GlobalCredit SERVICES

Volume 6, Issue 18
April 27 - May 3, 2009

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

Obstacles are those frightful things you see when you take your eyes off your goal.

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First Quarter Record Drop In Investment

The U.S. economy contracted violently again in the first quarter of the year as business investment declined at a record rate, according to the Commerce Department.

Real gross domestic product—the inflation-adjusted, seasonally adjusted value of all goods and services produced in the United States—fell at a 6.1% annualized rate in the first quarter, nearly matching the 6.3% decline in the fourth quarter of 2008.

Despite the disastrous results, many economists said the report hinted that the worst of the declines may be over. The data on investment "have a capitulatory feel to them," said Stephen Stanley, chief economist for RBS Securities.

The two-quarter contraction was the worst in more than 50 years. Since 1947, the economy had never contracted by more than 5% for two consecutive quarters. With a 0.5% drop in the third quarter of 2008, it's the first time the economy has contracted for three consecutive quarters since 1975.

In the past four quarters, the economy has fallen 2.6%, the biggest year-over-year decline since 1982.

The big story for the first quarter was in the business sector, where firms halted new investments, and shed workers and inventories at a dizzying pace to bring down production and stockpiles to match the lower demand from U.S. and foreign markets.

The 6.1% decline in GDP was larger that the 5.1% contraction expected by economists in a recent survey. Economist expect a 2% decline in the current quarter, followed by a tepid 1% gain

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Retailer of the Week: Rite Aid

In some respects, the fourth quarter and year-end results for fiscal 2009 brought more of the same. Operational weakness continued and some rather large charges were taken, causing further damage to the balance sheet. Additionally, more losses are anticipated to be booked in fiscal 2010. In other respects, there were some bright spots. Revolver availability jumped considerably, SG&A progress carried over from Q3 to Q4, and the firm was able to reduce inventory (on a per store basis). More inventory reductions could be possible in fiscal 2010, a year during which Rite Aid intends to scrape buy on a very limited capital spending budget. Sure, underinvestment is a risk, but if Rite Aid could actually hit its sales guidance (aka- not alienate its customer base) while accomplishing these initiatives, the ending result would be some nice free cash flow generation. Free cash flow, of course, is important with that September 2010 revolver & term loan maturities looming. While the likelihood of a company of Rite Aid's credit quality renewing a credit facility the size of $1.75 billion is not high in this environment, we believe there may be opportunities to get a smaller-sized facility. It's Rite Aid's job to determine over the next few quarters 1) what its revolver needs are and 2) what the market will bear.

Due to the above-mentioned positives entering the picture, we are delicating adjusting our outlook to a new level of unclear from negative. This change can be taken to imply that Rite Aid has bought itself a little more time, but the company will need to demonstrate more sustained progress before Global Credit awards it a stable outlook. The firm remains a high risk, 'E' credit on Global Credit's rating scale. Vendors should continue to closely monitor this account.

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First Quarter Record Drop In Investment

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in the third quarter, as the massive stimulus from Congress and the Federal Reserve kicks in.

Although the decline in GDP in the first quarter was nearly as deep as in the fourth quarter, the report was more varied in tone, with some positives mixed with some record-setting declines. Much of the drop was due to a large inventory correction, which is helping to rebalance supply and demand and is setting the stage for at least a modest recovery.

While the decline in inventories was large, it was less than expected by some, and according to them, will need to be slashed even more in the months to come. Others, however, feel the adjustments are well along.

Final sales, which exclude inventories, fell at a 3.4% rate in the first quarter after plunging 6.2% in the fourth quarter. Consumer spending rebounded to rise 2.2% after dropping at a 4% annual pace in the previous two quarters.

Spending on durable goods rose 9.4%, spending on nondurable goods rose 1.3%, and spending on services increased 1.5%. Despite the bump in spending, the savings rate rose to 4.2%, the most since 1998. Real disposable income rose 6.2%.

Business investments fell at a record 37.9% annual rate in the first quarter. Investments in structures dropped a record 44.2%, and investments in equipment software fell at a 33.8% pace, the biggest drop since 1958. Business fixed investment subtracted 4.7 percentage points from growth.

Investments in housing fell for the 13th consecutive quarter, dropping at a 38% annual rate, the largest decline since 1980. Residential investments subtracted 1.4 percentage points from growth.

Trade collapsed during the quarter. Exports fell 30%, the most in 40 years, reflecting the global recession that is hitting Europe, Japan and other trading partners even harder than the U.S. Imports dropped 34.1%, the most in 34 years, as U.S. consumers and businesses stopped buying. Net exports added 2 percentage points to growth, however, as the trade gap narrowed.

Feedback?

Questions?

Suggestions?

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FYI for the DIY

United Rentals, Inc. will record a $25 to $30 million restructuring and asset impairment charge in the second quarter of 2009 as it closes 39 branches. About $14 million of the charge will be non-cash for asset impairment and writing off leasehold improvements.

Home Depot opened its 657,000 sq. ft. rapid deployment center in Lowndes County, Georgia, the *The Valdosta Daily Times* reported. The distribution center will serve 150 stores throughout the Southeast.

Saylor Brothers Hardware Center in Johnstown, Pennsylvania is holding a GOB sale and liquidating inventory. The store will close in June, according to the Johnstown *Tribune-Democrat.*

Marvin's Building Materials plans to open a new store in Summerville, Georgia. The store, which is a vacant former Wal-Mart site, is expected to open in late July.

Options and Resources

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Bankruptcy Blotter

Ten global corporate issuers—including Chrysler LLC—defaulted last week, bring April's tally to 40 and the total so far this year to 102. Five of last week's defaulters were from the U.S., which lead the total with 71.

The number of global debt issuers rated B- or lower with a negative ratings outlook or on watch for downgrade rose to a record high as of April 22nd of 300, increasing for the 14th consecutive month. The corporate junk-grade default rate rose to 4.92% last month from 4.28% in February and is now more than six times the 25-year low of 0.79% recorded in November 2007.

An affiliate of food distributor **C&S Wholesale Grocers Inc.**, **Southern Family Markets**, beat out two joint ventures of liquidators to buy the remnants of **Bruno's Supermarkets LLC** for $45.8 million with plans to continue operating 31 of the stores and liquidate the remaining 25 locations. The sale still requires final approval from the bankruptcy court.

The court approved the sale of 33 **Drug Fair** pharmacies as well as the pharmacies' inventory, prescription files and other related assets for $56.0 million to a unit of **Walgreen Co**. The sale is expected to close around May 8th.

Sportsman's Warehouse is looking to reject a licensing agreement and services agreement with **UFA Holdings Inc.**, which were engineered in conjunction with the potential sale of Sportsman's Warehouse to UFA Holdings, a sale that was never consummated. This is not a match made in heaven, as neither party will come out of this whole.

Fleetwood Enterprises, Inc. is seeking an interim order to access the company's cash collateral through September 30, 2009, and is dropping its request for approval for interim approval to use its DIP facility. The company now believes its does not need the DIP facility given higher-than-anticipated sales of Fleetwood products.

Monaco Coach Corp. has inked a deal to sell its recreational vehicle manufacturing business to **Navistar Inc**. for $52 million, subject to higher bids at a bankruptcy auction. Excluded from the sale is Monaco's motor home resorts business—which the company is seeking to sell at a separate auction—as well as its trailer business and several of its industrial properties.

Bradley Stinn, the former CEO of defunct **Friedman's Inc**. was sentenced to 12 years in prison for accounting fraud in connection with a scheme to defraud investors of Friedman's. Two former Friedman's executives have already pleaded guilty to criminal charges in the matter.

Linens 'N Things has been resurrected in the form of a new Web site. The e-mail promotion touting the new **LNT.com**, highlighted the site's features including free shipping on orders greater than $99 and discounts on certain items.

Did You Know...?

The Case-Shiller home price index fell 2.2% in 20 major cities in February, Standard & Poor's reported. The decline follows a 2.8% decline in January, and prices in the 20 cities are down 18.6% y-o-y.

Specialty Items

Tuesday Morning Corp. net loss expanded to $6.8 million for its fiscal third quarter ended March 31, from a loss of $4.7 million in Q3 last year. As previously reported, sales in Q3 fell 6.4% to $167.0 million, while same-store sales fell 9.5%. For the full fiscal year 2009, TUES is guiding for sales of $800 to $810 million, earnings of $0.00 to $0.05 per share and comp store sales in the negative low double digits.

1-800-Flowers.com, Inc. sales were off 21.2% to $173.0 million for its fiscal third quarter ended March 29. Net loss was $65.8 million vs. income of $3.4 million in Q308, including a pre-tax, non-cash charge of $76.5 million to write down of goodwill and intangibles from the Gourmet Food and Gift Baskets segment and a pre-tax charge of $1.5 million for severance costs. The company expects full year revenues to decline 5% to 10%, but says it will be profitable excluding one-time charges.

Aarons, Inc. updated its 2009 guidance, and now expects second quarter sales of over $430 million, with earnings of $.45 to $.50 per share. Full year sales are expected to be approximately $1.80 billion, up from previous guidance of $1.75 billion. Earnings for the year are expected to be $1.90 to $2.05 per share, vs. previous guidance of $1.72 to $1.87 per share.

Ethan Allen Interiors Inc. sales fell 40.6% to $140.2 million in the fiscal third quarter ended March 31. Retail division sales were off 40.2% to $103.3 million. Net loss was $48.7 million including after tax charges of $30.6 million for goodwill impairment and $4.6 million for restructuring. Net income was $8.8 million in Q3 last year. ETH is terminating its $100 million cash flow based revolving credit facility, and plans to replace it with an asset based facility in the coming weeks.

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Management on the Move

W. W. Grainger, Inc. named CEO and President **James T. Ryan** chairman of the board. He succeeds Richard L. Keyser, who was named Chairman Emeritus.

Giant Food Stores, LLC appointed **Wayne MacLeod** to VP of Construction and Maintenance. MacLeod comes from Shaw Supermarkets where he was Director of Store Development.

McKesson Corp. promoted EVP and CIO **Randy Spratt** to Chief Technology Officer, a new position. He will remain as CIO, where he has served since 2005.

Chico's FAS, Inc. appointed **Rochelle Udell** SVP and Creative Director for the Chico's brand. Udell was most recently Chief Talent Officer at the Arnell Group, and prior to that she was EVP and Chief Creative Officer for Revlon, Inc.

Talbots, Inc. promoted VP of Human Resources **Ruthanne Russell** to SVP of Human Resources. She replaces John Fiske, who was recently appointed Chief Stores Officer.

Systemax Inc. board member **Ann R. Leven** will be retiring effective June 12 as of the company's annual stockholders' meeting. **Marie Adler-Kravecas** has been nominated for election to replace Leven.

PC Connection, Inc. board member **Bruce Barone** will retire from the board and not stand for re-election as of the company's annual meeting on June 17.

Finish Line director **Larry Soblosky** won't stand for reelection when his term expires in July.

Ingram Micro subsidiary **DBL Distributing** appointed **Brent McCarty** VP and General Manager. Also, **Henry Chiarelli**, President, and **Bruce Kuperman**, SVP of Sales are both leaving DBL.

Foot Locker CEO **Matt Serra** may be retiring, according to a report in the *New York Post*. FL's board has reportedly hired Spencer Stuart to conduct a search of both internal and external candidates to replace Serra.

Did You Know...?

The U.S. consumer confidence index was up to 39.2 in April from 26.9 in March, the Conference Board reported. The expectations index was up even more strongly, to 49.5 in April from 30.2 in March.

Health & Beauty Aids

Drugstore.com, Inc. expects second quarter sales of $93.0 to $97.0 million and net income in the range of income of $250,000 to a net loss of $1.75 million.

Also, **Drugstore.com, Inc.** agreed to pay the State of New Jersey $1.7 million to settle a $2.9 million accrued liability for sales taxes owed for the years 2000 to early 2008. DSCM will withdraw its appeal of an earlier trial court decision.

MinuteClinic announced that it has become a participating provider with Pennsylvania health insurer Highmark Inc.

Jean Coutu Group Inc. sales increased 9.8% to C$607.2 million in the fourth quarter ended February 28, with comp store sales up 4.2% (4.9% pharmacy, 3.0% front end), while sales for the full year grew 6.5% to C$2.369 billion excluding the divested U.S. operation, with comps up 3.8% (5.4% pharmacy, 1.2% front end). Net income was up 8.8% to C$61.5 million for Q4, and up 3.3% to $232.8 million for the year, both excluding the company's share of the massive Rite Aid loss. The RAD loss swamped results to the tune of C$768.8 million in Q4 and C$1.327 billion for the year.

Shoppers Drug Mart Corp. saw prescription sales increase 11.7% in the first quarter overall, and 5.9% on a same-store basis. Front-end sales increased 5.5% in the quarter, and 2.1% on a same-store basis.

Express Scripts raised its 2009 earnings guidance to $3.67 to $3.77 per share, from $3.63 to $3.73 per share guided previously. ESRX also said it will suspend planned share repurchases now that it is acquiring WellPoint's NextRx subsidiaries.

Cardinal Health sales rose 9% to $24.9 billion for the quarter ended March 31. Earnings from continuing operations were down 14% to $314 million. Its Healthcare Supply Chain Services segment drove revenue growth, increasing 9%, while the Clinical and Medical Products segment contracted 6%.

Walgreens will roll out an extended pilot of 35 more of its slimmed down stores, which have 15% to 20% less assortment than usual, *Dow Jones* reported. The plan is to convert 400 stores to the format by the fall, and to implement it in all Walgreens stores over the next 18 months.

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Heard in the Grocery Aisle

Ingles Markets, Inc. sales increased 0.8% to $789.2 million in the fiscal second quarter ended March 28, 2009. Excluding gasoline and the effect of Easter, grocery segment comp store sales increased 4.9%. Net income fell 40.2% to $7.8 million, which the company attributed to store development costs and the economy.

Also, **Ingles Markets** will offer $500 million of its senior unsecured notes due 2017, with about $355 million of the proceeds to be used to repurchase its outstanding 8 7/8% Senior Subordinated Notes due 2011. The rest will be used to repay other debt, to fund capital expenditures and for general corporate purposes.

UFCW Local 1036 in Southern California will merge into Local 770 in May after the memberships vote to approve the consolidation, the *LA Times* reported. The merged local will have more than 40,000 members. No word on whether it will be a secret ballot.

Supervalu Inc. is offering $500 million in senior unsecured notes due in 2016. The net proceeds of the offering will be used towards repurchasing some or all of $975 million of its own and Albertson's debt coming due in 2009 and 2010.

Also, **Supervalu**-owned Acme Markets will stop home delivery of groceries from all its stores in the Mid-Atlantic region. It will still allow online ordering and pickup from 40 stores in the Philadelphia Metro area.

Following its strong first quarter, **Weis Markets** will increase CapEx by 25% this year to $80 million. Much of that will go toward information technology upgrades.

Bashas' Supermarkets will close nine more stores over the next few months, following the five stores closed so far this year.

Metro, Inc. revenues rose 7.5% to C$2.550 billion in the fiscal second quarter ended March 14. Same-store sales rose 7.3%, and net income was 41.3% higher at C$76.3 million.

Safeway Inc. lowered full year 2009 earnings guidance $2.10 to $2.30 per share, assuming same store sales (excluding fuel) in a range of 0.5% to 1.5%.

Also, **Safeway** employees in the Spokane, Washington region ratified a new union contract between the company and UFCW Local 1439. The four-year deal cover 12 stores and approximately 785 workers.

Ruddick Corp. sales increased by 3.5% to $1.01 billion in the fiscal second quarter ended March 29. Net income was off 5.0% to $22.9 million. Harris Teeter sales increased by 6.3% to $949.4 million, with comp store sales up 0.09%. Harris Teeter operating income was down 3.0% to $45.0 million primarily from additional promotional activity.

Giant Eagle Inc. plans to open an upscale Market District store in Upper Arlington, Ohio in 2010, *Columbus Business First* reported.

Affiliated Foods Southwest is weighing offers from potential buyers, the *Arkansas Democrat Gazette* reported. The Keystone Group, out of Chicago, has been advising the wholesale cooperative on sale and merger scenarios.

Did You Know...?

U.S. new home sales dropped to a seasonally adjusted annual rate of 356,000 in Marchm down from 358,000 in February, the Commerce Department reported. The year-over-year decline was 30.6% however.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
INGLES MARKETS INC	BB-	BB-	NEGATIVE	STABLE	D-
STARWOOD HOTELS & RESORTS WORLDWIDE INC	BB	BB+	STABLE	NM	D+
155 EAST TROPICANA LLC	D	NR	NM	NR	F+
WYNDHAM WORLDWIDE	BBB-	BBB-	NEGATIVE	STABLE	E
LAZY DAYS RV CENTER INC	CC	CCC+	NEGATIVE	NEGATIVE	E-
CIRCUS AND ELDORADO JOINT VENTURE	B	B	NEGATIVE	STABLE	NR
BURLINGTON COAT FACTORY INVESTMENT HOLDINGS	B-	B-	STABLE	NEGATIVE	E+
MASTROS RESTAURANTS	CCC	B-	NEGATIVE	NEGATIVE	NR

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The Global World of Sports and Footwear

Cabela's raised its outlook for FY09 despite an expected rising negative impact of charge-offs on its credit card business. CAB is now forecasting flat same store sales, revenue and EPS growth this year versus prior guidance of negative low single digits in comps and total sales. The retailer is making changes in its financial services area, including adjustments to credit card pricing, to help mitigate the forecast rise in charge-off range this FY to 5.1-5.5% from prior guidance of 4.5-4.6%.

Big 5 Sporting Goods said it was encouraged by recent trends and predicted comps for Q2 that would be flat to slightly positive. It also projects an upturn in earnings to $0.10 to $0.18 per share for the quarter against last year's $0.08 per share (which included a $0.04 one time charge). BGFV CapEx for the year will be in the $7 to $9 million range.

Forzani Group has an ambitious plan to grow its retail system sales by 63% over the next five years to C$2.6 billion ($2.14 bb) by 2014 from C$1.6 billion in FY08. The target will be reached through an average 10% growth in sales and 20% expansion in EPS annually. FGL will increase the average size of its 128-door Sport Chek concept, by 5,000 sq. ft., while reducing its banner count to improve efficiency and reduce overlap and competition among its own outlets and focus its 82-door Sport Mart banner on opening price point merchandise. Also, Forzani will continue to add Nevada Bob's golf shops to its Sport Chek doors. The golf boutiques, launched in six stores last year, will grow to 21 doors in 2009.

Genesco exchanged $56.4 million of its 4.125% Convertible Subordinated Debentures due June 15, 2023 in exchange for 3,066,713 shares of its common stock, leaving $29.8 million outstanding on its Debentures.

Eastern Mountain Sports opens an 18,097-sq. ft. store in New York City's SoHo District that includes a selection of commuter bikes by Jamis and Masi and a full-service bike shop.

Footstar, Inc. shareholders will vote on May 5 whether to approve the plan of complete dissolution and liquidation of the company.

Zumiez Inc. saw the United States District Court for the Western District of Washington dismiss a securities class action suit brought by shareholders. The suit had alleged that management made false or misleading statements and engaged in insider trading.

Off the Rack

Cache Inc. raised its cost reduction target to $18 million for the year, up from $15 million, and said it achieved $4.7 million in savings during the first quarter.

Abercrombie & Fitch Co. is laying off 170 employees at its Columbus, Ohio headquarters.

Claire's Stores, Inc. sales decreased 12.2% to $393.0 million in the fourth quarter ended January 31. Same store sales declined 7.2%. Net loss, including a pre-tax $524.0 million impairment charge, was $569.5 million from a profit of $15.3 million in Q4 last year. Full year sales declined 6.5% to $1.413 billion, and same store sales decreased 6.9%. Loss for the year was $643.6 million.

Charming Shoppes, Inc. will use Fry, Inc. for e-commerce services and site hosting for the Lane Bryant, Fashion Bug, and Catherines Plus Sizes web sites.

Hi Tech Entertainment

Best Buy Co. is expanding its private label electronics offerings, according to the *Wall Street Journal*. Private label sales at BBY were up 40% in the fiscal year just ended.

Office Depot, Inc. saw its first quarter results (see the scorecard) pulled down by about $120 million of pre-tax charges for lease accruals, severance expenses and inventory writedowns from closed stores. ODP expects to another $110 million in similar charges over the rest of 2009, but expects to see full year 2009 EBIT and cash flow improved by about $130 million and $85 million, respectively, from the restructuring.

OfficeMax, Inc. first quarter 2009 earnings (see the scorecard) included net $7.4 million in pre-tax charges vs. net $16.3 million in pre-tax benefits in Q108. Looking forward, OMX expects sales to fall in 2009 on a year-over-year basis but declined to give specifics.

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General Retail News

Online retail sales improved in the first quarter of 2009, according to a survey by Forrester Research and Shop.org. Overall, 58% saw year-over-year sales increases, with 71% of consumer brand manufacturers showing an increase and 68% of multichannel retailers improving. Pure-play web retailers didn't fare so well, with only 39% reporting a y-o-y improvement.

GSI Commerce Inc. plans to open a Canadian fulfillment center near Toronto, as it expands its business north of the border. Forzani Group and Toys "R" Us Canada, among others, will use the company's Canadian transaction processing and fulfillment services.

Also, **GSI Commerce** said it expects second quarter revenues of $177.0 to $182.0 million compared to $131.2 million in 2008, and a loss from operations of $17.0 to $19.0 million compared to $5.0 million last year.

Did You Know...?

Consumer spending was down 0.2% in March following a +0.9% January and +0.1% February, the Commerce Department reported.

Mass Merchant Musings

Target Corp. will open a pop-up store on Chicago's Magnificent Mile, according to the *Chicago Tribune*. The shop will be bannered "Bullseye Bazaar," and will operate from May 7 to 9 and showcase typical Target merchandise as well as the new Tracy Feith clothing collection.

Big Lots, Inc. has a new three-year, $500 million unsecured credit facility from a syndicate of 14 participating banks. It replaces an old facility that expires this year.

Wal-Mart's first Supermercado de Walmart store has opened in Houston.

Wal-Mart is expanding its licensing deal with Iconix Brand Group and will convert its athletic/casual wear departments, which were formerly stocked with the discounter's own Athletic Works label to ICON's Starter and Danskin NOW labels.

Upcoming Reporting Dates

Company	Event	Date
AnnTaylor Stores	Financial Results	May 20, 2009
Citi Trends	Financial Results	May 20, 2009
CVS Caremark	Financial Results	May 5, 2009
CVS Caremark	Investor Conferences	May 15, 2009
Dress Barn	Financial Results	May 21, 2009
Golfsmith	Financial Results	May 6, 2009
Haverty Furniture	Financial Results	May 6, 2009
Hhgregg	Financial Results	Jun 2, 2009
Hibbett Sports	Financial Results	May 21, 2009
Ingram Micro	Investor Conferences	May 12 & 19, 2009
Kirkland's	Financial Results	May 21, 2009
Loblaw Companies	Financial Results	May 5, 2009
McKesson Corporation	Financial Results	May 4, 2009
Nash Finch	Financial Results	May 4, 2009
Nordstrom	Financial Results	May 14, 2009
PC Mall	Financial Results	May 6, 2009
Sears Holdings	Financial Results	May 28, 2009
Spartan Stores	Financial Results	May 13, 2009
Sport Supply Group	Financial Results	May 12, 2009
Stein Mart	Financial Results	May 21, 2009
Whole Foods Market	Financial Results	May 13, 2009

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Retailer of the Week: Rite Aid

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OPERATING PERFORMANCE: 12 MONTHS ENDED FEBRUARY 28, 2009

$ in millions, 52 weeks ended	2/28/2009	YOY Var.	3/1/2008
Revenue	$26,289.3	8.1%	$24,326.8
Comparable Store Sales	0.8%		1.3%
Adj. Operating Profit (1)	$50.3	-81.5%	$271.4
Net Profit	($2,915.4)	N/M	($1,079.0)
Gross Margin	26.8%	(52 bps)	27.3%
SG&A Burden	26.6%	40 bps	26.2%
Adj. Operating Margin (1)	0.19%	(93 bps)	1.12%
Return on Sales	-11.1%	(665 bps)	-4.4%

(1)- excludes a goodwill impairment charge of $1.8 billion in fiscal 2009, lease termination & impairment charges of $293.7 million in fiscal 2009 and $86.2 million in fiscal 2008, losses on debt modifications & retirements of $39.9 million in fiscal 2009 and $12.9 million in fiscal 2008, and losses (gains) on asset sales of $11.6 million in fiscal 2009 and ($3.7 million) in fiscal 2008.

Fiscal 2009 revenue at the Camp Hill, Pennsylvania-based chain rose 8.1% to $26.3 billion. Fiscal 2009 revenue growth is skewed by having a full twelve months of contribution from the Brooks/Eckerd stores, which only contributed nine months of results to Rite Aid's fiscal 2008 sales. Therefore, comparable store sales growth of 0.8% is a much more revealing indicator of what truly transpired in fiscal 2009. During the twelve month period, same store pharmacy comps increased 0.7%, while front-end comps rose 0.9%.

Rite Aid's gross margin fell 52 basis points to 26.8% during fiscal 2009 due to significant increase in the firm's LIFO charge of $184.6 million (versus $16.1 million in fiscal 2008). The higher LIFO charge was related to higher front-end and pharmacy product inflation. Excluding this item, pharmacy margins improved due to Rite Aid selling more generic scripts and the cost of these scripts falling; these factors were partially offset by lower pharmacy reimbursement rates. On the front-end, margins were flat as shrink reduction efforts offset declines in the photo category.

The druggist's SG&A burden rose 40 basis points to 26.6% in fiscal 2009 due to higher depreciation and amortization related to increased intangible assets, increasing occupancy costs due to new and relocated stores, and the sale leaseback of previously owned stores. On an encouraging note, Rite Aid's SG&A burden actually declined as a percentage of revenues during the second half of fiscal 2009. Some of the cost savings initiatives that were highlighted during this month's earnings call included: closing its full-line Atlanta-based distribution center and its overflow facility in Long Island for annualized savings of $3.6 million and $1.3 million respectively, wage freezes for non-union salaried employees, and SKU rationalization. Adjusted operating profit of $50.3 million for fiscal 2009 declined 82% on a year-over-year basis. The footnote in the table above further details these items that are excluded from this number. For those who prefer to keep score of this company's adjusted EBITDA, Rite Aid reported adjusted EBITDA of $967.0 million during fiscal 2009, down 0.5%.

A couple of significant one-time items warrant certain consideration:

1) A goodwill impairment of $1.81 billion is included Rite Aid's net losses for both Q4 2009 and fiscal 2009. This charge was dictated by FAS 142 and mostly related to Rite Aid's market capitalization (adjusted for a control premium) being lower than its net asset carrying balance. So all of Rite Aid's goodwill, including the $1.2 billion related to the Brooks/Eckerd purchase, has been written down. As a reminder, this one-time item is of a non-cash nature.

2) A non-cash income tax charge is also included in Rite Aid's net losses (totaling $280.7 million during Q4 2009 and $307.7 million during fiscal 2009). The impact of this item is reflected on the balance sheet as a removal of deferred tax assets. We've seen deferred tax assets being added to and removed from Rite Aid's balance sheet over the past few years. Whether they're added

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Retailer of the Week: Rite Aid

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back on or taken off really reflects accountants' view of Rite Aid's likelihood to be able to utilize deferred tax assets (in other words, does the firm ultimately have a better than 50% chance of being profitable). With the deferred tax assets, you're looking at the balance sheet in an optimistic light; without them, you're taking a more pessimistic perspective.

3) Non-cash charges related to store impairment tallied $85.8 million in Q4 2009 and $157.3 million in fiscal 2009. In case you're looking for basis for comparison, Rite Aid record store impairment charges of $22.7 million and $30.8 million during Q4 2008 and fiscal 2008, respectively.

The growth of the interest expense line has tapered off recently, only up 6% to $477.6 million during fiscal 2009, as both borrowings and LIBOR rates (impacting facility borrowings) came down during the second half of fiscal 2009. However, these costs still remain quite burdensome to the company in the big picture. Rite Aid is currently projecting fiscal 2010 net loss of between $210 million and $435 million on revenue of between $26.3 billion and $26.7 billion.

LIQUIDITY AND FINANCIAL STRUCTURE

The druggist's fiscal fourth quarter brought about some good news for vendors....a longawaited spike in revolver availability. As of February 28, 2009, Rite Aid's revolver availability totaled $723.7 million, which was up approximately $294 million from the period three months earlier. Usage on this $1.75 billion senior secured credit facility was $838 million of borrowings and $188.3 million of outstanding letters of credit (see Bank Reference). CFO Frank Vitrano further noted that as of April 2nd's earnings call, availability had creeped up further to $762.0 million. This facility comes due in September 2010. Roughly 40% of Rite Aid's $6.01 billion of total debt was bank borrowings. Beyond the revolver, the drugstore chain was carrying term loan balances of $145 million, $1.097 billion, and $317.6 million on facilities that mature in September 2010, June 2014, and July 2016, respectively. To begin its fiscal 2010 year, Rite Aid had $152.0 million of cash and equivalents on its balance sheet.

In January 2009, amended its A/R facility. Under the terms of the first lien facility, the amount of interest in receivables that could be transferred to commercial paper vehicles (CPVs) was reduced to a new level of $345 million. As of February 28, 2009, usage against this facility totaled $330 million. To make up for this lost capacity, Rite Aid issued a $225 million second lien A/R securitization term loan facility in February 2009 and used the proceeds to repay roughly $210 million under the firm's first lien facility. Sale-leaseback activity for fiscal 2009 approximated $192.8 million (most of which shows up in the investing section of the cash flow statement); however, there was no such activity during the second half of fiscal 2009 and we do not believe Rite Aid will be able to count on the sale leaseback market as a dependable source of liquidity during fiscal 2010.

On February 26, 2009, the New York Stock Exchange (NYSE) voted to suspend the stock price criteria in its listing requirements until June 30, 2009. The impact of this rule suspension upon Rite Aid, which had already been in attempting to regain compliance (having at least a $1.00 share price at the close of a month and at least a $1.00 average share price based upon 30 trading days preceding the end of that month), is that the druggist now has until August 17, 2009 (instead of April 16th) to become compliant. Because of this rule suspension, Rite Aid's board of directors agreed in March 2009 to delay its plans for a reverse stock split.

Cash flow from operations through fifty-two weeks totaled $359.9 million, versus the year-ago level of $79.4 million. Unfortunately, neither figure sufficiently covered capital spending needs for each respective period. Inventory workdown played an important role in Rite Aid's augmented cash flow from operations. Capital spending totaled $541.4 million (including $80.5 million of Rx file-buys). Rite Aid intends to spend only $250 million on capital expenditures in fiscal 2010, or what we'd ballpark at a slender $52,000 per store. Rite Aid is hoping that reduced cap-ex spending and taking another $240 million out of its inventories in fiscal 2010 (which could give the firm its best sales-to-inventory ratio in years) will free up more funds to further reduce debt balances. As of February 28, 2009, Rite Aid had 4,901 stores due to fiscal 2009 activity that included 9 acquired

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Did You Know...?

The Institute for Supply Management manufacturing index rose to 40.1% in April from 36.3% in March. The new orders index was 47.2% in April vs. 41.2% in March, the production index was 40.4% in April vs. 36.4% in March and the employment index was 34.4% vs. 28.1% in March.

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Retailer of the Week: Rite Aid

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stores, 33 new store openings, 70 remodeled locations, 56 relocations, and 200 closings.

In the table below, we illustrate how the firm's debt picture has changed during fiscal 2009. The $6.0 billion worth of debt and its associated interest payments remain a significant burden for the company, particularly given its cash flow generating capabilities. In Rite Aid's favor, however, is the fact that maturities remain manageable until the fall of 2010. Not depicted are other sources of liquidity, such as the company's A/R facility. The firm's tangible net deficit has ballooned to $2.22 billion, from a year-ago level of $1.78 billion.

$ in millions	2/28/2009	3/1/2008
Secured Debt:		
Senior secured revolving credit facility due September 2010	$838.0	$849.0
Senior secured term loan due September 2010	$145.0	$145.0
Senior secured term loan due June 2014	$1,096.7	$1,105.0
Senior secured term loan due July 2016	$317.6	-----
7.5% senior secured notes due January 2015 *	-----	$200.0
10.375% senior secured notes due July 2016	$429.0	-----
7.5% senior secured notes due March 2017	$500.0	$500.0
Other secured	$4.2	$2.7
Total Secured Debt	$3,330.5	$2,801.7
Guaranteed Unsecured Debt:		
8.625% senior notes due March 2015	$500.0	$500.0
9.375% senior notes due December 2015	$405.2	$404.5
9.5% senior notes due June 2017	$799.3	$798.0
Total Guaranteed Unsecured Debt	$1,704.5	$1,702.5
Unsecured Debt:		
6.125% fixed rate senior notes due December 2008	-----	$150.0
8.125% senior unsecured notes due May 2010 *	$11.1	$358.5
9.25% senior notes due June 2013 *	$6.0	$148.7
6.875% senior debentures due August 2013	$184.8	$184.8
8.5% convertible notes due May 2015	$158.0	-----
7.7% notes due February 2027	$295.0	$295.0
6.875% fixed rate senior notes due December 2028	$128.0	$128.0
Total Unsecured Debt	$782.9	$1,265.0
Lease financing obligations	$193.8	$216.3
Total Debt	**$6,011.7**	**$5,985.5**
Current maturities of long-term debt and lease financing obligations	$(40.7)	$(185.6)
Long-term debt and lease financing obligations, less current maturities	**$5,971.0**	**$5,799.9**

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

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First Quarter Scorecard

$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change	Comps	2009	2008	Change
Apparel							
Cache, Inc.	$53.0	$67.7	-21.7%	-20.7%	($1.6)	($2.1)	-22.3%
Drug							
Abbott	$6,718.0	$6,765.6	-0.7%	NA	$1,439.0	$937.9	53.4%
Drugstore.com, Inc.	$98.3	$92.6	6.2%	NA	$1.3	($2.7)	148.1%
Express Scripts, Inc.	$5,422.8	$5,490.8	-1.2%	NA	$214.4	$177.2	21.0%
Shoppers Drug Mart	$2,195.3	$2,023.8	8.5%	4.0%	$106.8	$100.7	6.1%
Food							
Nash Finch Company	$1,140.3	$1,004.9	13.5%	3.2%	$14.4	$10.6	35.8%
Publix Super Markets	*$6,400.0*	*$6,200.0*	3.2%	-2.8%	$321.5	$343.2	-6.3%
Safeway, Inc.	$9,236.4	$9,998.8	-7.6%	-0.7%	$144.2	$193.4	-25.4%
Weis Markets, Inc.	$606.2	$595.7	1.8%	1.6%	$16.5	$9.1	82.4%
High-Tech & Electronics							
Amazon.com, Inc.	$4,889.0	$4,135.0	18.2%	NA	$177.0	$143.0	23.8%
IAC/InterActiveCorp	$332.0	$370.7	-10.4%	NA	($33.1)	($11.1)	-198.2%
Ingram Micro Inc.	$6,745.1	$8,577.3	-21.4%	NA	$27.5	$64.1	-57.1%
Office Depot, Inc.	$3,225.3	$3,962.0	-18.6%	-17.0%	($55.3)	$68.6	-180.6%
OfficeMax Incorporated	$1,911.7	$2,302.9	-17.0%	-12.7%	$13.1	$63.3	-79.3%
PC Connection, Inc.	$326.2	$423.7	-23.0%	NA	($1.6)	$4.8	-133.3%
RadioShack Corporation	$1,002.1	$949.0	5.6%	5.0%	$43.1	$38.8	11.1%
United Stationers Inc.	$1,121.3	$1,252.5	-10.5%	NA	$13.5	$21.3	-36.6%
Home Centers							
Builders FirstSource, Inc.	$163.8	$259.9	-37.0%	tba	($30.6)	($15.8)	-93.7%
Fastenal Company	$489.3	$566.2	-13.6%	tba	$48.7	$68.1	-28.5%
Goodfellow Inc (US$)	$72.7	$101.4	-28.3%	tba	$1.9	$0.0	4650%
Griffin Land & Nurseries	$4.6	$4.5	3.4%	NA	($1.8)	($1.6)	-13.9%
Interline Brands, Inc.	$256.8	$289.1	-11.2%	NA	$2.9	$8.7	-66.7%
Sherwin-Williams Company	$1,550.7	$1,781.7	-13.0%	-12.7%	$37.3	$77.9	-52.1%
Tractor Supply Company	$650.2	$576.2	12.8%	4.2%	$0.5	($2.0)	123.5%
United Rentals, Inc.	$594.0	$772.0	-23.1%	NA	($19.0)	$38.0	-150.0%
Wesco International	$1,179.6	$1,465.2	-19.5%	NA	$23.3	$42.7	-45.4%
Mass Merchants							
Overstock.com	$187.4	$202.8	-7.6%	NA	($2.1)	($4.7)	55.3%
Specialty							
Aarons, Inc.	$473.9	$412.7	14.8%	7.9%	$35.2	$24.8	42.0%
Brookstone, Inc.	$61.5	$89.8	-31.5%	-25.1%	($27.4)	($11.7)	-134.2%
Sports & Footwear							
Big 5 Sporting Goods Corp.	$210.3	$212.9	-1.2%	-4.4%	$2.8	$4.1	-31.7%
Cabela's	$500.9	$490.9	2.0%	8.2%	$5.1	$10.0	-49.0%
GSI Commerce	$196.5	$195.5	0.5%	NA	($11.1)	($10.8)	-2.8%
Recreational Equipment	$286.3	$287.9	-0.6%	tba	($14.9)	($11.3)	-31.9%
West Marine, Inc.	$101.0	$113.3	-10.9%	-6.8%	($14.8)	($17.7)	16.4%
WinMark Corporation	$5.6	$5.3	5.7%	tba	$1.4	$0.9	50.8%

Numbers in italics are implied or company estimates.

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