

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

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### **Remember...**

*It is better to know some of the questions than all of the answers.*

## This Deficit is Different - And Dangerous

Since the U.S. ran its first budget deficit, there have been arguments over the economic implications. The more austere among us have suggested we're living on borrowed money that will eventually cripple us as a nation, while the more optimistic have noted that, so long as foreigners are willing to fund our profligacy at low rates, there's nothing wrong with borrowing.

Going back to the end of World War II, our national debt as a percentage of GDP soared as high as 125%. Though it's not as low now as it was in the '70s and '80s, with the current figure around 70%, modern Washington has been relatively parsimonious when it comes to borrowing. At present, our debt as a percentage of GDP is roughly 60%.

What's being missed, however, is the nature of past and present government spending. When the U.S. Treasury borrowed during World War II, indebtedness made sense. Other than Pearl Harbor, the U.S. mainland was never attacked. Heavy borrowing meant to fund our national defense ensured we would emerge largely unscathed as a nation in the aftermath of the war.

It's also important to remember that, with the dollar defined as one thirty-fifth of an ounce of gold during the war years was an excellent risk. Contrary to former Treasury Secretary Robert Rubin's admonition that deficits equal high rates of interest, despite total debt larger than our economy, the Treasury was able to borrow at the lowest rates of interest in the world. We were a good bet, thanks to the soundness of our currency, not to mention that the purposeful nature of the borrowing, when it came to protecting our individual and commercial interest, ensured a quick post-war economic recovery that would make paying it off very simple.

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## Retailer of the Week: Tuesday Morning

Tuesday Morning was able to post profits for its fiscal second quarter covering the holiday period, albeit down considerably from last year. For now, Global Credit will maintain its "D-" credit rating for Tuesday Morning, reflecting a fairly moderate amount of credit risk to vendors providing merchandise or services to the Company on open credit terms. Still, the challenges to Tuesday Morning going forward are quite considerable, particularly in light of its sales performance and the external retail environment. Accordingly, we are not optimistic about a profitable second half and thereby fiscal year for the Company.

### BACKGROUND

Tuesday Morning is an off price retailer offering items for the home and other merchandise through 860 stores in 45 states as of December 31, 2008. The Company purchases first quality merchandise in distressed or opportunity situations and passes the savings to its customers. Tuesday Morning has maintained a very aggressive new store expansion, which we believe is one of the factors for its recent poor sales performance. The Company has finally halted expansion of the store count for the second half of this fiscal year.

The Company has an unusual practice of closing stores for two weeks in January and July when sales tend to be at the slowest.

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## This Deficit is Different - And Dangerous

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Fast-forward to the '80s: Even though our yearly deficits under Ronald Reagan rose in nominal terms, Treasury rates fell during his presidency. The fall was first and foremost the result of better dollar policy from the Reagan Treasury, and it should be noted that a more credible dollar combined with tax cuts made the U.S. a worthy debtor. So while our aggregate debt rose under Reagan, investors in no way blanched; our growing economy during the Reagan '80s comforted the buyers of our debt.

Of perhaps even greater importance during the Reagan years was the nature of the spending. Revisionist history says the Soviet Union was not threat, but at the time, fear of the Soviets was very real. Contrary to the austerity crowd who suggested at the time that we were borrowing on the backs of future generations, it would have been more realistic to say we were borrowing in the '80s to build up our military so future generations would not have to.

Ultimately, the heavy deficit spending on the military bankrupted the Soviet regime, and deficits fell in the '90s as we enjoyed what many termed a "peace dividend." There was a real purpose attached to the '80s deficits when it came to protecting the homeland that made them a very good buy. So long as we were safe, so was our capitalistic economy that made the U.S. the richest country in the world. And so long as the economy grew, the size of the national debt would shrink relative to GDP. In short, the Reagan deficits made a lot of sense.

Moving to the present, President Barack Obama has made plain that future deficits of the trillion-dollar variety will be the rule until we fix what some consider the worst economy since the Great Depression. And given the orgy of spending that occurred on the watch of former President Bush and the profligate GOP, there's no credible opposition in Washington to Obama's spending plans.

Importantly, if Obama's spending initiatives mostly involved protecting the homeland and our capitalistic ways from terrorists, the resulting deficits wouldn't matter as much. Sadly, the spending isn't targeted at defense. While the military surely won't be ignored under Obama, a great deal of government spending going forward will be meant to "stimulate" the economy through other means. Rather than aggressive spending meant to protect the homeland, Obama is essentially asking investors to fund a massive giveaway program stateside. The federal government will prop up corporations and pay individuals to work, all with money taxed or borrowed from the private economy.

Simplified, the Obama economic plan is one whereby we'll run deficits to fund welfare programs that, by definition, will slow economic growth. Indeed, individual stimulus will involve taking from the productive to aid the less productive, and it's easy to see how this will cause the productive among us to reduce their efforts.

Meanwhile, corporations propped up by federal largess will end up subsidizing their ailing competitors. This is the opposite of what Schumpeter meant when he talked about "creative destruction." In the Schumpeter model, company failure was essential for economic growth, given the certainty that failed or weakened companies would be snapped up and run better by new management. The prevailing economic models of today suggest this true economic stimulant will be shown the door in favor of corporate welfare.

Returning to the national debt, while we may, for now, be able to borrow on good terms from the rest of the world, it seems charitably naïve to assume that this will continue to be the case. Good or bad, the past deficits were largely meant to protect a growth-oriented, capitalistic way of life that made the U.S. a credible debtor.

The present-day deficits have everything to do with running away from a purer form of capitalism in favor of a corporatist welfare state. That being the case, future economic growth promises to be more sluggish, and if we stop growing, our debt will become less attractive to investors. Unless this sad economic chapter can be unwritten, high interest rates are just around the corner.

**Feedback?**

**Questions?**

**Suggestions?**

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## Bankruptcy Blotter

The Federal Deposit Insurance Corp. has boosted its estimate for the cost of U.S. bank failures amid signs that industry conditions and the broader economy are worsening. The agency now expects losses to its deposit insurance fund to top \$40 billion over the next few years.

Some economists now predict that the government will be forced to spend billions of dollars more in emergency aid this year to stave off a collapse of one of Detroit's three auto makers.

**Hilco Consumer Capital** and **Gordon Brothers Brands LLC** will relaunch **Linens 'n Things Inc.** under new ownership early this year after a joint venture led by the two companies bought the company's intellectual property rights out of bankruptcy. The joint venture will implement a new strategy including retail shop-within-a-shop, direct to retail licensing, wholesale licensing and Internet sales. The move will allow the company to break out of its retail-chain status.

**Fortunoff Holdings LLC** filed for bankruptcy protection last week, less than a year after **NRDC Equity Partners** purchased it out of Chapter 11 protection. The company plans to auction substantially all of its assets quickly during its second trip through bankruptcy court. The company is looking to have bids due by February 16<sup>th</sup>, with an auction on February 19<sup>th</sup>, and a confirmation hearing on February 23<sup>rd</sup>. NRDC also owns **Hudson's Bay Co.** and **Lord & Taylor**.

It would appear that loyal customers worried about the future of **Gottschalks Inc.** rallied to help the beleaguered retailer post an unusual sales increase last month. The company reported that comp store sales for the month of January increased 13.3% from a year ago, one of the few to post a gain for the month. Unfortunately, the company still faces an uphill battle.

**Bruno's Supermarkets LLC**, whose food-store chain shrunk from 152 to 66 stores since its

emergence from Chapter 11 in 2000, headed back to bankruptcy court last week, and industry analysts say it is unlikely to emerge as a viable business this time around. A division of private equity firm **Lone Star Funds** owns the company.

**DJM Realty**, a **Gordon Brothers Group** company, has been retained to exclusively manage the disposition of all remaining **Circuit City Stores, Inc.** real estate (578 leases) in the U.S.

**Goody's Family Clothing Inc.** reached an agreement with unsecured creditors from trying to push it out of Chapter 11 protection. The agreement calls for the company to pay \$5 million to settle debts that went unpaid during its first Chapter 11 case. The agreement needs court approval.

In addition to the above, **Goody's** announced plans to sell off 282 store leases and intellectual property at an auction on February 20<sup>th</sup>. The company previously hired liquidators **Hilco Merchant Resources LLC** and **Gordon Brothers Retail Partners LLC** to kick off store closing sales and gets rid of leftover inventory.

An outline of **Boscov's** Chapter 11 plans calls for unsecured creditors owed \$140 million to \$160 million will get a recovery of between 6.3% and 14.4% out of the bankruptcy, which saw a partial liquidation of the regional chain.

**Interstate Bakeries Corp.** emerged from Chapter 11 protection last week, after more than four years in bankruptcy. The company is now controlled by **Ripplewood Holdings**. To fund its exit, Interstate obtained a commitment for a \$105 million revolver from **GE Capital** and a \$344 million term loan from **Silver Point Finance LLC** and **Monarch Master Funding Ltd.**

**St. Lawrence Homes Inc.**, which claims to be one of the largest privately held builders in the U.S. is the latest homebuilder to turn to bankruptcy amid the struggling residential real estate market.

### Did You Know...?

*U.S. pending home sales were up 6.3% in December, and up 2.1% year-on-year, the National Association of Realtors reported.*

## Options and Resources

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

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## Management on the Move

**Sears Holdings Corp.** named **Timothy Kasbe** CIO as current CIO **Karen Austin** has been promoted to President of Home Electronics. Kasbe was previously CIO of Indian retailer Reliance Retail Ltd.

**Grainger** promoted **Court Carruthers** to President of its international businesses in Canada, Mexico and China. Carruthers is currently President of the company's Canadian subsidiary.

**Haverty Furniture Companies, Inc.** EVP Merchandising **Tony Wilkerson** will retire from the company, effective February 15, 2009.

**Huttig Building Products Inc.** promoted **Kenneth Young** to VP and Chief Financial Officer. Young had been Huttig's interim CFO since October 2008.

**Chico's FAS, Inc.** appointed **Cynthia Murray** Brand President for Chico's.

In related news, **Stage Stores, Inc.** EVP and Chief Merchandising Officer **Cynthia Murray** has resigned.

**Hancock Fabrics, Inc.** SVP of Store Operations **Joseph Borbely** has resigned. The Store Operations Regional VPs will assume his responsibilities on an interim basis.

**United Rentals, Inc.** named **Jonathan M. Gottsegen** SVP, General Counsel and Corporate Secretary, effective February 18. Gottsegen replaces Roger E. Schwed who is stepping down.

**Macy's Inc.** promoted **Jeff Kantor** to President and GMM for the home furnishings. He had been President of big ticket, furniture and rugs. Also, Macy's named four new Divisional Merchandise Managers in home furnishings, *Furniture Today* reported:

- **Bob Weiser** is DMM of Big Ticket: furniture, mattresses and rugs.
- **Audrey Schlaepfer** is DMM for home textiles and trim.
- **Lisa Magann** is DMM for housewares and confections.
- **Dana Brown** is DMM for tabletop and decorative housewares.

### Did You Know...?

*U.S. private sector cut 522,000 jobs in January, payroll firm ADP reported in their monthly employment index.*

## Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
AMERCO	BB	BB	NEGATIVE	STABLE	\$11.00
BON TON STORES INC	B-	B-	NEGATIVE	STABLE	E-
DILLARDS INC-HQ	B+	B+	NM	STABLE	D-
MACYS INC (FKA FEDERATED DPT STORES)	BBB-	BBB-	NM	NEGATIVE	D
JC PENNEY CO INC	BBB-	BBB-	NM	NEGATIVE	C-
SEARS HOLDING CO. F/K/A KMART HOLDING CORP	BB-	BB-	NM	NEGATIVE	D-
KOHL'S CORP	BBB+	BBB+	NEGATIVE	STABLE	B-
NORDSTROM INC	A-	A-	NM	NEGATIVE	C-
SAKS INC/ FKA PROFFITTS INC	B	B	NEGATIVE	STABLE	E
STEWART & STEVENSON HQ	B	B	STABLE	POSITIVE	NR
NEBRASKA BOOK COMPANY INC	B-	B-	NEGATIVE	NM	D-
NEIMAN MARCUS INC	B+	B+	NM	NEGATIVE	D
MANDALAY RESORT GROUP	NR	BB+	NR	NM	D+
REGIONS BANK	A+	A+	NEGATIVE	STABLE	NR
STARBUCKS CORP	BBB	BBB	STABLE	STABLE	C-
TEXTRON FINANCIAL CORP	BBB	BBB	NM	DEVELOPING	NR

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## Off the Rack

**Macy's, Inc.** raised its fourth quarter earnings guidance to \$1.00 to \$1.02 per share excluding consolidation and store closing costs, up from previous guidance of \$.90 to \$1.00 per share. For the full fiscal year 2008, earnings guidance is now \$1.20 to \$1.22 per share, excluding charges, up from \$1.10 to \$1.20 per share guided previously.

**Macy's** will slash 7,000 jobs and cutting its dividend in efforts to conserve cash. The firm also said that it would be consolidating all of its operations into a single corporate unit. Macy's said that the moves are expected to save it about \$400 million per year starting in 2010, and \$250 million in 2009. The cuts represent about 4% of the firm's workforce.

Also, **Macy's Retail Holdings** subsidiary has made a cash tender offer to buy \$350 million in outstanding 6.30% senior notes due April 1, 2009 and \$600 million in 4.80% senior notes due July 15, 2009. Retiring the debt early will reduce Macy's interest expense in 2009.

**Bebe Stores, Inc.** sales fell 10.5% to \$181.9 million for the second quarter of fiscal 2009 ended January 3. Same store sales decreased 20.1%. Net income was off 70.9% to \$6.8 million. The company warned that comps will be even worse in the third quarter, and the net loss will be in the range of \$0.05 to \$0.10 per share. Also, BEBE has extended its \$25 million unsecured commercial line of credit from Bank of America one year to March 30, 2010.

**Christopher & Banks Corp.** reorganized and consolidated its field management staff, reducing 89 districts to 58 and consolidating regions to three: East, Midwest and West. About 30 field rep positions were eliminated. The reorganization is expected to save \$2.0 million in fiscal 2010 and will cost about \$400,000 in charges in the fourth quarter of fiscal 2009.

**Neiman Marcus, Inc.** revenues fell 21.4% to \$1.079 billion for the second fiscal quarter ended January 31, 2009. Comp store sales fell 22.8% in the period. Management warned it expects to report a net loss for the second quarter.

**Hudson's Bay Co.** will be eliminating 1,000 positions as part of an overall restructuring plan to align its businesses across North America. The firm says that this, combined with other initiatives, will save the company \$150 million in 2009. Going forward, the firm will combine

numerous functions for all banners, including finance, IT, and supply chain. The announcement comes on the heels of a \$70 million equity infusion from parent company NRDC earlier this year.

**Polo Ralph Lauren Corp.** retail sales declined 7% to \$547 million in the fiscal third quarter ended December 28. Comparable store sales declined 13.5%: down 21.7% at Ralph Lauren stores, down 9.1% at factory stores and down 17.2% at Club Monaco stores. RalphLauren.com sales increased 15% in the quarter.

**Talbots, Inc.** secured a \$200 million term loan from its largest shareholder, Aeon Co. The proceeds from the term loan will be used to pay the existing acquisition debt related to the 2006 acquisition of J Jill. The new term loan will require semi-annual interest payments and will mature in 2012. Under the existing term loan, the company would have had to find the funds to pay for \$80 million in principle payments this year. Also, TLB will eliminate 370 corporate positions, suspend the company matching 401(k) policy and reducing overhead to save \$150 million in 2009. The company also said it plans to close about 20 underperforming Talbots stores in fiscal 2009.

Also, **Talbots** warned it expects to report a net loss from continuing operations for the fourth quarter significantly below the current First Call consensus estimate.

**Children's Place Retail Stores, Inc.** estimated that earnings for fiscal 2008 will be \$2.45-\$2.50 per share, including +\$0.28 per share for one time benefits.

**Fred's Inc.** revised downwards fourth quarter earnings from operations guidance to a range of \$0.15 to \$0.18 per share.

**Gymboree Corp.** now expects fourth quarter earnings of \$0.96 to \$1.00 per diluted share, and full year earnings of \$3.16 to \$3.20 per diluted share.

**Gap Inc.** broke out fourth quarter comps as follows: Overall -14%, Gap N.A. -13%, Banana Republic N.A. -15%, Old Navy N.A. -17%, International -4%. Gap also bumped its full-year 2008 earnings guidance to \$1.32 to \$1.33 per share, up from \$1.27 to \$1.30 per share guided previously, citing expense savings in January.

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### Did You Know...?

*The U.S. services sector's contraction continued to slow in January, as the Institute for Supply Management's ISM non-manufacturing index rose to 42.9% in January from 40.1% in December and 37.4% in November.*

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## Off the Rack

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**Aeropostale, Inc.** raised guidance after a strong January, and now expects fourth quarter earnings of approximately \$1.00 per diluted share, up from its previous guidance of \$0.90 to \$0.92 per diluted share.

**Cato Corp.** raised guidance due to higher than expected margins in January, and now expects fourth quarter earnings of \$0.10 to \$0.12 per share and full year earnings of \$1.12 to \$1.14 per share.

**Kohl's** said it would exceed the current First Call consensus of earnings of \$0.99 per diluted share for the fiscal fourth quarter.

**Ross Stores, Inc.** reported higher gross margins than expected, and raised earnings guidance for the fourth quarter to \$.75 to \$.76 per share, and for the full year to \$2.32 to \$2.33 per share.

**TJX Companies, Inc.** raised fourth quarter earnings guidance to \$.53 to \$.54 per share, and full year earnings guidance to \$2.02 to \$2.03 per share. The increase is due to a reduction in reserves related to the previously announced data theft and tax benefits.

**Destination Maternity Corp.** is opening an additional 69 Motherhood Maternity apparel shops at Babies"R"Us stores, bringing the total in-store shops to 138.

## The Global World of Sports and Footwear

**Dick's Sporting Goods** will take a \$165-180 million asset impairment charge in the fourth quarter. The write down includes \$140-150 million in goodwill and other intangible assets related to its Golf Galaxy acquisition and \$25-30 million for Dick's, Golf Galaxy and Chick's store assets. Store closures are not expected to result from the charges nor will Dick's liquidity position be adversely affected. The Q4 impairment charge will reduce DKS' net income for the period by \$144-153 million. Comparable store sales at Dick's and Golf Galaxy doors fell 8.6% in Q4, within company guidance of -6 to -19%. For the FY, Dick's stores only same store sales declined 4.8%, within guidance of -4 to -5%. Excluding the asset impairment charge, the retailer is projecting Q4 diluted earnings including integration costs for Chick's and Golf Galaxy will be in the \$.047-.54 per share range.

**European Specialty Sporting Goods Retailers** sales reached 37.5 billion (\$48.8 billion), up modestly from 37.0 billion the prior year, according to a study by Fedas, the European federation of sporting goods stores. The German specialty stores grew slightly faster than the rest of the market's 1.4% growth rate with a 2.9% growth rate to 7.1 billion (\$9.23 bb) from 6.9 billion. The outdoor segment was especially strong in Germany, with an 11% growth rate, as was the team sports segment that was propelled to a 9% growth rate as a result of the Euro Cup. After the awful winter of 2006-07, the German market rebounded with an 8% increase in sales for the more recent season. Leisure sports apparel rose 5% and fitness rose 3% but racquet sports had a 7% decline.

**Sport Chalet's** board initiated a review of strategic alternatives and hired Wedbush Morgan to oversee the process. The strategic review may include raising additional capital, amending or replacing the credit facility and a further reduction of expenses. Recently, Sport Chalet secured a five week reprieve from Bank of America, which amended its credit facility giving until March 2 before the lender can act on certain defaults under the credit agreement. In recent quarters, Sport Chalet has suffered from its heavy exposure in markets that have been hit hard by the real estate downturn.

**Brown Shoe Co.** won't have to lay off corporate office workers because enough employees accepted a voluntary buyout program announced two weeks ago, according to the *St. Louis Post-Dispatch*. 150 to 175 employees, or 12 to 14% of BWS' headquarters staff, reportedly accepted the buyout offer.

**Timberland's** direct sales—retail stores and internet—declined 13% to \$133.4 million in the fourth quarter as TBL closed 41 unprofitable doors in the period. Comp store sales dropped 8% globally with gains in Europe unable to offset declines in North America and Asia-Pacific.

**Zumiez Inc.** now expects earnings to be at the high end of its guidance range of \$0.52 to \$0.57 per share for the fiscal year ending January 31.

**Riverside Ski and Sport**, one of Southern California's last family-owned sporting goods stores is closing down Mar. 31 due to the retirements of owners Bob and Leslie Slamal. The banner was opened in 1946.

### Did You Know...?

According to a report by the Golf Datatech National Golf Rounds Played Report, golf rounds played in the U.S. were down 6.8% in December 2008 versus December 2007, bringing the year-to-date total to a decrease of 1.8% from last year's overall results.

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## Specialty Items

**Central Garden & Pet Company** sales fell 6.8% to \$292.5 million in the first quarter ended December 27. Net loss for the quarter was \$6.2 million compared to a loss of \$290 million in 2007 due to a goodwill impairment charge.

**Michaels Stores** will eliminate 295 corporate jobs over the next 90 days. The company will incur charges of \$3 million to \$4 million for severance payments with \$1 million to \$1.5 million charged in the fourth quarter of this fiscal year with the remaining amount recognized during fiscal 2010. The reduced employee count is attributed to slower sales and outsourcing of certain operations functions.

**Pier 1 Imports, Inc.** may close up to 125 underperforming store locations under early termination agreements if it can't renegotiate rents on the leases. Also, PIR will close its

514,000 sq. ft. distribution center in St. Charles, Illinois, and to reduce its workforce by 10% in its distribution center, home office, and field administration areas. Pier 1 will take a \$5 million charge for the cuts, not including any store closing costs. Future cost reduction benefits are expected, but were not quantified.

**Tiffany & Co.** has cut an undisclosed number of retail positions in its stores via early retirement and layoffs. TCO had offered early retirement to about 800 employees but did not say how many took the package or how many additional workers were let go.

**Resort Interiors**, an upscale Florida furniture retailer will shut down following a liquidation sale, *Furniture Today* reported. The owners cited the weak home building industry in the area.

## Hi Tech Entertainment

**Rex Stores Corp.** reached a deal to lease 37 of its stores to **Appliance Direct, Inc.** as part of the strategy to exit retail and concentrate on its ethanol business. Rex also sold furniture, fixtures, equipment and inventory in those stores as part of the agreement. Rex said it will incur fees of \$3.5 to \$3.8 million related to the transaction.

**Office Depot** sees the Missouri Attorney General investigating allegations of fraudulent pricing and overcharging on the company's estimated \$600-700 million "U.S. Communities" national contract.

**Hhgregg, Inc.** sales increased 6.6% to \$416.1 million in the third fiscal quarter ended December 31. Comp store sales fell 13.2%. Income was up 13.4% to 17.1 million in the quarter. HGG raised its fiscal 2009 earnings guidance increased to \$0.85 to \$0.95 per share from \$0.75 to \$0.90 guided previously.

**OfficeMax** is chasing higher productivity with a 1,500 to 2,000 sq. ft. concept called Ink Paper Scissors, which stocks about 2,000 of the chain's best-selling items. Three prototype stores have opened in the Seattle area.

## FYI for the DIY

**84 Lumber** reported another year of steep revenue declines, ending 2008 with \$2.1 billion in annual sales, a \$1 billion drop from reported sales of \$3.1 billion in 2007. During 2008, the company reduced its store count from 425 units down to 325 units with headcount down from 9,500 to 4,900 employees.

**Home Depot** has agreed to pay \$22 million and other non-cash consideration to settle disputes over post-closing purchase price adjustments following the 2007 sale of HD Supply to private equity funds.

Paint maker PPG has sued **Sherwin-Williams** for trade infringement over the phrase "The Color of Inspiration," which is the name of PPG's

color matching system used by retailers. The phrase is used by Sherwin-Williams at its web site, [colorofinspiration.com](http://colorofinspiration.com).

**DG Ace Hardware**, a chain of 10 stores in three states, is changing its name to **DG Hardware** and switching its co-op affiliation from Ace Hardware to **Do it Best**. The switch to Do it Best will be completed by the end of February.

**Sherwin-Williams** has acquired Polish protective woodcare coatings manufacturer Altax Sp. zo.o. Altax will be part of the Ronseal coatings business unit based in the U.K.

**Lowe's Canada** will open three more stores in Ontario by the end of the summer, bringing its total to 14 locations.

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## Heard in the Grocery Aisle

**Ingles Markets, Inc.** sales rose 3.6% to \$804.9 million for its first fiscal quarter ended December 27. Comp store sales increased 5.4% excluding gasoline. Net income was off 9.0% to \$11.1 million.

**Spartan Stores, Inc.** sales fell 0.7% to \$781.9 million in the third quarter ended January 3, 2009. Retail segment sales improved 1.8% to \$384.0 million as comp store sales increased 3.3%. Earnings improved 17.4% to \$17.9 million in the period. The company expects comp store sales to increase in the low single digits in the fourth quarter.

**Food Lion** held formal reopenings at 38 Mid-Atlantic stores that had been recently renovated. Food Lion has been updating stores to a new prototype first introduced in 2006,

which features natural light, more fresh produce and meat, and a Nature's Place department offering natural and organic products.

**Bashas Supermarkets** laid off 350 employees from corporate, distribution and retail. The cuts represent less than 3% of Bashas' work force.

**Nash Finch Co.** completed its acquisition of three food distribution centers from GSC Enterprises, Inc., which service military commissaries and exchanges.

**Kroger Co.** employees represented by UFCW Local 711 in Las Vegas have ratified a new labor agreement. The agreement covers more than 3,700 associates at 47 of the company's Smith's and Food 4 Less divisions.

### Did You Know...?

*First-time unemployment claims for the week ending January 31 rose 35,000 to 626,000, the Labor Department reported. The four-week moving average of continuing claims rose 44,000 to 4.67 million.*

## Health & Beauty Aids

**CVS Caremark Corp.**'s CVS/pharmacy division will build a 750,000 square foot distribution center in Chemung County, New York. The facility is expected to open in 2011 and bring 600 new jobs to the region.

**Rite Aid Corp.** will sell seven Rite Aid locations in downtown San Francisco and five stores in eastern Idaho to Walgreens. The transition will

be completed by the end of March. RAD said it didn't have critical mass in either market to operate efficiently. Walgreens sees the store additions as strengthening its presence in competitive markets.

**Drugstore.com, Inc.** expects net sales of \$93.0 million to \$97.0 million and net income of \$0.0 to a net loss of \$2.0 million in the first quarter of 2009.

## Mass Merchant Musings

**99c Only Stores** sales increased 8.4% to \$341.0 million and same store sales increased 4.2% for the third quarter of fiscal 2009 ended December 27, 2008. Net income rose 30.8% to 12.5 million. The company will suspend its planned exit from the Texas market to re-evaluate the operations there after January comps were up a surprising 8.6%. But NDN still plans to close one third of its 46 stores in the state. Also, the board rejected chairman Dave Gold's offer to buy the Texas operations on the recommendation of a special committee of independent directors.

**Kmart** is introducing an exclusive athletic footwear and apparel collection called Protégé and created by NBA star Al Harrington. The launch is part of Kmart's footwear re-launch which will feature new and exclusive brands both in stores nationwide and online beginning this month.

**BestPrice Modern Wholesale** is the new banner of wholesale stores a Wal-Mart and Bharti Enterprises joint venture will open in Punjab, India this year, according to *Reuters India*.

## General Retail News

**U.S. online retail sales** are projected to grow 11% to \$156 billion this year to 7% of overall retail revenue, according to Forrester Research. On-line sales grew 13% in 2008 to \$141 billion, and made up 6% of total retail sales.

**Supercenters** were the only retail channel to post overall unit sales growth in 2008, Nielsen reported. The supercenter channel's modest 1% increase came at the cost of supermarkets and mass merchandisers.

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## Retailer of the Week: Tuesday Morning

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### OPERATING PERFORMANCE

Income Statement	2ND QTR FY 08	2ND QTR FY 09	YTD FY 08	YTD FY 09
Net Sales	\$308.7 mm	\$272.6 mm	\$510.3 mm	\$446.1 mm
Comp Store Sales	(14.9%)	(7.6%)	(15.8%)	(4.5%)
Store Count			831	860
Gross Margins	\$114.9 mm (37.2%)	\$100.9 mm (37%)	\$190.6 mm (37.3%)	\$165.1 mm (37%)
SG&A Expenses	\$80.7 mm (26.1%)	\$80.3 mm (29.4%)	\$153.2 mm (30%)	\$151.2 mm (31.1%)
<b>Operating Income</b>	<b>\$34.2 mm</b> <b>(11%)</b>	<b>\$20.6 mm</b> <b>(7.5%)</b>	<b>\$37.4 mm</b> <b>(7.3%)</b>	<b>\$13.8 mm</b> <b>(3%)</b>
Interest Expense	\$1.42 mm	\$717,000	\$3.11 mm	\$1.13 mm
Interest and Other Income	\$347,000	\$192,000	\$725,000	\$272,000
<b>Net Income</b>	<b>\$20.5 mm</b>	<b>\$12.7 mm</b>	<b>\$21.7 mm</b>	<b>\$8.41 mm</b>

### Did You Know...?

U.S. nonfarm payrolls fell by 598,000, taking the unemployment rate to 7.6%, the Labor Department reported. About 3.6 million jobs have been lost since the recession began.

As indicated above, the poor economic environment and what we believe is too ambitious new store openings are leading to double-digit comp declines. Gross margins fell in dollars terms due to lower sales, however, as a percentage of sales the decline was fairly modest. The inability to sufficiently leverage distribution costs caused the small percentage decrease. Tuesday Morning has made a decision not to price promote merchandise as much and instead sell through slower at higher price points. While this has helped to limit the margin erosion, the risk is that if the inventory does not sell through quickly enough merchandise becomes "stale and outdated." At that point, Tuesday Morning must take drastic price cuts to rid itself of the goods and thereby having a material impact on earnings going forward.

The inability to properly leverage fixed costs against a declining comp store sales base forced the rise in SG&A expenses when viewed as a percentage of sales. This was more acute in the (second) quarter to quarter period as expenses of holiday activity could not be covered through sales. Lower amounts of revolver borrowing allowed for the reduction in interest expense.

Balance Sheet/Liquidity	12/1/2007	11/29/2008
Cash	\$11.4 mm	\$5.84 mm
Inventory/Inventory Days Turnover	\$259.3 mm/162 days	\$260.9 mm/179 days
Adjusted Current Assets (cash and inventory)	\$272 mm	\$266.7 mm
Total Assets	\$363.5 mm	\$360 mm
<b>Accounts Payable/Payable Days Turnover</b>	<b>\$59.6 mm/37 days</b>	<b>\$73.3 mm/50 days</b>
Revolver Debt (reclassified to short term)	\$7 mm	\$2 mm
Total Liabilities	\$124.5 mm	\$117.7 mm
<b>Adjusted Current Ratio</b>	<b>2.1:1</b>	<b>2.3:1</b>
<b>Leverage Percentage</b>	<b>33%</b>	<b>34%</b>

As the balance sheet would indicate, Tuesday Morning slowed down payments to the trade as the Company held onto merchandise longer hoping to eventually get desired price points for the goods. Also, the longer pay back period to suppliers allowed the Company to use its revolving line of credit sparingly, which was being limited by a clean down provision that kicked in on December 28.

However, the clean down provision was lifted on January 31 and Tuesday Morning should have sufficient credit resources to repay the trade and cover ongoing daily operations for the interim period. While the balance sheet remained fairly strong from a leverage standpoint, a potential money losing second half could force more debt and begin to change the current ratio and leverage situation.

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## Retailer of the Week: Tuesday Morning

(continued from page 9)

### OUTLOOK

Unfortunately, we see a fairly sizable loss for the current third quarter and we are not hopeful about profitability for the fourth quarter, thereby causing red ink for the fiscal year ending June 30, 2009. The Company has halted its aggressive store expansion but will that be enough to return to profitability? We anticipate that store closings will soon be in order but again if the retail landscape continues its downward slope where will that leave Tuesday Morning in the typically very slow summer months. Add to this scenario is that Tuesday Morning may have started the third quarter with merchandise that will not sell off unless very deeply discounted. As noted above, this could force an even deeper loss going forward.

For now we see no immediate threat to liquidity as evidenced by Global Credit maintaining its "D-" credit rating. However, that assessment may change if the third quarter shows considerable red ink. Therefore, clients are advised to keep a close eye out for ongoing Global Credit reports and alerts and also monitor their exposures. Third quarter results for the period ending March 31, 2009 should be made available in late April or early May.

### Upcoming Reporting Dates

Company	Event	Date
Abercrombie & Fitch	Financial Results	Feb 13, 2009
Cabela's	Financial Results	Feb 19, 2009
Cato	Financial Results	Mar 19, 2009
CVS Caremark	Financial Results	Feb 19, 2009
Dollar General	Investor Conference	Feb 12, 2009
Express Scripts	Financial Results	Feb 25, 2009
GSI Commerce	Financial Results	Feb 11, 2009
Ingram Micro	Financial Results	Feb 18, 2009
Ingram Micro	Investor Conferences	Feb 9 & 26, 2009
Kirkland's	Financial Results	Mar 20, 2009
Loblaw Companies	Financial Results	Feb 18, 2009
Office Depot	Financial Results	Feb 24, 2009
OfficeMax	Financial Results	Feb 18, 2009
PC Mall	Investor Conference	Feb 10, 2009
Shoppers Drug Mart	Financial Results	Feb 12, 2009
Sport Supply Group	Financial Results	Feb 10, 2009
Talbots	Financial Results	Mar 12, 2009
Tech Data	Investor Conference	Feb 10, 2009
TJX Companies	Financial Results	Feb 25, 2009
United Stationers	Financial Results	Feb 12, 2009
Whole Foods Market	Financial Results	Feb 18, 2009
Winn-Dixie Stores	Financial Results	Feb 18, 2009

#### Did You Know...?

After ending 2008 down 7.9%, cargo volume at the nation's major retail container ports is expected to drop at an even faster pace during the first half of 2009 as the economic recession continues.

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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
<b>Apparel</b>							
Abercrombie & Fitch	\$997.7	\$1,229.0	-18.8%	tba	tba	\$216.8	tba
Aeropostale, Inc.	\$690.1	\$591.3	16.7%	6.0%	tba	\$64.7	tba
American Eagle Outfitters	\$905.7	\$995.4	-9.0%	-16.0%	tba	\$140.5	tba
Bon Ton Stores, Inc.	\$1,031.4	\$1,138.9	-9.4%	-9.7%	tba	\$75.2	tba
Cache, Inc.	\$65.9	\$78.5	-16.1%	-17.0%	tba	\$4.9	tba
Cato Corporation	\$209.1	\$209.4	-0.1%	-3.0%	tba	(\$1.8)	tba
Chico's FAS, Inc.	\$373.4	\$409.3	-8.8%	-13.0%	tba	(\$20.5)	tba
Children's Place	\$441.5	\$443.3	-0.4%	-5.0%	tba	(\$58.5)	tba
Citi Trends, Inc.	\$146.6	\$134.6	8.9%	-1.9%	tba	\$8.4	tba
Dillard's, Inc.	\$1,977.7	\$2,161.8	-8.5%	-8.0%	tba	\$47.3	tba
Eddie Bauer Holdings	\$356.0	\$377.6	-5.7%	-8.8%	tba	(\$18.3)	tba
Gap Inc.	\$4,080.0	\$4,675.0	-12.7%	-14.0%	tba	\$265.0	tba
Gottschalks	\$184.2	\$204.4	-9.9%	-7.1%	tba	\$1.1	tba
Gymboree Corporation	\$285.3	\$275.3	3.6%	-2.0%	tba	\$26.8	tba
Hot Topic, Inc.	\$238.0	\$220.7	7.8%	5.2%	tba	\$11.9	tba
J.C. Penney Company	\$5,759.0	\$6,390.0	-9.9%	-10.8%	tba	\$430.0	tba
Jo-Ann Stores, Inc.	\$571.9	\$585.9	-2.4%	-2.9%	tba	\$27.5	tba
Kohl's Corporation	\$5,235.5	\$5,487.3	-4.6%	-4.6%	tba	\$411.7	tba
Limited Brands	\$2,991.1	\$3,228.3	-7.3%	-10.0%	tba	\$389.0	tba
Macy's, Inc.	\$7,934.0	\$8,594.0	-7.7%	-7.0%	tba	\$750.0	tba
Nordstrom, Inc.	\$2,300.0	\$2,510.0	-8.4%	-12.5%	tba	\$212.1	tba
Pacific Sunwear	\$351.7	\$384.3	-8.5%	-10.0%	tba	\$5.2	tba
Retail Ventures, Inc.	\$455.5	\$452.0	0.8%	-7.9%	tba	(\$125.7)	tba
Ross Stores, Inc.	\$1,734.0	\$1,652.0	5.0%	-1.0%	tba	\$94.5	tba
Saks Incorporated	\$843.4	\$985.6	-14.4%	-15.3%	tba	\$39.5	tba
Stage Stores, Inc.	\$455.8	\$473.1	-3.7%	-7.2%	tba	\$31.7	tba
Talbots, Inc.	\$328.0	\$428.0	-23.4%	-24.6%	tba	(\$171.4)	tba
Wet Seal, Inc.	\$154.8	\$179.6	-13.8%	-13.4%	tba	\$12.2	tba
<b>Drug</b>							
Abbott	\$7,950.3	\$7,221.4	10.1%	NA	\$1,536	\$1,203.0	27.7%
Drugstore.com, Inc.	\$93.9	\$91.3	2.8%	NA	\$0.3	(\$2.3)	113.0%
<b>Home Centers</b>							
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%	\$24.7	\$30.0	-17.7%
W.W. Grainger	\$1,592.7	\$1,611.8	-1.2%	tba	\$107.9	\$104.4	3.4%
Wesco International	\$1,429.8	\$1,489.2	-4.0%	NA	\$41.9	\$61.1	-31.4%
<b>Specialty</b>							
Finlay Enterprises, Inc.	\$306.7	\$383.1	-19.9%	-15.0%	tba	\$13.4	tba
Haverty Furniture	\$161.9	\$205.8	-21.3%	-22.6%	tba	\$1.6	tba
Kirkland's, Inc.	\$133.6	\$138.3	-3.4%	5.3%	tba	\$1.5	tba
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc.	\$55.5	\$54.7	1.5%	3.6%	tba	\$7.4	tba
Big 5 Sporting Goods Corp.	\$219.6	\$232.1	-5.4%	-8.6%	tba	\$6.2	tba
Brown Shoe Company, Inc.	\$521.0	\$571.4	-8.8%	-3.6%	tba	\$14.0	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
<b>High-Tech &amp; Electronics</b>							
Amazon.com, Inc.	\$6,704.0	\$5,673.0	18.2%	NA	\$225.0	\$207.0	8.7%
Conn's, Inc.	\$245.4	\$200.6	22.3%	12.5%	tba	\$13.1	tba
IAC/InterActiveCorp	\$351.0	\$378.9	-7.4%	NA	\$227.4	(\$369.9)	161.5%
PC Connection, Inc.	\$439.1	\$489.6	-10.3%	NA	\$1.9	\$6.2	-69.4%
Rent-A-Center, Inc.	\$699.8	\$717.0	-2.4%	0.0%	\$36.1	(\$5.4)	768.5%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,353.1	\$1,400.8	-3.4%	-3.2%	tba	\$92.0	tba
BJ's Wholesale Club, Inc.	\$2,500.0	\$2,479.6	0.8%	6.4%	tba	\$50.2	tba
Dollar Tree Inc.	\$1,390.0	\$1,300.0	6.9%	2.2%	tba	\$94.7	tba
Fred's, Inc.	\$469.4	\$494.1	-5.0%	-1.1%	tba	(\$4.4)	tba
Overstock.com	\$255.9	\$294.5	-13.1%	NA	\$1.0	(\$6.5)	115.4%
Target Corporation	\$19,023	\$19,872	-4.3%	-5.9%	tba	\$1,028.0	tba
<b>Food</b>							
Weis Markets, Inc.	\$619.4	\$603.0	2.7%	2.2%	\$17.0	\$8.6	97.7%

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## Full Year Scorecard

\$ in Millions Full fiscal year	Sales			Comps	Net Income		
	2008	2007	Change		2008	2007	Change
<b>Apparel</b>							
Abercrombie & Fitch	\$3,540.0	\$3,749.9	-5.6%	-13.0%	tba	\$475.7	tba
Aeropostale, Inc.	\$1,886.0	\$1,591.0	18.5%	8.0%	tba	\$129.2	tba
American Eagle Outfitters	\$2,989.0	\$3,055.0	-2.2%	-10.0%	tba	\$400.0	tba
Bon Ton Stores, Inc.	\$3,130.0	\$3,365.9	-7.0%	-7.4%	tba	\$11.6	tba
Cato Corporation	\$845.7	\$834.3	1.4%	-1.0%	tba	\$32.3	tba
Chico's FAS, Inc.	\$1,582.0	\$1,714.0	-7.7%	-15.1%	tba	\$88.9	tba
Children's Place	\$1,630.3	\$1,520.5	7.2%	2.0%	tba	(\$59.6)	tba
Citi Trends, Inc.	\$488.2	\$437.5	11.6%	0.0%	tba	\$14.2	tba
Dillard's, Inc.	\$6,739.9	\$7,204.9	-6.5%	-7.0%	tba	\$53.8	tba
Eddie Bauer Holdings	\$971.3	\$989.4	-1.8%	-1.8%	tba	(\$101.7)	tba
Gap Inc.	\$14,530.0	\$15,763.0	-7.8%	-12.0%	tba	\$833.0	tba
Gottschalks	\$563.2	\$628.5	-10.4%	-8.8%	tba	(\$12.4)	tba
Gymboree Corporation	\$997.3	\$920.8	8.3%	tba	tba	\$80.3	tba
Hot Topic, Inc.	\$761.0	\$728.1	4.5%	1.0%	tba	\$16.0	tba
J.C. Penney Company	\$18,486.0	\$19,860.0	-6.9%	-8.5%	tba	\$1,111.0	tba
Jo-Ann Stores, Inc.	\$1,901.0	\$1,879.0	1.2%	0.5%	tba	\$15.4	tba
Kohl's Corporation	\$16,388.9	\$16,473.7	-0.5%	-0.5%	tba	\$1,083.9	tba
Limited Brands	\$9,042.7	\$10,086.4	-10.3%	-9.0%	tba	\$718.0	tba
Macy's, Inc.	\$24,892.0	\$26,313.0	-5.4%	-4.6%	tba	\$893.0	tba
Nordstrom, Inc.	\$8,270.0	\$8,830.0	-6.3%	-9.0%	tba	\$715.0	tba
Pacific Sunwear	\$1,250.0	\$1,310.0	-4.6%	-5.0%	tba	(\$30.4)	tba
Retail Ventures, Inc.	\$1,885.0	\$1,871.9	0.7%	-5.1%	tba	\$51.4	tba
Ross Stores, Inc.	\$6,486.0	\$5,975.0	8.6%	2.0%	tba	\$261.1	tba
Saks Incorporated	\$3,053.8	\$3,249.1	-6.0%	-6.1%	tba	\$47.5	tba
Stage Stores, Inc.	\$1,515.8	\$1,545.6	-1.9%	-6.1%	tba	\$53.1	tba
Talbots, Inc.	\$1,495.0	\$1,708.0	-12.5%	-14.2%	tba	(\$188.8)	tba
Wet Seal, Inc.	\$735.3	\$611.2	20.3%	tba	tba	\$23.2	tba
<b>Drug</b>							
Abbott	\$29,528	\$25,914	13.9%	NA	\$4,881	\$3,606	35.3%
Drugstore.com, Inc.	\$366.6	\$339.3	8.0%	NA	(\$8.3)	(\$11.5)	27.8%
<b>Home Centers</b>							
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	\$3,007.9	\$2,703.2	11.3%	1.4%	\$81.9	\$96.2	-14.9%
W.W. Grainger	\$6,850.0	\$6,418.0	6.7%	tba	\$475.4	\$420.1	13.2%
Wesco International	\$6,110.8	\$6,003.4	1.8%	NA	\$212.7	\$240.6	-11.6%
<b>Specialty</b>							
Finlay Enterprises, Inc.	\$862.6	\$835.9	3.2%	-10.6%	tba	(\$10.1)	tba
Haverty Furniture	\$691.1	\$784.6	-11.9%	tba	tba	\$1.8	tba
Kirkland's, Inc.	\$391.3	\$396.7	-1.4%	3.6%	tba	(\$25.9)	tba
<b>Sports &amp; Footwear</b>							
Bakers Footwear Group, Inc.	\$183.7	\$186.3	-1.4%	0.5%	tba	(\$17.7)	tba
Big 5 Sporting Goods Corp.	\$864.7	\$898.3	-3.7%	-7.0%	tba	\$28.1	tba
Brown Shoe Company, Inc.	\$2,276.4	\$2,360.0	-3.5%	tba	tba	\$60.4	tba
Golfsmith International	\$379.1	\$388.2	-2.3%	-6.3%	tba	(\$40.8)	tba
West Marine, Inc.	\$631.3	\$679.6	-7.1%	-6.8%	tba	(\$50.0)	tba
<b>High-Tech &amp; Electronics</b>							
Amazon.com, Inc.	\$19,166.0	\$14,835.0	29.2%	NA	\$645.0	\$476.0	35.5%
Conn's, Inc.	\$805.0	\$731.0	10.1%	2.0%	tba	\$39.7	tba
IAC/InterActiveCorp	\$1,445.1	\$1,332.6	8.4%	NA	\$156.2	\$144.1	8.4%
PC Connection, Inc.	\$1,753.7	\$1,785.4	-1.8%	NA	\$15.0	\$23.0	-34.8%
Rent-A-Center, Inc.	\$2,884.2	\$2,906.1	-0.8%	2.3%	\$139.6	\$76.3	83.0%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$4,594.2	\$4,606.2	-0.3%	0.5%	tba	\$158.5	tba
BJ's Wholesale Club, Inc.	\$9,802.1	\$8,791.6	11.5%	6.4%	tba	\$122.9	tba
Dollar Tree Inc.	\$4,640.0	\$4,240.0	9.4%	4.1%	tba	\$201.3	tba
Fred's, Inc.	\$1,800.0	\$1,780.0	1.1%	1.8%	tba	\$10.7	tba
Overstock.com	\$834.4	\$765.9	8.9%	NA	(\$12.7)	(\$48.0)	73.5%
Target Corporation	\$62,884	\$63,367	-0.8%	-2.9%	tba	\$2,849.0	tba
Wal-Mart Stores, Inc.	\$398,261	\$378,799	5.1%	3.0%	tba	\$12,731	tba
<b>Food</b>							
Weis Markets, Inc.	\$2,422.4	\$2,318.6	4.5%	4.3%	\$47.0	\$51.0	-7.8%

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