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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Retail Showing Continuing Pain

The recession is easing? Not so fast. An unexpected drop in sales of just about everything from cars to clothes sent a sobering message last week: The economy is still vulnerable.

That cautionary guidance was seconded by President Barack Obama and Federal Reserve Chairman Ben Bernanke, though they had encouraging words as well. Mr. Bernanke spoke of "tentative signs" that at least the economy is declining more slowly, and Mr. Obama repeated his recent analysis that he sees "glimmers of hope."

With Americans still losing jobs by the thousands, a major fear is that people will cut back even further on their spending, and that could plunge the economy into a sharper tailspin.

Lat week's report that retail sales fell 1.1% in March deepened concern.

Improvements in a string of other economic reports in the past few weeks—including home and auto sales, home building and other consumer-spending barometer—had raised optimism that the economy's descent might be slowing.

Mr. Obama and Mr. Bernanke cited those improvements in separate speeches last week. But they also made clear that potential pitfalls lie ahead.

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Retailer of the Week: Charming Shoppes

We are **reaffirming Charming Shoppes as an "E" high-risk credit with a "negative" outlook**. The operations at Charming Shoppes had a rough go of it for the second year in a row. After becoming a retail darling a couple years ago, the company has come back to earth. The firm's comp store sales struggled throughout the year, and the gross margin suffered as a result. The firm was able to cut some costs, but the corporation remained deep in an operating loss for both the fourth quarter and annual period. If we exclude one-time charges from asset impairment and severance, the operating loss shrinks but remains in the red.

Despite the large losses, the company's liquidity remains in decent shape. The company was free cash flow negative for the year, as the firm's operations did not generate enough cash to pay the capex bill. The liquidity was propped up by the sale of discontinued operations during the quarter. The firm's cash and marketable securities were $194.6 million at the close of the fourth quarter. This was still in good shape. Charming Shoppes also had availability of $205.8 million on its revolver, supplementing the liquidity position. The debt is largely long-term, with only a small amount maturing this year.

Charming Shoppes has been going through the painful process of closing a very large amount of stores. The company closed 150 stores last year, and has already said that it will close around 100 more this year.

For fiscal 2010, the company has said it will be reducing spending by about $125 million in efforts to fight off the stale retail environment. For the first quarter, Charming Shoppes has said it expects to lose between $10 million and $15 million, a good portion of which will be further restructuring expenses.

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Remember...

We have two ears and one mouth so that we can listen twice as much as we speak.

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Retail Showing Continuing Pain

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"By no means are we out of the woods just yet," Mr. Obama warned in a speech at Georgetown University. "The severity of this recession will cause more job loss, more foreclosures and more pain before it ends. Credit is still not flowing nearly as easily as it should."

Mr. Bernanke, speaking at Morehouse College in Atlanta, said, "Recently, we have seen tentative signs that the sharp decline in economic activity may be slowing." But he, too, cautioned that hopes for a lasting recovery hinge on how soon the government succeeds in bolstering the financial markets and stimulating more normal borrowing by consumers and businesses.

"We will not have a sustainable recovery without a stabilization of our financial system and credit markets," he said.

Both Mr. Bernanke and Mr. Obama said progress is being made on that front, and policymakers will keep working to ease financial and credit stresses.

Historically, the path to any economic recovery isn't a straight line. It's often marked by lurches both forward and backward.

The economy shrank at a 6.3% rate in the final three months of 2008, its worst showing in a quarter-century. Some economists estimate it fared about as poorly in the first three months of this year; others estimate a rate of decline of up to 5%. The government will release its initial estimate for first-quarter economic activity at the end of this month.

Even in the best case scenario that the recession ends later this year, the jobless rate, now at a quarter-century high of 8.5%, is expected to climb to 10% by the year's end. People either without jobs, or fearful of losing them, tend to drag down consumer spending.

Still, analysts say there's reason to hope for better times ahead.

Shoppers' appetites should get a lift from the tax credits of $400 per worker and $800 per couple in the government's $787 billion economic stimulus package. Most workers in April started seeing a $10 bump in their weekly paychecks, which will probably help boost retail sales, possibly in April but more likely in May and June.

Heard in the Grocery Aisle

Stater Bros. Holdings Inc. is selling its Santee Dairies milk production and distribution company to Dean Foods Co. Competing supermarket chains were reluctant to buy dairy products from the company, management said.

UFCW Local 7 in Colorado is in negotiations with **Safeway**, **King Soopers** and other chains operating in the region over a new contract.

Balducci's LLC sold its remaining six stores to an investor group led by food retail veteran Jim Demme. Demme is currently a senior advisor to investment firm Angelo, Gordon & Co.

Albertsons will stop its home delivery service in all markets. Last week the Supervalu-owned chain cut the service in Idaho and Oregon.

Options and Resources

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Bankruptcy Blotter

A survey, conducted by the Treasury Department, reported that while banks provided more home mortgages in February than in January, they extended less credit to businesses for such purposes as capital expenditure and acquisitions. Commercial and industrial lending had a median decrease of 13% for new commitments and a 14% decline for renewal of existing accounts.

None more companies around the world defaulted on their debt last week, putting the year's total at 87 – nearly four times the prior year's level. The U.S. continued to dominate the default count, adding seven issuers bringing its 2009 count to 61.

Systemax Inc. signed a "stalking horse" agreement to purchase selected assets of **Circuit City's** e-commerce business for $6.5 million in cash plus up to 1.75% of the revenue tied to the Circuit City name that Systemax collects in the next 30 months. Circuit City is hoping to conduct an auction on the property on May 11th.

In other news, **P.C. Richard & Sons** is moving into five former Circuit City storefronts within the New York metro area. Three of the locations are in Central New Jersey, a fourth store is in New York's College Point section of Queens, and the fifth is in Norwalk, Connecticut.

The committee of unsecured creditors in the **Sportsman's Warehouse** bankruptcy is contesting the company's $85 million DIP financing with **GE Capital Corp**., claiming the facility actually hinders the company's chances of reorganizing, as it does not provide sufficient time nor liquidity to develop and implement a strategy for the successful implementation of a plan of reorganization.

The Birmingham Business Journal reported that the court has ordered **Bruno's Supermarkets** to auction off its assets on April 22nd. The company has been shopping for a buyer but has said union contracts are hindering the sale.

Z Gallerie, a chain of 57 specialty home-furnishing stores filed for Chapter 11 protections several days after its $10 million loan came due. The company said it will pursue a restructuring strategy that calls for the closure of underperforming stores.

Unsecured creditors of **Fleetwood Enterprises Inc**. want to stop the company from tapping an $80 million DIP loan, saying it would be better for the company to liquidate rather than accept the financing.

Monaco Coach Corp. wants to put its luxury motor home resorts on the auction block, including properties in vacation destinations like Las Vegas, Nevada, and Naples, Florida. The company hopes to hold the auction on May 8th, though to date they do not have a "stalking horse" bidder.

Did You Know...?

Retail sales in March fell 1.1% from February but are still off 9% y-o-y, the Commerce Department reported.

Health & Beauty Aids

Over-the-counter drug wholesale sales grew 2.4% to $18.3 million in 2008, according to the *Nonprescription Drugs USA 2008* report from Kline & Company. Private-label OTC medicines were up 8.2% y-o-y, driven by antacids and allergy medicines.

CVS plans to open 50 more of its 2,500 to 4,000 sq. ft. Beauty 360 stores this year, and 500 over the next several years, according to *Stores*. Two prototype stores opened last fall.

Express Scripts Inc. will buy WellPoint Inc.'s pharmacy benefits subsidiary NextRx for $4.675 billion. The deal, expected to close in the second half of 2009, includes a provision for Express Scripts to provide PBM services to WellPoint for a 10-year period.

Walgreens said it filled 3.1 million electronic prescriptions in March, 211% higher than in March 2008. It estimates it will fill more than 40 million electronic prescriptions this year compared with 15 million filled in 2008.

Also, **Walgreens** opened a 700,000 sq ft distribution center in Windsor, Connecticut. It's the second WAG DC using a new, more efficient logistics system, following the Anderson, South Carolina prototype. 30% of the workforce in the new facility will be people with disabilities.

Abbott confirmed earnings guidance for 2009 of $3.65 to $3.70 per share, and said it expects to earn $0.80 to $0.82 per share in the second quarter, including specified items.

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Off the Rack

Charlotte Russe Holding, Inc. sales increased 3.3% to $191.2 million in the second quarter ended March 28. Comp store sales fell 8.0%. Net loss was $0.8 million compared to net income of $4.2 million. CHIC recorded a cash charge of $1.5 million proxy solicitation, management transition and severance, and a non-cash charge of $1.6 million for store impairment. The company expects third quarter comps in the negative low-single to positive low-single digit range and earnings of $0.17 to $0.27 per share, exclusive of charges.

Also, **Charlotte Russe** saw investor KarpReilly withdraw its slate of three director nominees for election to the company's board, ending a proxy fight that started last November.

Talbots, Inc.'s net loss more than doubled to $366.5 million in the fourth quarter ended January 31, and almost tripled to $560.7 million for the full year. Loss attributed to the discontinued J. Jill, Men's, Kids' and U.K. operations was $416.1 million for the year. Restructuring and impairment charges contributed $20.6 million to the loss, and there was a $66.0 million non-cash write down of deferred tax assets. Sales, announced previously, fell 23.3% to $327.9 million in Q4 with comps off 24.6%. For the full year, sales fell 12.5% to $1.495 billion on a 14.2% comp decline. Looking ahead to the first quarter of fiscal 2009, TLB expects a loss from continuing operations of $0.47 to $0.52 per share, excluding restructuring and impairment charges on comp store sales declines of about the same levels as in Q4.

Aeon Co., Ltd., **Talbots** majority shareholder, provided the company with a $150 million secured revolving loan facility at a variable rate equal to LIBOR plus 6.00%, maturing April 17, 2010.

Also, **Talbots** said it is in discussions and has signed a non-binding letter of intent with sourcing giant Li & Fung Limited explore the possibility of Li & Fung becoming Talbots' primary global sourcing agent.

Burlington Coat Factory Warehouse Corp. took pre-tax impairment charges of $28.1 million for long-lived assets and $279.3 million for goodwill in its fiscal third quarter ended February 28. Net loss was $165.2 million, compared to a loss of $0.4 million in Q3 last year. As reported previously, sales increased 3.5% to $1.022 billion and comp store sales fell 4.3% in the quarter.

J. C. Penney commenced a tender offer to repurchase up to $200 million of its outstanding 8% Notes due March 1, 2010. The company is offering $1,010 per $1,000 principal for the notes.

Hart Stores Inc. sales were up 15.6% to $56.8 million in the fourth quarter ended January 31. Comp store sales fell 5.8%. Net loss expanded to $1.0 million from a loss of $0.1 million in Q4 last year. For the full year, sales expanded 8.4% to $175.1 million, but net income fell 65.6% to $1.2 million.

Barneys New York owner Istithmar World Capital, owned by the Dubai government, confirmed that it had provided "a significant level of additional capital to support Barneys New York" a day after Standard & Poor's cut Barneys' rating.

Nordstrom will pay $292,500 to settle an EEOC lawsuit in Florida over a former manager who made derogatory remarks to black and Hispanic employees.

Dress Barn, Inc. raised earnings guidance to $0.30 to $0.32 per share for its fiscal third quarter ending April 25. Comp store sales are expected to be flat.

Mexican fashion apparel retailer **Shasa** opened its first U.S. store in Houston, the *Houston Chronicle* reported. The chain has 64 stores in Mexico; its owners plan to open four more stores this year in the Houston metro area, and hope to operate more than 100 U.S. stores by 2012.

Did You Know...?

U.S. beer imports fell 19% in the first two months of the year, the latest indication that the weak economy is hurting even hardy industries (though not in my house).

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Hi Tech Entertainment

Consumer electronics and major appliance sales fell 10.0% y-o-y in March, according to the U.S. Commerce Department, and were off 5.9% from February.

Entertainment Trends In America, a tracking study from NPD Group, says most consumers plan to hold steady or increase entertainment spending in 2009. 75% will spend the same amount or more on digital music downloads, 65% will spend the same or more on video games, and 60% will spend the same or more on CDs. Also, 51% of consumers surveyed purchased a DVD or Blu-ray disc in the prior three months, 36% purchased a console or portable video game and 31% purchased a CD.

RadioShack Corp. selected Butler, Shine, Stern and Partners (BSSP) as its creative advertising agency of record. BSSP will handle strategic and account planning as well as creative across all channels, including digital and new media.

Best Buy's new staffing model, which has demoted and cut the pay of 8,000 senior sales associates, looks disturbingly like Circuit City's disastrous move two years ago, the *Wall Street Journal* reported. CC laid off its most productive sales staff in an effort to reduce costs, but many analysts said the cuts led to the company's eventual bankruptcy.

Books-A-Million, Inc. revised their Q4 and full year earnings downward by $235,000, after an error was discovered in the calculation of the effective state income tax rate. Net income for Q4 is $11.2 million, and for the year is $10.6 million.

Barnes & Noble, Inc. opened its new customer service center in Lyndhurst, New Jersey. The 30,000 sq ft facility will employ 200 and handle both phone and Internet inquiries.

The Detroit Public School system is the latest customer to investigate **Office Depot** for overcharges following a whistleblower's allegations, the *Detroit Free Press* reported.

REX Stores Corp. retail sales contracted 23.1% to $47.6 million in the fourth quarter, but were supplemented by its alternative energy segment which brought in $19.8 million. Net loss for the company was $9.2 million vs. profit of $5.6 million in Q4 last year. Full year retail sales were down 16.6% to $162.4 million; including energy total sales were up 18.4% to $230.6 million. Net loss for the year was $7.8 million vs. profit of $40.5 million last year.

Legendary New York retail name **Crazy Eddie** has been purchased by Magic Investments, who intends to bring back the banner on stores, online and with licensed products, *BrandWeek* reports. At its peak, CE retailer Crazy Eddie operated 43 stores with $300 million in revenue before declaring bankruptcy in 1989.

Specialty Items

Tuesday Morning Corp. raised its earnings outlook after a strong March, now expecting a net loss of $.15 to $.17 per share in its fiscal third quarter ended March 31. Sales in Q3 fell 6.4% to $167.0 million, while same-store sales fell 9.5%.

Aaron's, Inc. is the new name of Aaron Rents, Inc. The company also changed its New York Stock Exchange ticker symbol from "RNT" to "AAN" effective April 20, 2009.

Ethan Allen Interiors Inc. opened thirteen design centers since July, 2008 including four in China. ETH plans to open at least fifteen more locations by December, 2009, including one in Dubai.

Jennifer Convertibles notified the SEC that it needed additional time to prepare and review its financials and will not be able to file its 10Q for the quarter ending February 28, 2009 by the required due date.

1-800-Flowers.com, Inc. amended its credit facility, prepaying $20 million towards it's term loan and reducing its revolving credit line from $165 million to a seasonally adjusted limit of $75 to $125 million. The amended credit facility also revises certain financial ratio covenants and eliminates the net worth covenant. The new interest rate for the term loan and revolver is LIBOR plus 3.0% to 4.5%, depending on leverage ratio.

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The Global World of Sports and Footwear

Bakers Footwear Group sales were up 1.3% to $55.5 million in the fourth quarter, and comp store sales rose 3.6%. Net income fell to $0.5 million from $7.3 million in Q407, but last year's number included a 4.8 million one time gain from the early termination of an operating lease. Full year sales were off 1.4% to $183.7 million, comparable store sales increased 0.5%, and net loss narrowed slightly to $15.0 million from $17.7 million last year. BKRS got a "going concern" warning from auditors on its 10-K.

Also, **Bakers** continues to work with lenders to ensure enough liquidity to keep operating. The company was able to amend covenants of its term loan and extended its revolving credit facility through January 2011, in exchange for higher rates and with payment of fees and stock.

The **U.S. Athletic Footwear Market** dropped 0.6% to $12.450 billion at wholesale in 2008, *Sporting Goods Intelligence* reported. It was the first decline recorded in 25 years of tracking the market. Nike's share rose to 41.7% from 38.5% at the expense of most of its main rivals. Adidas, Reebok, Skechers and New Balance all had lower sales y-o-y.

Broder Bros. has agreed in principal to a debt swap deal which will essentially shift 95% ownership in the apparel distributor from Bain Capital to senior note holders. Terms of the proposed deal between Broder and an ad-hoc committee of 11¼% Senior Note holders due Oct. 15, 2010 would exchange $225 million in existing notes for $100 million in senior notes due 2013 and 95% of the company's common stock.

Cabela's completes the sale of $500 million in asset-backed notes, including the issuance of $425 million in Class A notes. The securitization transaction included the issuance of three subordinated classes of notes for an aggregate $75 million, each with expected life of approximately three years and a legal maturity of approximately six years. The CAB transaction refinanced asset-backed notes that matured in 2009 and is expected to provide adequate liquidity to the retailer's bank well into Q210.

A **Genesco** investor is proposing a class action securities lawsuit against UBS Securities alleging tortious interference in 2007's proposed merger with The Finish Line.

General Retail News

Consumer Direct Taxes will get a new look in Congress as state sales tax receipts are down a reported 6.1%. Battle lines are being drawn over the establishment of a national law to require all mail-order and internet businesses to collect local sales taxes on purchases. Proponents, who have been pushing for such legislation since 2002, contend the loss of local tax revenues on these consumer buys is threatening public safety and education budgets in states across the U.S. Opponents, meanwhile, argue the complexity of state tax laws makes it difficult for online and mail order retailers to cost efficiently and effectively collect local taxes. Legislation will reportedly be introduced in Congress shortly by Sen. Mike Enzi (WY-R) and Rep. William Delahunt (D-MA) to establish a law forcing the collection of state sales taxes.

The Conference Board's **CEO Confidence Index** was at 30 in the first quarter of 2009, up from 24 in Q4 '08. But 86% of CEOs see the economy shedding jobs in the near future, while just 3% think employment levels will increase. Looking ahead, 17% of CEOs see economic improvement in the next six months and 26% see their own industries improving in that timeframe.

ShopperTrak's **Retail Traffic Index** predicts retail foot traffic will fall 13.0% in the second quarter, with sales falling 2.4% in the period.

Retailers' e-commerce sites continue to get investment, according to the E-tailing Group's 8th Annual Merchant Survey. 66% of U.S. retailers expect their e-commerce business to grow in 2009 and 70% will spend the same or more on e-commerce than in 2008. But most will focus on tweaking existing sites rather than investing in major software upgrades this year, the report said.

Did You Know...?

U.S. consumer prices fell a seasonally adjusted 0.1% in March due to lower energy prices, the Labor Department reported. The core CPI, excluding food and energy prices, rose 0.2% in March.

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Mass Merchant Musings

BJ's Wholesale Club is reportedly looking for locations to open new stores in the Pittsburgh, Pennsylvania metro area.

The United Food and Commercial Workers is gunning for **Wal-Mart** , according to the *Wall Street Journal*. About 60 UFCW organizers have been mobilized since February, the story says, visiting more than 100 Wal-Mart stores in 15 states to persuade workers to sign union-authorization cards.

Wal-mart's Hispanic-focused store concept—heretofore known by code name Project Sombrero—added a warehouse club version under the banner Mas Club. The first store is slated to open in Houston some time in H1'09. A placeholder web page is up at www.masclub.com.

Duckwall-ALCO Stores sales fell 4.8% to $140.1 million in the fourth quarter ended February 1. Same store sales decreased 3.3% and the bottom line swung to a $0.7 million loss from a $1.0 million profit in Q4 late year. Full year sales rose 1.7% to $490.0 million as same store sales fell 5.1%. Net loss for the year expanded to $5.0 million from $0.2 million last year.

Retail Ventures announced that it had decided to put the assets of **Filene's Basement**, its wholly-owned subsidiary up for sale. As a result Retail Ventures will begin to report the assets of Filene's Basement as being held for sale and the operations as discontinued with the filing of its annual report on Form 10-K. The company also reported that the filing of that Form 10-K would be delayed.

Management on the Move

Giant Food appointed **Paula A. Price** Chief Financial Officer. Price was previously SVP, Controller and Chief Accounting Officer for CVS/Caremark Corp. Also, Giant named **Paula Labian** as EVP Human Resources. Labian was Chief Human Resources Officer and Global VP of Human Resources for Whole Foods Market, Inc. prior.

Delhaize Group US named **Scott Harrison** Chief Information Officer. Harrison held that role in Delhaize's Food Lion division previously.

Rite Aid Corp. appointed **David R. Jessick** to its board to replace **George G. Golleher** who has resigned. Jessick is a former senior executive and consultant to RAD.

Sam's Club promoted **Linda Hefner** to EVP Merchandising and Replenishment. Hefner has been EVP and GM of the Walmart's Home business since 2007, and was EVP of Global Strategy and Business Development at Kraft Foods before that.

Dick's Sporting Goods Chief Merchandising Officer **Gwen Manto** has left the chain. DKS does not intend to hire another CMO. Instead, the retailer is realigning its merchandising team under Chairman and CEO Ed Stack and Joseph H. Schmidt, President and Chief Operating Officer.

FYI for the DIY

Building Materials Holding Corp. has extended the waiver for the adjusted EBITDA requirement from its lenders authorizing the Company to borrow up to $20 million through June 1, 2009. Management believes the additional liquidity will allow the company to keep operating through that date.

Sherwin-Williams Co. issued guidance for the second quarter and full year. The company anticipates a sales decline of 9% to 12% and income of $1.20 to $1.45 per share in Q2. For the full year, SHW estimates sales will fall mid to high single-digits and net income will be $3.00 to $4.00 per share compared to $4.00 per share earned in 2008.

Ace Hardware web sales increased by 37.2% to $11.8 million in 2008, according to a report in *Internet Retailer*. 77% of on-line shoppers pick up their order at an Ace store.

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Retailer of the Week: Charming Shoppes

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$ figures in millions, 12-Months ended	01/31/2009 (FY09)	02/02/2008 (FY08)	Year-over-Year Change
Liquidity Ratios			
Cash and Equivalents	$194.6	$190.3	2.29%
Cash and Equivalents % Current Liabilities	71.31%	54.94%	1,637 bps
Working Capital	$382.7	$495.1	-22.70%
Current Ratio	2.4x	2.43x	-3 bps
Leverage Ratios			
EBITDA / Interest Expense	3.53x	13.85x	-1,032 bps
Total Debt	$312.4	$315.0	-0.83%
Total Debt / Total Equity	67.05%	43.12%	2,393 bps
Total Debt / Total Tangible Equity	122.47%	66.42%	5,605 bps
Total Liabilities / Total Assets	63.60%	54.72%	888 bps
Total Liabilities / Total Tangible Assets	76.14%	65.06%	1,108 bps

Did You Know...?

U.S. housing starts fell 10.8% in March to a seasonally adjusted annual rate of 510,000, the Commerce Department reported. Building permits dropped 9% to a seasonally adjusted annual rate of 513,000.

OPERATING PERFORMANCE

Fourth Quarter Ended January 31, 2009

Revenues for the fourth quarter ended January 31, 2009 were $631.9 million, a 14% decline from the fourth quarter a year ago. Comparable store sales fell at an increased pace, dropping 15%. Revenues for Charming Shoppes retail segment decreased 16% to $524.9 million, while the company's direct segment gained 1% to $96.7 million. Revenues at Fashion Bug fell 19% to $183.8 million on a 14% drop in comps, revenues at Lane Bryant fell 16% to $273 million on a 17% drop in comps, and revenues at Catherine's fell 11% to $68.1 million on an 11% drop in comps.

The gross margin for the fourth quarter was down 100 basis points, continuing the negative trend we have seen throughout the year. However, the drop was small compared to the reductions during the rest of the quarter. Again, Charming Shoppes did cut costs where it could find room, reducing SG&A spending by $15.1 million. However, the firm's revenue stream fell at a much quicker pace, causing the burden to rise 160 basis points as a percentage of revenues.

Total restructuring expenses were $8.2 million for the quarter, while the firm also took a $61.3 million non-cash goodwill and asset impairment charge. During the same quarter last year, Charming Shoppes had $5.3 million in restructuring charges and a $27.2 million non-cash goodwill and asset impairment charge.

For the quarter, Charming Shoppes posted an operating loss of $108.6 million, nearly twice the operating loss for the same quarter a year ago. Even if we back out the special items, the adjusted operating loss was still $39.1 million for the quarter. The EBITDA for Charming Shoppes was again in the red. Adjusted EBITDA for the quarter was $17.7 million in the hole, a nasty swing from a positive EBITDA of $2.3 million for the same quarter a year ago.

For the three months, Charming Shoppes posted a net loss of $108.5 million, better than the net loss of $124.4 million last year. As is evident above, the firm's operations were clearly not better than last year. During the quarter last year, Charming Shoppes took an $80.4 million loss from discontinued operations.

Adjustable Items	Fourth Quarter Ended January 31, 2009	Fourth Quarter Ended February 2, 2008
GAAP Operating Profits (Loss)	**($108.6 million)**	**($58 million)**
Goodwill and Asset Impairment	$61.3 million	$27.2 million
Restructuring Expenses	$8.2 million	$5.3 million
Adjusted Operating Profits	**($39.1 million)**	**($25.5 million)**
Depreciation/Amortization	$21.4 million	$27.8 million
Adjusted EBITDA	**($17.7 million)**	**$2.3 million**

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Retailer of the Week: Charming Shoppes

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Year Ended January 31, 2009

Revenues for the year ended January 31, 2009 were $2.47 billion, a 9% decrease from a year ago. Comp store sales fell sharply for the year, coming in 12% below last year's levels. Revenues for Charming Shoppes retail segment decreased 12% to $2.27 billion, while the company's direct segment gained 39% to $167.5 million. Revenues at Fashion Bug fell 14% to $843.8 million on an 11% drop in comps, revenues at Lane Bryant fell 10% to $1.11 billion on a 12% drop in comps, and revenues at Catherine's fell 12% to $312.1 million on a 13% drop in comps.

The gross margin for the year was down 280 basis points as Charming Shoppes struggled with its gross margin all year. Sometimes throughout the year, the firm said its products were not attractive to its shoppers, and this is of the highest concern. Charming Shoppes began cutting costs in the back half of the year, and SG&A spending fell $27 million on a dollar basis. However, the firm's revenues fell faster for the year, causing the SG&A burden to rise 160 basis points as a percentage of sales.

Total restructuring expenses were $33.1 million for the year, while the firm also took an $81.5 million non-cash goodwill and asset impairment charge. Last year, Charming Shoppes had $5.3 million in restructuring charges and a $27.2 million non-cash goodwill and asset impairment charge.

For the year, Charming Shoppes posted an operating loss of $178.8 million, well off the performance of the company last year. Again, even if we back out the special items, the adjusted operating loss was still $64.2 million for the year. The EBITDA for Charming Shoppes did manage to peek into positive territory for the year, but was just $31.1 million. This was about one-fifth of the EBITDA last year.

For the year, Charming Shoppes posted a net loss of $244.2 million, nearly triple the net loss last year. The company had large discontinued operations losses in both years.

Adjustable Items	Year Ended January 31, 2009	Year Ended February 2, 2008
GAAP Operating Profits (Loss)	**($178.8 million)**	**$16.3 million**
Goodwill and Asset Impairment	$81.5 million	$27.2 million
Restructuring Expenses	$33.1 million	$5.3 million
Adjusted Operating Profits	**($64.2 million)**	**$48.9 million**
Depreciation/Amortization	$95.2 million	$97.2 million
Adjusted EBITDA	**$31.1 million**	**$146.1 million**

CAPITAL STRUCTURE

If it had not been for the sale of the discontinued operations, Charming Shoppes would have been cash flow negative for the year. The firm's operations generated just $49.6 million in cash for the year. This was less than a third of the cash from operations last year and was much lower than the firm's cash flow when it was succeeding. The cash from operations was not enough to pay for the $55.8 million capex bill, but the firm pocketed $34.4 million in cash from its discontinued operations and $10.4 million from the sale of marketable securities. This left the firm free cash flow positive by about $51.3 million.

From a liquidity standpoint, Charming Shoppes is still in fairly decent shape. The company had $93.8 million in cash on the balance sheet as well as $6.4 million in available-for-sale securities and $94.5 million in asset backed securities that it could sell in a cash crunch. The three combined to give the company $194.6 million in liquid assets at the close of the quarter. In addition, Charming Shoppes had $205.8 million available on its revolver at the close of the fourth quarter. There was nothing outstanding on the facility but the availability was lowered by the borrowing base calculation.

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Retailer of the Week: Charming Shoppes

(continued from page 9)

Compared to the end of the fourth quarter last year, the company's debt position held steady, closing the year at $312.4 million. The bulk of the debt remains the $275 million in convertible notes that mature in May 2014. Aside from that, the company has various mortgage notes, making up the remainder of the firm's debt load. There was just a small amount classified as current on the balance sheet at the close of the year.

The spike in the debt ratios is a product of the large losses on the income statement, which have eaten into the company's assets and equity. The debt to tangible equity ratio nearly doubled over the last year, as the company has had to write down long-term assets. The asset writedowns have not damaged the firm's liquidity position.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
DILLARDS INC-HQ	B-	B+	STABLE	NM	D-
MACYS INC (FKA FEDERATED DPT STORES)	BB	BBB-	STABLE	NM	D-
JC PENNEY CO INC	BB	BBB-	STABLE	NM	C-
SEARS HOLDING CO.	BB-	BB-	NEGATIVE	NM	D-
LOWES COMPANIES INC	A+	A+	NEGATIVE	STABLE	C+
NORDSTROM INC	BBB+	A-	STABLE	NM	C-
ORIENTAL TRADING COMPANY INC/DBA FUN EXPRESS	CCC+	B-	NEGATIVE	NEGATIVE	NR
VOLUME SERVICES AMERICA INC D/B/A CENTERPLATE	NR	B+	NR		E
ORCHARD SUPPLY HARDWARE	NR	B	NR	STABLE	NR
NEIMAN MARCUS INC	B	B+	NEGATIVE	NM	D-
SMART & FINAL STORES CORP	B-		STABLE		NR
EYE CARE CENTERS OF AMERICA INC	B+	B	STABLE	POSITIVE	NR
MARRIOTT INTERNATIONAL INC	BBB-	BBB	STABLE	NM	D+
STARWOOD HOTELS & RESORTS WORLDWIDE INC	BB	BB+	STABLE	NM	D+
24 HOUR FITNESS WORLDWIDE INC	B	B	STABLE	NEGATIVE	NR
NEFF CORP	B-	SD	NEGATIVE	NM	NR
EXPRESS LLC	B	B-	STABLE	STABLE	NR
BRODER BROS CO/ SPORTSWEAR DISTRIBUTOR	SD	CC	NM	NEGATIVE	F+
BARNEYS NEW YORK INC	CCC	B-	NEGATIVE	NEGATIVE	E

Did You Know...?

In the first quarter of 2009, retail tenants of strip malls, neighborhood centers and regional malls vacated 8.7 million square feet nationwide. That quarterly total exceeds the 8.6 million square feet vacated in all of 2008.

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First Quarter Scorecard

$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Drug							
Abbott	$6,718.0	$6,765.6	-0.7%	NA	$1,439.0	$937.9	53.4%
Food							
Weis Markets, Inc.	$606.2	$595.7	1.8%	1.6%	$16.5	$9.1	82.4%
Home Centers							
Griffin Land & Nurseries	$4.6	$4.5	3.4%	NA	($1.8)	($1.6)	-13.9%
Sherwin-Williams Company	$1,550.7	$1,781.7	-13.0%	-12.7%	$37.3	$77.9	-52.1%
Sports & Footwear							
West Marine, Inc.	$101.0	$113.3	-10.9%	-6.8%	tba	($16.8)	tba
WinMark Corporation	$5.6	$5.3	5.7%	tba	$1.4	$0.9	50.8%

Upcoming Reporting Dates

Company	Event	Date
Amazon.com	Financial Results	Apr 23, 2009
AmerisourceBergen	Financial Results	Apr 23, 2009
Cabela's	Financial Results	Apr 30, 2009
Chico's FAS	Investor Conference	Apr 23, 2009
Destination Maternity	Financial Results	Apr 22, 2009
Destination Maternity	Financial Results	Apr 22, 2009
Dress Barn	Financial Results	May 21, 2009
Drugstore.com	Financial Results	Apr 29, 2009
Forzani Group	Investor Conference	Apr 28, 2009
GSI Commerce	Financial Results	Apr 29, 2009
Hhgregg	Financial Results	Jun 2, 2009
IAC Interactive	Financial Results	Apr 29, 2009
Ingram Micro	Financial Results	Apr 30, 2009
J.C. Penney	Investor Conference	Apr 22, 2009
Loblaw Companies	Financial Results	May 5, 2009
McKesson Corporation	Financial Results	May 4, 2009
Metro	Financial Results	Apr 23, 2009
Nordstrom	Financial Results	May 14, 2009
Office Depot	Financial Results	Apr 28, 2009
OfficeMax	Financial Results	Apr 30, 2009
Overstock.com	Financial Results	Apr 22, 2009
Penn Traffic	Financial Results	Apr 22, 2009
Shoppers Drug Mart	Financial Results	Apr 28, 2009
Stein Mart	Financial Results	May 21, 2009
Supervalu	Financial Results	Apr 23, 2009
Tractor Supply	Financial Results	Apr 22, 2009
Tuesday Morning	Financial Results	Apr 27, 2009
United Rentals	Financial Results	Apr 30, 2009
Whole Foods Market	Financial Results	May 13, 2009

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