bonuses based on the sale's proceeds. The company, which operates **eToys.com** and other online retailing sites, will be auctioned February 4th at the law offices of **Pachulski Stang Ziehl & Jones LLP** in Wilmington.

Christian Bernard Stores Corp. kicked off liquidation sales for its 15 jewelry stores last week after winning the court's permission to reopen the stores, which it suddenly closed the day after Christmas. **Tiger Capital, The Gordon Go., SB Capital Group** and **Bobby Wilkerson Inc**. will lead the liquidation sales at Christian Bernard's stores located throughout the Northeast, Mid-Atlantic and Midwest regions.

Sun Capital Partners Inc.-owned auto parts supplier **Von Weise Inc**. and five of its subsidiaries filed for Chapter 7 bankruptcy liquidation last week in Delaware.

CVS Pharmacy Inc. is seeking court permission to end its deal with **KB Toys** so the company can pick up the pieces of its toy business and find a new source for its products. The court is scheduled to consider CVS' request at a hearing on January 29th.

Did You Know...?

U.S. housing starts fell again in December, falling 15% to a seasonally adjusted annual rate of 550,000, the Commerce Department reported. Permits to build single-family homes and apartments both fell to record lows.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
RITE AID CORP	B-	B	NEGATIVE	NEGATIVE	E
AMERICAN FAMILY INSURANCE	AA-	AA	NM	STABLE	NR
BON TON STORES INC	B-	B	STABLE	NEGATIVE	E-
PETCO ANIMAL SUPPLIES INC	B	B	STABLE	NEGATIVE	C-
DILLARDS INC-HQ	B+	BB-	STABLE	STABLE	D-
SIMMONS/WIGGINS ENTPS LLC	SD	CCC	NM	NM	NR
VERIFONE	BB-	BB-	NM	NEGATIVE	NR
TEXTRON FINANCIAL CORP	BBB	A-	DEVELOPING	NM	NR

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Management on the Move

Best Buy Co., Inc. appointed President and COO **Brian J. Dunn** CEO, effective June 24, 2009. He will succeed CEO and Vice Chairman **Bradbury H. Anderson**, who is retiring.

Walgreens named President **Gregory D. Wasson** CEO and a director of the company, following a three-month nationwide search. Acting CEO **Alan G. McNally** will remain Chairman of the Walgreens board. Wasson will retain the position of President.

OfficeMax Inc. named **Bruce H. Besanko** EVP and Chief Financial Officer effective February 16. Besanko comes from Circuit City Stores, Inc., where he was EVP Finance and CFO.

Sysco's Chairman & CEO **Richard J. Schnieders** will retire as CEO on March 31, 2009 and as Chairman on June 27, 2009. CFO **Bill DeLaney** will take over the role of CEO on March 31. COO **Ken Spitler** will become Vice Chairman and keep his current title.

Casual Male Retail Group, Inc.'s SVP Finance, Corporate Controller and CAO **Sheri A. Knight** has resigned, citing personal reasons. Knight has agreed to continue with the Company until a successor is found.

Oriental Trading Company, Inc. named **Dana Fuller** SVP and Chief Operating Officer. Fuller was SVP and Chief Information Officer for Estee Lauder Companies, Inc.

Cabela's Inc. board member **Stephen P. Murray** has resigned, citing other business commitments.

United Rentals, Inc. elected three new board members: **Jose B. Alvarez**, former EVP of Royal Ahold, **Bobby J. Griffin**, formerly President - International Operations with Ryder Systems, Inc., and **Filippo Passerini**, President of Procter & Gamble's Global Business Services (GBS) and Chief Information Officer. Also, Vice Chairman **Wayland Hicks** will resign his directorship on March 1.

Hudson's Bay Trading Company has put all its retail banners—Lord & Taylor, The Bay, Zellers, Home Outfitters, Fields and Creative Design Studios—under new President and CEO **Jeffrey Sherman** and will create a shared services group to integrate central functions including Finance, IT, Supply Chain, Logistics, and Operations. COO **Don Watros** will head up the new division. Other key appointments:

- **Mike Culhane**, SVP, Finance, HBC, Canadian banners
- **Chris Sim**, SVP, Finance, U.S. banners
- **Dan Smith**, CIO, HBC, Canadian & U.S. banners
- **Gary MacDonald**, SVP, Supply Chain, Logistics, Central Operations, Real Estate, Canadian banners
- **Bill Tracy**, EVP, Supply Chain & Logistics, U.S. banner
- **Parker Vaughey**, VP, Strategic Planning and Internet
- **Bob Kolida**, EVP, Human Resources, HBTC

Michaels Stores stockholders elected **Gerry Murphy** to fill the board seat of David McVeigh, who resigned last September. Also, **Matthew Kabaker** has notified the company that he will resign as a director on a future date to be determined.

Zale Corp. named SVP and Controller **Cynthia T. Gordon** interim Chief Financial Officer after EVP, CAO and CFO **Rodney Carter** left the Company effective immediately.

dELiA*s, Inc. named VP, Controller and CAO **David J. Dick** to the position of CFO and Treasurer. He replaced **Stephen A. Feldman,** who is resigning to pursue other interests effective February 2.

Did You Know...?

National chain store sales fell 2.5% in the first two weeks of January versus the previous month, according to Redbook Research's latest indicator of national retail sales. The drop in the index was compared to a targeted 2.2% fall.

Hi Tech Entertainment

Trans World Entertainment Corp. laid off 25 employees at its headquarters last week, 10% of its staff there. Trans World plans to cut 700 jobs and close 70 stores by the end of January.

OfficeMax Inc. will take another $105 million in non-cash goodwill impairment charges in the fourth quarter, bringing the total such charges for the fiscal year to over $1 billion.

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

Movie Gallery, Inc. will consolidate its Wilsonville, Oregon distribution center operations into its DC in Nashville, Tennessee. Of the 238 employees at Wilsonville, 25 will be transferred to other parts of the company.

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FYI for the DIY

84 Lumber continues to scale back its number of stores, closing 11 stores in Pennsylvania, Delaware, Wisconsin, Indiana, Georgia, Missouri as well as a store and a component plant in Colorado, a state the retailer has exited completely. The company now has a total of 319 locations throughout most of the country.

Sherwin-Williams Co. predicted a high-single-to-low-teens percentage decrease in sales in the first quarter of 2009. Income will be in the range of $.05 to $.25 per share down from $.64 per share in the first quarter of 2008. For the full year 2009, SHW guides that sales will fall low-to-mid single-digits from 2008, with earnings of $3.00 to $4.00 per share compared to $4.00 per share in 2008.

Richelieu Hardware Ltd. sales grew 1.2% to $441.4 million for the fiscal year ended November 30, 2008. Earnings were up 4.9% to $35.6 million. In 2009, Richelieu intends to continue expanding through acquisitions and developing existing markets.

Interline Brands, Inc. warned that it will not meet its previously issued earnings guidance of $.30 to $.35 in the fourth quarter. Looking forward, Interline said it will eliminate 85 full-time positions and take a one-time severance charge of approximately $1.0 million in the first quarter of 2009. Also, Interline will consolidate 10 distribution centers over the next six months, in addition to those included in the company's previously announced cost-savings plan, and will record a one-time charge of $1.0 million in the first half of 2009 to pay for it. IBI expects to generate annualized savings of approximately $16 million going forward from the job cuts and consolidation.

Tractor Supply Co. will restate its LIFO provisions for the first three quarters of 2008, and amend its 10-Qs for the quarters ended March 29, June 28, and September 27, 2008. The company also issues preliminary 2009 guidance of net sales of $3.2 to $3.3 billion; same-store sales from -1.5% to +1.5%; and earnings of $2.58 to $2.74 per diluted share ($2.84 to $3.00 per diluted share excluding LIFO).

United Rentals, Inc. lowered its full year 2008 sales guidance to $3.27 billion from a previous range of $3.3 to $3.4 billion. The company also warned that it will miss its most recent earnings guidance for the year, but did not issue an update. Also, URI expects to take a $1.1 billion non-cash goodwill impairment charge in the fourth quarter of 2008. Finally, the company repurchased $130 million of its senior notes at a discount on the open market. Retiring the debt will result in a pre-tax gain of about $45 million in the fourth quarter of 2008.

Chadron Home Center in Chadron, Nebraska is closing its building materials branch. Chadron Home Center is a True Value hardware franchise, opened in March 2005 in a former grocery store, which had acquired the lumber and building supply store – then know as Great Plains Building Center – in late 2006.

Heard in the Grocery Aisle

New Seasons Market has reportedly reached a deal with **Whole Foods** to provide operational information that WFMI wants for its defense against the FTC. WFMI is back to court on February 17-18 in front of U.S. District Judge Paul Friedman.

Supervalu and **C & S Wholesale Grocers Inc.** are being sued for Sherman Act violations, including collusion and anticompetitive behavior, by D&G Inc., a small grocer in Mount Vernon, Iowa. The suit, filed in Washington, D.C. alleges the two grocery distributors have an arrangement not to compete in certain territories.

Houchens Industries has purchased the assets of White's Fresh Foods, which operated 14 locations, primarily in Tennessee.

Ahold sales rose 5.9% constant currency to E6.6 billion ($8.8 billion) in the fourth quarter, and Ahold USA sales grew 14.9% in Euros, benefiting from the stronger dollar. Giant-Landover sales gained 2.8% to $4.03 billion, with comp stores sales up 1.4%. Giant-Carlisle sales were up 7.9% with comparable sales rising 5.4%. Stop & Shop comps increased 2.7%

Delhaize Group sales were up 10.3% constant currency to E5.4 billion ($7.2 billion). In the U.S., comp store sales growth 2.5%. Delhaize noted it will close seven Sweetbay stores in Florida.

Albertsons is closing four Florida stores—in Ocala, Orlando, Tallahassee and West Palm Beach—by the end of February. Over 400 employees are affected.

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Off the Rack

Filene's Basement plans to close 11 of its 36 stores by February 28 if it is not able to get lease concessions from landlords. Clearance sales already have begun at the underperforming doors.

Eddie Bauer Holdings, Inc. estimates that adjusted EBITDA will be $50 to $55 million for FY2008, up $8 to $13 million from 2007. In the fourth quarter, adjusted EBITDA will be $53 to $58 million, down $2 to $7 million from 2007. Looking forward, EBHI will continue to cut costs, specifically an additional $10-15 million reduction in SG&A, reducing CapEx to approximately $15 million, freezing salaries and adjusting some benefits, and reducing board costs by 40-50%.

Children's Place Retail Stores, Inc. will move its e-commerce business from its Secaucus, New Jersey distribution center to its DC in Fort Payne, Alabama in June 2009. 350 jobs will be cut in Secaucus.

Charlotte Russe Holding, Inc. sales increased 1.0% to $240.7 million the first fiscal quarter ended December 27. Comp store sales fell 9.1%. Diluted loss per share was $0.14 down from earnings of $0.56 per share last year, although $0.07 of the loss was from the recent management transition. Charlotte Russe's board of directors is now evaluating strategic alternatives, including a possible sale of the company. In November, the board had refused to consider an offer from KarpReilly Capital Partners LP for twice CHIC's current valuation.**Hudson's Bay** parent company NRDC has provided the department store with a $70 million cash infusion to support its operations, according to an article published in the *N.Y. Post.*

Abercrombie & Fitch has reportedly terminated about 50 employees at its headquarters.

Barneys New York is for sale again, according to a *Bloomberg* story. Owner Dubai's Istithmar World PJSC fund reportedly wants to sell its stake less than two years after acquiring the upscale retailer.

Did You Know...?

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, TNS Retail Forward forecasts.

Health & Beauty Aids

Walgreens' Take Care Health Systems opened three new clinics, in Nashville, Tennessee, Williamstown, New Jersey and Littleton, Colorado, bringing their total to 326 clinics.

McKesson Corp. has made an offer to buy Canadian drug-store chain Uniprix Inc. Uniprix operates about 400 outlets in Quebec. Terms of the offer were not disclosed.

Rite Aid Corp. will close its 255,000 sq-ft distribution center in Bohemia, New York in May 2009. 60 employees there will be laid off. Rite Aid CDs in Philadelphia, Pennsylvania and Rome, New York will cover the stores affected.

Also, **Rite Aid** renewed its $650 million A/R facility, but availability was reduced by $100 million on January 22, 2009 and borrowing capacity will be cut by another $100 million on February 20, 2009. This A/R line will expire on January 21, 2010. To fill the liquidity gap, Citigroup has agreed to establish a $200 million account receivable securitization term loan by February 20, 2009. The loan expires September 14, 2010.

Mass Merchant Musings

Wal-Mart Canada is facing off with the Workers Federation of Quebec and the Canadian Civil Liberties Association in front of the Supreme Court of Canada. The court will decide whether WMT's closing of a Saguenay store in 2005 that was about to unionize violated Canada's Charter of Rights and Freedoms which guarantees freedom of association. A decision is expected this summer.

Wal-Mart Stores Inc. is moving 48 call center jobs from Bartlesville, Oklahoma to Rogers, Arkansas, near corporate headquarters.

Also, **Wal-Mart's** tender offer to acquire Chilean supermarket chain Distribucion y Servicio D&S S.A. was successful. WMT will have 58.2% outstanding shares of D&S. Felipe Ibanez Scott and Nicolas Ibanez Scott will retain 40.1% of the stock, with remainder held by the public. D&S had 2007 revenues of over $3.8 billion and operates 180+ stores, 10 shopping centers and 85 financial services branches.

Target Corp.'s credit card writeoffs grew in January to 12.3%, from 11.0% in December and 6.8% in January 2008.

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The Global World of Sports and Footwear

The **Economic Stimulus Bill** proposed by the Obama administration would benefit the outdoor sporting goods segment, with $300 million earmarked for Fish and Wildlife maintenance and construction as well as an additional $1.7 billion for infrastructure maintenance in the National Parks system. Another $325 million is proposed for the Bureau of Land Management for infrastructure maintenance that would be spent on roads, trails, buildings, bridges, habitat and hazardous fuel reduction.

Sportsman's Warehouse's board has approved the sale of the company to United Farmers of Alberta, but the transaction remains in due diligence with no target closing date established. UFA isn't specifying what issues in the due diligence process must still be addressed, but said it remains committed to completing the acquisition. Once the recapitalization is completed, look for the Utgaard family, including TSW CEO Stu Utgaard, to no longer have any involvement in the chain it founded in Nov. 1996.

Athletic Footwear and S**porting Goods/ Bicycle** stores did better than General Merchandise, Apparel and Accessories, Furniture and Other (GAFO) retailers in October. Comparable sales in GAFO retailers declined 10.6%, athletic footwear was down 2.8% and sporting goods/bicycle declined 4.9%, according to the International Council of Shopping Centers.

Brown Shoe Co. successfully amends and restates its asset-based revolving credit facility, raising the credit ceiling to $380 million from $350 million and maturity date until Jan. 21, 2014. Separately, BWS has initiated expense reductions that include a change to its executive compensation structure, the discontinuation of executive merit raises, the closure of 30-35 Famous Footwear doors this year and the closure of certain functions in a Fredericktown, MO distribution center. The cost cutting will save an estimated $22 million annually beginning this year. While the corporate steps will result in 59 layoffs at the DC, they will also include a voluntary separation package for U.S. employees.

L.L. Bean will reportedly freeze salaries of 5,500 employees for the upcoming fiscal year starting in March, an effort that will save the elimination of 75-100 positions.

Modell's is one of nearly two handfuls of New York retailers reportedly negotiating for lease and rent reductions from landlords. Requested new terms include everything from free rent for a month to 20% deferments.

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
Bebe Stores	Quarterly Results	Feb 5, 2009
Cabela's	Quarterly Results	Feb 19, 2009
Cardinal Health	Quarterly Results	Feb 5, 2009
Dress Barn, Inc.	Investor Conference	Jan 27, 2009
Drugstore.com	Quarterly Results	Feb 4, 2009
Hhgregg, Inc.	Quarterly Results	Feb 5, 2009
Ingram Micro	Quarterly Results	Feb 18, 2009
Ingram Micro	Investor Conferences	Feb 9 & 26, 2009
Loblaw Companies	Quarterly Results	Feb 18, 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
Shoppers Drug Mart	Quarterly Results	Feb 12, 2009
Spartan Stores	Quarterly Results	Feb 4, 2009
WESCO International	Quarterly Results	Jan 29, 2009
Whole Foods Market	Quarterly Results	Feb 18, 2009

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General Retail News

Free shipping is a major factor in consumers' decision to buy, reports ForeSee Results' study: the Top 40 Online Retail Satisfaction Index. Of the 9,000 online holiday shoppers surveyed, 18% shop in stores to avoid paying for shipping and 33% have bought on-line instead of in a store because the web site offered free shipping. The marketing value is also significant, with 68% of respondents reporting seeing a shipping offer on an e-commerce web site.

Retailer of the Week: Penn Traffic

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New York, Vermont, and New Hampshire under Bi-Lo, P&C, and Quality banners. Prior to the C&S deal mentioned above, Penn Traffic's wholesale distribution business was servicing approximately 58 independent supermarkets and 66 other independent wholesale customers. In January 2008, the firm announced the immediate closing of its Penny Curtiss commercial bakery operation to free up additional resources to devote towards its retail business. The bakery business, which had been contributing approximately 4% of Penn Traffic's revenues, lost a major supply contract in August 2007.

Did You Know...?

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 date reported by the U.S. Department of Commerce.

OPERATING PERFORMANCE: 39 WEEKS ENDED NOVEMBER 1, 2008

$ in millions	11/1/2008	11/3/2007
Revenues	$881.2	$914.7
Cost of goods sold	$655.8	$670.0
SG&A (as reported)	$238.0	$253.0
Adjusted Operating Profit (1)(2)	($12.6)	($8.3)
Adjusted EBITDA (3)	$15.1	$24.5
Reorganization expense	$0.4	$4.9
Interest expense	$6.7	$6.8
Income tax expense	$0.4	$0.2
Net Profit	($21.4)	($21.9)
Sales per week	$22.6	$23.5
Gross Margin	25.6%	26.8%
Adjusted Operating Margin (1)(2)	(-1.43%)	(-0.91%)
Adjusted EBITDA Margin (3)	1.71%	2.68%
Interest Coverage (4)	0.93x	1.25x

(1) During the first nine months of fiscal 2009, we exclude a $2.7 million gain on an asset sale & a $4.0 loss on store and DC closings.

(2) During the first nine months of fiscal 2008, we exclude $2.4 million gain on an asset sale & a $2.0 loss on store and DC closings.

(3) As adjusted by Penn Traffic in earnings release.

(4) Based upon unadjusted, reported EBITDA of $6.3 million in the YTD fiscal 2009 period and $8.5 million in the YTD fiscal 2008 period.

Penn Traffic's sales dropped 3.7% to $881.2 million for the nine months ended November 1, 2008. **Retail segment sales** over the nine-month period, which comprise about 80% of overall revenues, **fell 6.5% to $702.5 million**. **Comparable store sales declined 1.3% for the recent nine month period ended**; during Q3 2009, same store sales fell 0.8% (see Comparable Store Sales). **Wholesale revenues rose 10.1% to $172.6 million** during the first thirty-nine weeks of fiscal 2009, helped by the conversion of three corporate-owned stores into independent accounts. With the wholesale business essentially out of the way, Penn Traffic will be able to devote its resources toward more pressing matters: rejuvenating its store base.

The gross margin waned nearly 120 basis points to 25.6% due to store closings, declining customer counts (due to trip consolidation), and margin erosion due to the cost of inflation outpacing the firm's ability to pass it along to its price sensitive customers. These factors also took a toll on the firm's operating margin, which on an adjusted basis remained in negative territory for the first nine months of fiscal 2009. The company's year-to-date interest expense declined ever-so-slightly

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Retailer of the Week: Penn Traffic

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to $6.7 million. **Using reported EBITDA, Penn Traffic's interest coverage stayed put at a paltry 0.9 times**. Operating with less debt on its books going forward should enable more near-term flexibility to invest judiciously in its store base while improving coverage ratios. On the bottom line, Penn Traffic lost $21.4 million during the first nine months of fiscal 2009.

LIQUIDITY AND FINANCIAL STRUCTURE

As of November 1, 2008, Penn Traffic reported **cash and equivalents of $32.9 million and availability in excess of outstanding borrowings and letters of credit of $31.2 million** (see Bank Reference). However, this figure left just $3.7 million above the minimum availability threshold that could otherwise trigger covenant tests. Outstanding bank borrowings under its facilities this past November totaled approximately $48.1 million, while stand-by letters of credit amounted to $40.0 million. Direct revolver borrowings totaled $17 million, supplemental real estate borrowings totaled $25.1 million, and the $6 million term loan remained fully drawn. Total debt as of the latest statement date was $61.1 million; in addition to the $48.1 million of bank borrowings detailed above, the company also reported $9.1 million of capital lease obligations and $3.9 million of fixed rate mortgage borrowings.

On December 22, 2008, Penn Traffic's lenders agreed to amendments and waivers to the existing credit agreements to permit the company to complete the all-cash

transaction for its wholesale business and subsequent debt pay-down. In conjunction with these changes, **Penn Traffic's credit agreements now extend until April 2010**. It was on December 22nd that C&S Wholesale Grocers closed on its purchase of Penn Traffic's wholesale business for $43 million in cash, which included the sale of approximately $13 million in wholesale-related accounts receivable. **By fiscal 2009's end, Penn Traffic intends to use the proceeds from this deal and the sale of two stores to pay off all $17 million of revolver borrowings and $15 million of the $25 million supplemental real estate borrowings**. The $6 million term loan will remain outstanding.

Capital spending rose to $5.3 million during the first nine months of fiscal 2009 versus $4.9 million seen in year-ago period. As we've previously intimated, Penn Traffic has likely used proceeds from asset sales to reinvest into the business, specifically its most profitable stores and those it deems to have the greatest potential. The firm's store count of 91 consists of twelve less units than it did one year ago.

Did You Know...?

The final GDP price index, a measure of inflation, came in more muted than expectations, though, rising 3.9%, below the 4.2% analysts had forecast. Excluding food and energy, the price index rose by 2.4%.

Fourth Quarter Scorecard

$ in Millions. Quarter ended closest to 1/31/09	Sales 2008	Sales 2007	Sales Change	Comps	Net Income 2008	Net Income 2007	Net Income 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
Eddie Bauer Holdings	$356.0	$377.6	-5.7%	-8.8%	tba	($18.3)	tba
Drug							
Abbott	$7,950.3	$7,221.4	10.1%	NA	$1,536	$1,203.0	27.7%
AmerisourceBergen Corp	$17,338	$17,279	0.3%	NA	$111.1	$109.8	1.2%
Home Centers							
Fastenal Company	$545.0	$519.2	5.0%	tba	$62.5	$56.2	11.2%
Sherwin-Williams Company	$1,699.8	$1,853.9	-8.3%	-10.0%	$50.2	$100.8	-50.2%
Tractor Supply Company	$799.5	$723.3	10.5%	1.3%	tba	$30.0	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

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Full Year Scorecard

$ in Millions	Sales				Net Income		
Full fiscal year	2008	2007	Change	Comps	2008	2007	Change
Apparel							
Eddie Bauer Holdings	$971.3	$989.4	-1.8%	-1.8%	tba	($101.7)	tba
Drug							
Abbott	$29,528	$25,914	13.9%	NA	$4,881	$3,606	35.3%
Home Centers							
Fastenal Company	$2,340.4	$2,061.8	13.5%	tba	$279.7	$232.6	20.2%
Sherwin-Williams Company	$7,979.7	$8,005.3	-0.3%	-5.3%	$476.9	$615.6	-22.5%
Tractor Supply Company	$3,010.0	$2,703.2	11.3%	1.4%	tba	$96.2	tba

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