

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Options and Resources	2
Bankruptcy Blotter	3
Management on the Move	4
Off the Rack	5
Hi Tech Entertainment	5
The Global World of Sports and Footwear	6
Rating Changes & Outlooks	6
Health & Beauty Aids	7
General Retail News	7
Heard in the Grocery Aisle	8
Mass Merchant Musings	8
FYI for the DIY	8
Specialty Items	9
Upcoming Reporting Dates	9
First Quarter Scorecard	12

Remember...

To teach is to learn twice.

Are There Any Rules In The Bailout Game?

We are entering a precarious phase of the economic and financial crisis. On the one hand, there are encouraging, if weak, signs of an economic recovery. There is evidence of a revival in lending. Consumer confidence is improving quite a bit both in the U.S. and Europe.

But on the other hand, lots of things are not happening. Many investors are sitting on the sidelines, as is much money. Why? Because it is impossible to know what the rules of the game are. And that's because the administration and the Congress keep changing the rules in capricious ways in pursuit of larger political objectives.

Government interference in the normal conduct of business has had a chilling effect on financial markets and threatens the progress of the recovery. The Treasury and Fed have created many new programs to provide liquidity to the financial system, to help banks restructure their balance sheets and to re-invigorate securitization markets.

So far, the interest in these has been distinctly muted because potential participants fear the longer term consequences of getting involved with any of these programs.

The Term Asset-Backed Lending Facility (FALF) is a good example. It was designed to stimulate an important part of the credit market—based on securitized loans—by providing a facility to lend up to \$1 trillion in loans to buyers of top-rated securities that are collateralized by credit-card debt, auto loans, student loans, small business loans and commercial real estate loans.

Because they are non-recourse loans, the investors have little downside exposure. But so far, they have stayed away. They are afraid of the strings that may be attached, since the loans are ultimately secured by TARP funds.

(continued on page 2)

Retailer of the Week: OfficeMax

We are reaffirming OfficeMax as an “E” high-risk credit but upgrading to a “stable” outlook. After seeing its income statement thrashed with huge one-time non-cash charges last year, the first quarter was fairly quiet at OfficeMax. The company did see its revenue stream continue to come under assault from the downturn in consumer spending. Both Contract segment and Retail segment revenues were down sharply for the period. The firm's profits fell for the three months, but OfficeMax did remain profitable. Given the circumstances, this is something to take solace in. The firm's profitability levels did drop sharply, posting reductions in both the Contract segment and the Retail segment. The largest drop was again on the Contract side, as the firm's business and government clients have imposed spending cuts.

The firm posted a miniscule cash flow from its operations, which wasn't nearly enough to pay off the cap-ex spending. Also, the company used some cash to pay down some debt in the period. At the close of the quarter, OfficeMax had \$149.3 million in cash on the books, down fairly substantially from last year. OfficeMax did have a substantial amount of availability on its revolver to close the quarter. Net debt (excluding the timber note payable) was down 5% from last year.

OfficeMax did see some action on the store count front in the first quarter. The firm closed six stores in the US and two stores in Mexico during the period, and it also opened six stores in the US. The plan is to open a total of just 12 stores this year, while closing down between 15 and 25 locations. There are 30 leases up for renewal this year and management plans to renegotiate the

(continued on page 10)

[RETURN TO FIRST PAGE](#)

Are There Any Rules In The Bailout Game?

(continued from page 1)

Elizabeth Warren's Congressional Oversight Panel has already been dogging the Fed and the Treasury about TALF. That's certainly not going to encourage investment.

These concerns also don't bode well for the success of the Public-Private Investment Partnership (PPIP) – the program designed to take “legacy” assets off the balance sheets of banks and thus aid their recovery. It, too, relies on TARP funds as well as guarantees provided through the FDIC.

Investors, other than the banks who desperately needed TARP funds for survival, are leery of any program that uses them. Anyone who took TARP funds has been subject to government interference in managerial decisions. The restrictions on bonuses and executive pay have been widely discussed in the media. Less well known are restrictions on the banks' ability to hire foreigners, and the constant harassment by Congress over internal management decisions on everything from the use of private aircraft to locations of conferences. Some of these concerns are well justified, of course, but it wasn't clear ex-ante what all of the rules were and it isn't clear ex-post either.

Goldman Sachs, JPMorgan Chase and a number of other banks want to repay their government TARP loans in order to get the government off their back. Now there is an argument afloat that they shouldn't be allowed to pay back funds if they took advantage of the Temporary Liquidity Guarantee Program (TLGP).

This was an incredible ill-conceived program that Treasury and the FDIC put in place in a panic. It allowed participants to issue guaranteed debt for a fee of 75 basis points regardless of their financial condition. The banks were offered a free lunch and now may be punished for having eaten it.

The Obama administration has shown repeatedly that it is willing to change the rules and even challenge the sanctity of contracts in the interests of its political agenda. The best, most recent example is the Chrysler restructuring.

The administration decided to tilt the restructuring in favor of the unions. The government proposed giving the United Auto Workers' retiree health fund a 55% equity stake in Chrysler – more than the combined stakes of Chrysler's merging partner, Fiat, or the other secured creditors that are owed roughly \$7 billion. When some of the secured creditors, who are offered 30 cents on the dollar, balked, they were attacked by Obama as speculators.

Because of the holdout, Chrysler filed for Chapter 11 last week, and GM will soon follow. One might hope that, in bankruptcy, the well-known rules of the game, not political favoritism, would rule the day. Chrysler's dissident lenders have on their side the “absolute priority” bankruptcy rule, which holds that value must be distributed according to the legal priorities of the stakeholders.

Unfortunately, the bankruptcy code also holds that the absolute priority rule can be modified if a two-thirds majority can convince the court that it makes legal or business sense. Two-thirds of the lenders can force the holdout to go along with them in a procedure called a “cram-down.”

That is exactly what is likely to happen. Citi, JPMorgan Chase, Goldman Sachs and Morgan Stanley, all major recipients of TARP Funds, all deep in the pocket of the Treasury, agreed to the administration's plan. So it looks like bankruptcy law will take a back seat to social policy.

Options and Resources

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[RETURN TO FIRST PAGE](#)

Bankruptcy Blotter

Moody's Investors Service said the global speculative-grade corporate default rate continued to rise in April, as the ratings agency slightly raised its projection for what the peak rate will be in the fourth quarter to 14.8% from its projection of 14.6% just last month. The rate is expected to then drop to 10.4% a year from now.

Commercial bankruptcy filings increased by 57% in April over the same period last year to 8,113. Chapter 11 filings by businesses and

individuals increased by 136% in April over the year-ago period, indicating that the recession is not localized.

The outlook for the U.S. retail industry, especially specialty chains and upscale department stores, remains darkened by liquidity problems and retrenching consumers, according to a new report from Moody's Investors Service, which sees no signs of stabilization.

(continued on page 4)

Did You Know...?

U.S. pending home sales rose 3.2% in March, the National Association of Realtors reported. The results follow a positive February and a 1.1% year-over-year jump.

Road to Recovery

Our list of Creditors' Committees is a mile long....

- ▶ **Gottschalks**
Successful auction to save the brand
- ▶ **The Sharper Image**
Successful auction to save the brand
- ▶ **Bombay Company**
Creative structure for sale of brand name and other intellectual property
- ▶ **Loehmann's**
Successful stand alone reorganization with 100% payout to unsecured creditors
- ▶ **Boscov's**
Successful sale as a going concern
- ▶ **Ritz Cameras**
Disposition; 98.5% recovery for unsecured creditors
- ▶ **Bob's Stores**
Creative Asset Disposition; 98.5% recovery for unsecured creditors
- ▶ **Deltagen**
100% recovery plus interest for unsecured creditors
- ▶ **Montgomery Ward**
Obtained over \$80 million settlement with GE for creditors
- ▶ **Hancock Fabrics**
First successful retail reorganization since the 2005 amendments to the Bankruptcy Code with a recovery of 100% plus interest for unsecured creditors

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[RETURN TO FIRST PAGE](#)

Bankruptcy Blotter

(continued from page 3)

Filene's Basement, which was recently sold to the **Bauxbaum Group**, filed for Chapter 11 protection for the second time in the last ten years. Filene's has, however, lined up a stalking-horse buyer, **Crown Acquisitions** and the **Chetrit Group** with a bid of \$22 million, for 17 of its 25 stores including its flagship locations in Boston and New York. The sale auction is expected within the next five weeks.

Private equity firm, **The Gores Group LLC**, has taken a majority stake in **Stock Building Supply**, a unit of the U.K.'s **Wolseley**, and entered into a pre-packaged Chapter 11. The Gores Group will invest \$75 million into Stock, receiving 51% ownership of the company from

Wolseley. Also as part of the deal, Wolseley will cancel more than \$700 million worth of loans to Stock. Under the pre-packaged plan, creditors are expected to be paid in full.

Unsecured creditors are appealing the sale of swimsuit retailer **Everything But Water LLC** after their initial objection to the transaction—and to a related request by the company to employ a real estate consultant—fell flat.

Bruno's Supermarkets won approval to sell its operating stores in a deal that will net the company \$45.8 million. **Southern Family Markets** (of **C&S Wholesale Grocers**) plans to continue operating up to 31 stores, while the remaining stores will be liquidated by its bidding partner, **Hilco Merchant Resources**.

Management on the Move

Supervalu Inc. appointed **Craig Herkert** CEO. **Herkert** comes from Wal-Mart where he was President and CEO of the Americas since 2004. Outgoing CEO **Jeff Noddle** will continue as Executive Chairman.

Wal-Mart promoted **Rick Bendel** to International Chief Marketing Officer. Bendel has been CMO at Wal-Mart's U.K subsidiary Asda.

Bebe Stores, Inc. appointed **Tara Poseley** President of BEBE SPORT. Most recently, Poseley was President of Disney Stores North America (The Children's Place).

The Little Clinic promoted **Lisa Loscalzo** to President from EVP of Business Development. Also, Little Clinic CFO **Rob Pantoja** adds EVP to his title.

Rite Aid Corp. director **Dr. Michael A. Friedman** resigned from the company's board, citing the demands of his leadership role at City of Hope.

Gap Inc. named **Julie Rosen** SVP of Merchandising for Banana Republic. Rosen held a similar role at Banana Republic during the 1990's, but most recently she has been a strategic consultant.

Hancock Fabrics, Inc. appointed **Susan Zewicke** as SVP, Store Operations. Zewicke was most recently a retail consultant, and prior to that was VP of U.S. Operations for Borders Group.

Walgreens overhauled its purchasing department, and several key execs are departing, according to *Drug Store News*:

- **Kathy Steirly**, Divisional VP and GMM of Beauty and Fashion, **Bill Hubbs**, Divisional VP and GMM for Seasonal and Sundry, **Arnie Silver**, Divisional VP and GMM of Consumables are all leaving the company. VP of Purchasing **Dave Van Howe** will temporarily cover their responsibilities.
- **Robert Tompkins** was promoted to Divisional VP and GMM for Health and Wellness and OTC.
- **Rachel Bishop** was appointed Divisional VP and GMM of Strategic Planning and Analysis. Bishop comes from McKinsey & Co.

Liz Claiborne Inc. named **Thomas Johannes Grote** as CEO of its Mexx Worldwide unit. Grote is the former President of Esprit. Interim CEO of Mexx **Tom Fitzgerald** will become CEO of the company's Lucky Brand Jeans unit.

Borders Group, Inc. promoted 18 year company veteran **Michael J. Oprins** to VP Merchandising for non-book products, a newly created position.

A.C. Moore Arts & Crafts, Inc. named **David Abelman** EVP and Chief Marketing and Merchandising Officer. He replaces **Craig R. Davis** who has retired from the company. Abelman was most recently SVP of Marketing for Michaels Stores, Inc.

[RETURN TO FIRST PAGE](#)

Off the Rack

Macy's, Inc. raised first quarter guidance, and now expects a net loss of \$0.19 to \$0.21 per share, excluding restructuring-related costs. M is maintaining annual guidance 2009 at the current level of \$0.40 to \$0.55 cents per share, excluding restructuring-related costs, but said it will exceed this guidance if the economy improves in H209.

J. C. Penney Company, Inc. said first quarter earnings would be \$0.09 to \$0.11 per share, up from a range of flat to slightly positive, based on better-than-expected April sales.

Kohl's Corp. now expects first quarter earnings of \$0.43 to \$0.44 per share, up from previous guidance of \$0.27 to \$0.34 a share.

After reporting first quarter sales, **Gap Inc.** said it now expects first quarter earnings to be \$0.29 to \$0.30 per share.

Barney's New York will be closing two of its seven department stores as the company looks to conserve cash. One of the locations is the company's Las Vegas store in the Shoppes at the Palazzo. The company had expected to generate revenues of up to \$6 million per month from this location, but sources say the revenue has been about a quarter of that. It is unclear how Barney's plans to get out of this lease. The location of the other store is unknown.

Bebe Stores, Inc. sales decreased 15.8% to \$127.7 million in its third fiscal quarter ended April 4. Same store sales decreased 23.5%. Net loss was \$5.0 million compared to net income of \$8.3 million last year. Bebe expects Q4 comp store sales will be negative mid teens to low twenties and earnings will be \$0.02 to \$0.10 per share.

Aeropostale, Inc. raised first quarter earnings guidance, and now expects \$0.46 per diluted share, including \$0.02 a share of Jimmy'Z closing costs. Previously issued earnings guidance was for \$0.32 per share.

Men's Wearhouse signed a lease for a 223,160 sq. ft building in Bakersfield, California for distribution to stores as well as pressing and tailoring, *The Bakersfield Californian* reported.

Neiman Marcus, Inc. sales fell 23.7% to \$810 million in the third fiscal quarter ended May 2. Comp store sales were off 25.1%.

Stage Stores, Inc. said that first quarter earnings are expected to be at or slightly better than the low end of its guidance of a loss of \$0.04 per share.

Wet Seal, Inc. estimates first quarter earnings will be approximately \$0.04 per share, in the middle of its previous guidance of \$0.02 to \$0.06 per share.

Gymboree Corp. raised earnings guidance for the first fiscal quarter to \$0.68 to \$0.71 per share.

Cato Corp. estimated that first quarter earnings will \$0.58 to \$0.62 per share, versus \$0.57 last year. Looking ahead to the second quarter, CTR expects comp sales of down 3% to flat.

Ross Stores, Inc. raised earnings estimates for the first quarter to \$0.71 to \$0.72 per share, up from previous earnings per share guidance of \$0.68 to \$0.70.

After exceeding plan in all three months of the first quarter, **TJX Companies, Inc.** raised earnings guidance to \$0.47 to \$0.49 per share.

Children's Place Retail Stores, Inc. said first quarter earnings would be between \$0.75 and \$0.80 per share.

New York & Co. extends its e-commerce, fulfillment and customer care agreement with GSI Commerce Inc. until 2013.

dELiA*s, Inc. opened its 100th store, in Baton Rouge, Louisiana.

Did You Know...?

First-time state unemployment claims fell to 601,000, the Labor Department reported. The four-week average of first-time claims also declined to 623,500. But the four-week moving average of continuing claims hit a record high of 6.21 million.

Hi Tech Entertainment

Staples Inc. named public relations company **Tilson Communications** to manage its 2009 back-to-school public relations program.

Best Buy and **Sears** are being sued in New York in two separate actions for deceptive "meet

or beat" pricing policies on consumer electronics, *Newsday* reported. The suit against Best Buy has already been granted class action status, and the suit against Sears is seeking class action status.

[RETURN TO FIRST PAGE](#)

The Global World of Sports and Footwear

Footstar, Inc.'s shareholders approved the plan of complete dissolution and liquidation at a special meeting held last week. The company will pay a \$2.00 per share dividend, and proceed with liquidation.

Zumiez Inc. comp store sales decreased 15.3% for the first fiscal quarter of 2009 ended May 2. But based on the better than expected sales and margins, ZUMZ now expects loss in the quarter to be just \$0.09 to \$0.08 per share compared a loss of \$0.17 to \$0.13 per share guided prior.

Adrenalina made an unsolicited, \$29.5 million cash and stock offer for Canada's **West 49**. The offer comes nearly five months after Adrenalina's unsolicited, failed bid to acquire Pacific Sunwear for \$295.7 million.

Sport Chalet amended and expanded its existing credit facility with Bank of America. The deal will give SPCHA an additional \$10.0 million in availability until Oct. 1, 2010, increasing the revolver by more than 20% to \$55 million from January 1 to August 31 annually and allowing for seasonal advances up to \$75.0 million from September 1 to December 31.

Also, **Sport Chalet** pre-released Q4 and full fiscal year results for the periods ended March 29. The Q4 net loss is forecast in the \$10.4-11.0 million range versus a loss of \$2.8 million in Q408. Comp store sales in the year's final period declined 18%, but the retailer said it was able to successfully manage aged inventory and maintain fresh inventory levels in all doors. Total Q4 sales are forecast to drop 13% to \$84.5 million. As for the FY, the net loss range including Q3 non-cash impairment charges is expected at \$51.5 to \$52.1 million (versus \$34.7 to \$35.4 million excluding the charges) with annual sales in the \$372.5 to \$402.5 million

range. Sport Chalet confirmed that, in the first weeks of FY10, sales and operating margin are exceeding the plan established with lenders.

Golfsmith said sales patterns were "slightly improving" in April and early May, critical months for the golf category. Year-over-year liquidity is much improved, with \$16.4 million available under its credit line vs. \$2.2 million. GOLF believes it's in position to emerge from the current recession as a stronger player on the structurally-changing golf retail landscape, noting that in 2008, the number of golf retail doors shrunk 12%, led by a 16% decrease in the number of mom and pop shops. National and regional golf chains each contracted their store bases by 6% last year, according to the National Golf Foundation.

Outdoor Industry Association panel data showed \$349.8 million in outdoor sales this March against \$369.2 million last year, bringing sales for Q1 to a -7% at \$1.1 billion. Specialty stores bore the brunt of the downturn with a 12% decline compared to an 8% decline in chain sales. The one channel that improved was internet sales, which rose 14% for both the month and the quarter.

U.S. snow sports sales fell 5% in dollars to \$2.82 billion in the 2008-09 season from \$2.95 billion in the year-ago season and 3% in units as the industry sold 75,000 fewer alpine skis, 8,000 fewer Nordic skis and 34,000 fewer snowboards.

Sports & Fitness was the fastest-growing category in Q1 online sales with a 23% increase in y-o-y dollar sales. ComScore, Inc. credits the trend to more consumers demonstrating a willingness to purchase major fitness equipment—treadmills and stationary bikes—over the Internet.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
KRISPY KREME DOUGHNUTS	B-		NEGATIVE		E+
GAYLORD ENTERTAINMENT COMPANY	B	B	STABLE	NEGATIVE	D-
MOTIVA ENTERPRISES LLC	A	A	NEGATIVE	STABLE	NR
SONIC AUTOMOTIVE INC	SD	CCC+	NM	NM	F+
GREAT ATLANTIC & PACIFIC TEA CO ,THE	B	B		STABLE	E+
SAFEWAY INC	BBB	BBB		STABLE	D+
STATER BROS HOLDINGS INC	B+	B+		STABLE	D-
REGIONS BANK	A+	A+		NEGATIVE	NR

[RETURN TO FIRST PAGE](#)

Health & Beauty Aids

Wal-Mart is expanding its corporate pharmacy program, which it piloted last fall with Caterpillar Co., the *Wall Street Journal* reported. WMT will offer its program to other companies, offering low-priced drugs if agree to buy directly from Wal-Mart's in-store pharmacies rather than through PBMs.

Also, **Wal-Mart** announced a pilot program in Michigan which will add free mail delivery to its 90-days for \$10 generic prescriptions.

Walgreen Co. completed the previously announced acquisition of 31 Drug Fair stores in central and western New Jersey.

Also, **Walgreens'** OptionCare subsidiary acquired Air Products' home infusion therapy services business and some elements of its respiratory and home medical equipment business.

Duane Reade's first quarter (see the scorecard) same store sales broke down into front-end comps down 0.8% & pharmacy comps up 3.5%. Fiscal 2009 same store sales guidance was left unchanged at the 1.0% to 2.6% range (front-end up 0.0% to 2.0% and pharmacy up 2% to 3.5%). The projected fiscal 2009 net loss is continues to range from \$47 million to \$52 million. Duane Reade

Casey's General Stores, Inc. will pay \$11.7 million plus up to \$400,000 in expenses to settle

two wage and hour disputes with assistant managers and store employees. CASY's insurance will cover \$3 million, and the retailer will take a \$9.1 million charge in the fourth quarter of fiscal 2009 to cover the rest.

McKesson Corp. sales were flat at \$26.224 billion for the fourth quarter ended March 31. Net income was off 8.5% to \$281 million. For the full fiscal year, McKesson sales rose 4.8% to \$106.632 billion while earnings fell 16.9% to \$823 million, which included a \$311 million after-tax charge for the Average Wholesale Price litigation. For fiscal year 2010, McKesson expects net income in the range of \$1.061 to \$1.102 billion.

CVS Caremark Corp.'s first quarter results (see the scorecard) included a 3.3% same stores sales increase, which breaks down into a pharmacy same store sales increase of 4.6% and a front-end same store sales gain of 0.7%. PBM network revenues climbed 6.8% while mail service revenues jumped 8.4%.

Also, **The National Legislative Association on Prescription Drug Prices** has asked the FTC to investigate whether there was "harmful and deceptive conduct" in **CVS's** purchase of Caremark in 2007, according to a *Reuters* report. The group alleges that CVS Caremark PBMs took rebates from manufacturers and did not pass them on to customers.

Did You Know...?

Private-sector payrolls fell by 491,000 jobs in April, according to the ADP employment index. The March numbers improved slightly, revised to -708,000 from -742,000.

General Retail News

Major retailers' floorspace contracted in 2008, as they closed about 7,000 stores while opening only 5,700 new doors, according to **CoStar Group Inc.** research. CoStar surveyed 250 major retail chains. Looking forward, the panel plans to open about 4,000 and close about 3,600 stores this year.

U.S. Cargo Imports rose 16.5% in March, from a seven-year low in February, to 984,633 TEU but were off 15% year-over-year. Nonetheless, the H109 cargo import volume is forecast to be down 19% y-o-y to 6.1 million TEU versus 7.5 million TEU in H108. Total U.S. cargo import volume in 2008 was 15.2 million TEU, down 7.9% from 16.5 million TEU in 2007 and at the lowest level since 14 million in 2004. HIS Global Insight, which tracks monthly cargo imports in conjunction with the National Retail Federation,

believes the "real rebound" in U.S. cargo imports will be in the future as import container traffic is "projected to be weak for the next several months due to the underlying reduction in demand for goods."

E-Commerce is still a strong focus of most retailers, according to the *State of Retailing Online 2009* from Forrester Research and Shop.org. E-commerce sales will grow about 11% to \$156.1 billion in 2009, slowing slightly from 13% growth in 2008. Online sales will account for about 6% of the retail market this year, vs. about 5% in 2008. 24% of retailers surveyed will increase their online retail operations budget, 46% will keep spending the same, and 30% will spend less than originally planned this year.

[RETURN TO FIRST PAGE](#)

Heard in the Grocery Aisle

Nash Finch Co. saw first quarter sales (see the scorecard) expand on the strength the three military distribution centers acquired on January 31. Also, NAFC recorded a \$6.7 million after tax gain in the quarter on the acquisition, as the \$78.1 million purchase price was lower than the fair value of the assets.

Supervalu Inc. closed its offering of \$1 billion in 8.000% senior unsecured notes due 2016. SVU will use the net proceeds to retire several classes of debt expiring in the near term.

Sysco Corp. sales fell 4.5% to \$8.739 billion in the third quarter of fiscal 2009 ended March 28. Net income was off 4.1% to \$740.6 million.

Loblaw Companies Ltd. issued \$350 million of Medium Term Notes, which will pay a fixed rate of 4.85% until maturity on May 8, 2014. Net proceeds will be used to repay short term debt, refinance other debt and for general corporate purposes.

Safeway's O Organics line will be carried by **Albertsons** in 240 stores. Also, the O Organics

and Eating Right brands are being rolled out internationally, with chains in South Africa and Columbia planning to carry them.

Royal Ahold banners Stop & Shop and Giant-Landover reported strong sales in Q1, as overall U.S. sales rose 3.6% to \$5.32 billion. Stop & Shop comp stores sales increased 4.8% and Giant-Landover comps rose 3.6%.

Wegmans will open a data operations center in Kirkwood, New York, according to the *Binghamton Press*. The facility will house computer support systems for the supermarket chain. Wegmans paid \$1 million for the 15,000 sq. ft. facility, which is scheduled to open in June 2010.

A strike has been averted, for now, as UFCW Local 7 in Colorado continues talks with **Kroger**, **Safeway** and **Albertsons** over a new contract covering about 17,000 workers. Kroger and Safeway have agreed to extend current contracts during negotiations.

Mass Merchant Musings

BJ's Wholesale Club, Inc. revised earnings guidance higher based on a better than expected Q1. First quarter earnings are now expected to be \$0.41 to \$0.45 per share, up from previous guidance of \$0.29 to \$0.33 per share. For the full year, BJ now expects earnings of \$2.42 to \$2.52 per share, compared to previous guidance of \$2.26 to \$2.36 per share. One other note: while the scorecard shows Q1 comps of -1.5%, if you exclude gasoline sales, comp store sales were +7.5% in the quarter.

Wal-Mart Stores Inc. launched a convenience store pilot in Shenzhen, China with three stores of about 3,200 sq. ft. each. The concept,

bannered "Smart Choice", may be expanded if the test is successful.

Also, **Wal-Mart** will stop publishing monthly same-store sales going forward. WMT had previously announced that it would stop providing monthly guidance.

And **Wal-Mart** saw ten Hispanic employees of a Sam's Club in Fresno, California, file an EEOC lawsuit alleging a hostile workplace and racial discrimination.

Target Corp. said first quarter earnings would be "well above" the current median estimate of \$0.52 cents per share.

FYI for the DIY

Marvin's Building Materials and Home Centers will open a 37,000 sq. ft. store in Summerville, Georgia, in late July, *The Birmingham News* reported.

Home Depot discontinued its Spanish-language web site after it found out most of the visitors were from outside the U.S.

Restoration Hardware opened its first outlet location in an outlet mall near Pensacola, Florida.

Lumber Liquidators, Inc. expects sales for the year of \$515 to \$530 million, with a comp store sales decline of low- to mid-single digits. Earnings are forecast at \$0.76 to \$0.86 per share.

[RETURN TO FIRST PAGE](#)

Specialty Items

Perfumania Holdings will file its 10K for the fiscal year ending January 31 late, as it continues to evaluate impairment of goodwill and other intangible assets. Perfumania said sales will be up 25% to \$425.6 million, with flat SG&A expenses, but anticipates a loss for the year.

Limited Brands' **Bath & Body Works** subsidiary extended its e-commerce agreement with GSI Commerce Inc. to 2015. GSI provides it with e-commerce technology and fulfillment services.

Room & Board, a Minneapolis based furniture retailer, is opening its first store in the Southeast in a northern suburb of Atlanta, Georgia, the *Atlanta Journal-Constitution* reported. Room &

Board had sales of \$217 million last year and currently operates eight stores.

Pier 1 Imports, Inc. is back in compliance with the minimum share price requirement for NYSE listing, as its stock price has been above \$1.00 for 30 trading days.

Hudson's Bay Company subsidiary **Home Outfitters** opened five new locations on May 9, bringing it to 67 stores throughout Canada.

Toys R Us, Inc. said its "R Market" consumables and commodities shop-in-shop is now in 260 stores, and will roll out to the rest over the rest of the year. R Market carries about 1,300 products.

Upcoming Reporting Dates

Company	Event	Date
Abercrombie & Fitch	Financial Results	May 15, 2009
American Eagle Outfitters	Financial Results	May 27, 2009
AnnTaylor Stores	Financial Results	May 20, 2009
Barnes & Noble	Financial Results	May 21, 2009
Big Lots	Financial Results	May 28, 2009
BJ's Wholesale Club	Financial Results	May 20, 2009
Bon-Ton Stores	Financial Results	May 21, 2009
Borders Group	Financial Results	May 27, 2009
Buckle	Financial Results	May 21, 2009
Cabela's	Investor Conference	May 14, 2009
Cato	Financial Results	May 20, 2009
Chico's FAS	Financial Results	May 27, 2009
Children's Place	Financial Results	May 14, 2009
Citi Trends	Financial Results	May 20, 2009
Conn's	Financial Results	Jun 4, 2009
CVS Caremark	Investor Conference	May 15, 2009
Dollar Tree	Financial Results	May 27, 2009
Dress Barn	Financial Results	May 21, 2009
Eddie Bauer	Financial Results	May 14, 2009
Express Scripts	Investor Conference	May 13, 2009
GameStop	Financial Results	May 21, 2009
Gap	Financial Results	May 21, 2009
Gymboree	Financial Results	May 20, 2009
Hhgregg	Financial Results	Jun 2, 2009
Hibbett Sports	Financial Results	May 21, 2009
Hibbett Sports	Investor Conference	May 13, 2009
Home Depot	Financial Results	May 19, 2009
Ingram Micro	Investor Conferences	May 12 & 19, 2009
J. C. Penney	Financial Results	May 15, 2009
Jo-Ann Stores	Financial Results	May 27, 2009
Kirkland's	Financial Results	May 21, 2009
Kohl's	Financial Results	May 14, 2009
Lowe's	Financial Results	May 18, 2009
Macy's	Financial Results	May 13, 2009
Nordstrom	Financial Results	May 14, 2009
Ross Stores	Financial Results	May 21, 2009
Safeway	Investor Conference	May 13, 2009
Sears Holdings	Financial Results	May 28, 2009
Spartan Stores	Financial Results	May 13, 2009
Sport Supply Group	Financial Results	May 12, 2009
Stage Stores	Financial Results	May 21, 2009
Stein Mart	Financial Results	May 21, 2009
Talbots	Financial Results	Jun 9, 2009
Tech Data	Investor Conference	May 12, 2009
Tech Data	Financial Results	May 21, 2009
TJX Companies	Financial Results	May 19, 2009
Tractor Supply	Investor Conference	May 14, 2009
Wal-Mart	Financial Results	May 14, 2009
Wet Seal	Financial Results	May 28, 2009
Whole Foods Market	Financial Results	May 13, 2009
Winn-Dixie Stores	Financial Results	May 12, 2009

Did You Know...?

U.S. nonfarm payrolls fell by 539,000 in April, the smallest decline since October 2008. The unemployment rate reached 8.9%.

[RETURN TO FIRST PAGE](#)

Retailer of the Week: OfficeMax

(continued from page 1)

terms of these leases. Additionally, several of the leases have had clauses triggered due to the exit of anchor tenants, leading to further lease renegotiation.

For the remainder of the year, the firm will remain cautious in its expectations. Revenues will continue to fall due to the weak selling environment, but OfficeMax is still expecting to be free cash flow positive. The free cash flow is made possible due to the fact that the cap-ex bill will be between \$50 million and \$70 million, down from \$144 million last year. There was \$10.9 million in cap-ex spending in the first quarter.

\$ figures in millions, 3-Months ended	03/28/2009 (Q1 YTD FY09)	03/29/2008 (Q1 YTD FY08)	Year-over-Year Change
Liquidity Ratios			
Cash and Equivalents	\$149.3	\$211.4	-29.4%
Cash and Equivalents % Current Liabilities	14.8%	17.0%	-226 bps
Working Capital	\$701.6	\$839.1	-16.4%
Current Ratio	1.69x	1.68x	1 bps
Leverage Ratios			
EBITDA / Net Interest Expense	2.96x	3.84x	-88 bps
Total Debt*	\$342.2	\$360.6	-5.1%
Total Debt* / Equity	117.4%	15.5%	10,186 bps
Total Debt* / Tangible Equity	149.9%	39.7%	11,017 bps
Total Liabilities / Total Assets	92.3%	62.3%	2,998 bps
Total Liabilities / Tangible Assets	94.2%	80.9%	1,331 bps

*Excludes the \$1.47 billion timber note payable.

OPERATING PERFORMANCE

First Quarter Ended March 28, 2009

Revenues for the first quarter ended March 28, 2009 were \$1.91 billion, a 17% decrease from the same quarter last year. Corporate customers, governments, and consumers are all cutting spending, which has resulted in a lower revenue stream for OfficeMax. The company's Contract segment saw revenues fall 22.4% to \$927.6 million, as US contract sales declined 18.9% and International contract revenues fell 30.1% in US dollars (down 7.6% in local currencies). The Retail segment saw revenues fall 11.2% to \$984.1 million for the quarter, as Retail same store sales fell 12.7%. Retail revenues in the US were down 10% to \$937.4 million, while retail revenues internationally were down 32% to \$46.7 million.

The first quarter gross margin fell by 110 basis points, a result of declines in both the retail and contract segments. Both segments saw a net reduction in margins in the first quarter, with contract segment margins falling 170 basis points and retail segment margins falling 100 basis points. Management said that it was generally pleased with the retail margins, less so with the contract margins. OfficeMax did slash spending for the quarter in response to the slowing revenue stream, as SG&A was down \$71.1 million on a dollar basis. The company cut payroll costs during the period, amongst other things. The firm's revenues fell at a faster rate, however, as SG&A rose 80 basis points as a percentage of revenues. Again, the Contract segment was the biggest culprit, with SG&A spending rising 120 basis points as a percentage of revenues. Retail again fared much better, with SG&A spending down 80 basis points.

During the first quarter, the firm had expenses totaling \$9.9 million relating to the eight store closures in the quarter. Last year's first quarter contained expenses of \$2.4 million related to the consolidation of manufacturing facilities in New Zealand as well as expenses of \$1.8 million related to severance expense.

For the three months, OfficeMax reported operating profits of \$27.5 million, roughly one-third of the operating profits for the opening quarter last year. There were some minor charges to adjust

(continued on page 11)

[RETURN TO FIRST PAGE](#)

Retailer of the Week: OfficeMax

(continued from page 10)

out, after which OfficeMax would have reported an adjusted operating profit of \$37.4 million. It is clear that the profitability levels of the firm have taken a rather large step back over the course of the year. As is clear in the dialogue above, the Contract segment was the main reason for the decline. Operating profits at the Contract segment fell to \$21.5 million from \$59.6 million for the same quarter a year ago. Retail operating profits fell as well, but only by half to \$15.4 million.

Adjustable Items	First Quarter Ended March 28, 2009	First Quarter Ended March 29, 2008
GAAP Operating Profits	\$27.5 million	\$78.6 million
Store Closing Charges	\$9.9 million	-
Plant Consolidation Charges	-	\$2.4 million
Severance Charges	-	\$1.8 million
Adjusted Operating Profits	\$37.4 million	\$82.8 million
Depreciation/Amortization	\$29.9 million	\$35.3 million
Adjusted EBITDA	\$67.3 million	\$118 million

CAPITAL STRUCTURE

The firm did manage to stay cash flow positive in the first quarter but only as a result of the reduction in inventory levels. Cash from operations was just \$3.1 million during the three months, way off the \$142.4 million that was generated from operations during the same quarter last year. This left OfficeMax free cash flow negative after we take into account the \$10.9 million cap-ex bill. The firm also paid down almost \$10 million in debt, bringing the cash position lower.

OfficeMax closed the first quarter with \$149.3 million in cash on the books, down from the \$211.4 million that was on account at the same point last year. After generating free cash flow last year, the firm opened up the year on the opposite side of the spectrum. The firm was strongly free cash flow positive in the first quarter last year, so the liquidity is down in comparison. In case the company was to get itself into cash trouble, it recently amended and increased its revolving credit facility to \$700 million, of which it had \$486 million available at the end of the quarter. There were only L/Cs outstanding on the facility, but the ceiling had been reduced due to the lower receivables and inventory.

The company has also managed to reduce total debt. The firm still has the entire \$1.47 billion Timber Note on the balance sheet and will until 2019. OfficeMax has seen its other debt fall from \$360.6 million last year to \$342.2 million to close this quarter. There is \$54.1 million classified as current. OfficeMax's EBITDA has stayed positive and there has been enough cash to reduce its total debt load. In 2009, OfficeMax has \$35 million in senior notes coming due.

The vast majority of the damage to the balance sheet was the result of a massive goodwill impairment charge as well as the hit the firm took from the bankruptcy at Lehman Brothers. This has skewed many of the firm's capital ratios. The firm still fully expects to realize a one-time gain in the future which will be used to write-down a portion of the timber note payable, as triggered by the insolvency on the other side of the balance sheet.

Did You Know...?

Consumers' debts fell a record \$11.1 billion in March, sending outstanding debt levels dropping at a 5.2% annual pace, the fastest decline since 1990.

[RETURN TO FIRST PAGE](#)

First Quarter Scorecard

\$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Apparel							
Abercrombie & Fitch	\$612.1	\$800.1	-23.5%	-30.0%	tba	\$62.1	tba
Aeropostale, Inc.	\$408.0	\$336.3	21.3%	11.0%	tba	\$17.5	tba
American Eagle Outfitters	\$612.0	\$640.3	-4.4%	-10.0%	tba	\$43.9	tba
Bluefly, Inc.	\$19.9	\$25.2	-21.0%	NA	(\$3.0)	(\$2.9)	-1.2%
Bon Ton Stores, Inc.	\$644.5	\$700.2	-8.0%	-8.6%	tba	(\$34.1)	tba
Buckle, Inc.	\$199.7	\$160.3	24.6%	17.7%	tba	\$18.7	tba
Cache, Inc.	\$53.0	\$67.7	-21.7%	-20.7%	(\$1.6)	(\$2.1)	22.3%
Cato Corporation	\$238.1	\$225.8	5.4%	3.0%	tba	\$16.9	tba
Chico's FAS, Inc.	\$410.6	\$409.6	0.2%	-3.2%	tba	\$12.7	tba
Children's Place	\$401.9	\$400.2	0.4%	1.0%	tba	\$19.5	tba
Dillard's, Inc.	\$1,417.1	\$1,680.2	-15.7%	-13.0%	tba	\$2.7	tba
Gap Inc.	\$3,130.0	\$3,384.0	-7.5%	-8.0%	tba	\$249.0	tba
Gymboree Corporation	\$228.0	\$238.9	-4.6%	-10.0%	tba	\$25.0	tba
Hot Topic, Inc.	\$175.1	\$159.0	10.1%	7.1%	tba	(\$1.4)	tba
J.C. Penney Company	\$3,884.0	\$4,127.0	-5.9%	-7.5%	tba	\$120.0	tba
Jo-Ann Stores, Inc.	\$460.0	\$446.1	3.1%	1.0%	tba	\$3.0	tba
Kohl's Corporation	\$3,638.0	\$3,624.0	0.4%	-4.2%	tba	\$153.0	tba
Limited Brands	\$1,725.0	\$1,925.0	-10.4%	-7.0%	tba	\$98.0	tba
Macy's, Inc.	\$5,200.0	\$5,747.0	-9.5%	-9.0%	tba	(\$59.0)	tba
Nordstrom, Inc.	\$1,706.0	\$1,879.0	-9.2%	-13.2%	tba	\$119.0	tba
Ross Stores, Inc.	\$1,692.0	\$1,556.0	8.7%	3.0%	tba	\$79.5	tba
Saks Incorporated	\$615.1	\$842.5	-27.0%	-27.6%	tba	\$18.3	tba
Stage Stores, Inc.	\$333.5	\$353.5	-5.7%	-9.0%	tba	\$2.3	tba
Stein Mart, Inc.	\$319.6	\$352.1	-9.2%	-8.0%	tba	\$7.0	tba
Tandy Leather Factory	\$13.4	\$13.3	0.8%	tba	\$0.7	\$0.6	16.7%
TJX Companies	\$4,350.0	\$4,310.0	0.9%	2.0%	tba	\$193.9	tba
Wet Seal, Inc.	\$132.0	\$142.4	-7.3%	-7.3%	tba	\$8.9	tba
Drug							
Abbott	\$6,718.0	\$6,765.6	-0.7%	NA	\$1,439.0	\$937.9	53.4%
CVS Caremark Corporation	\$23,393.9	\$21,326.0	9.7%	3.3%	\$738.4	\$748.5	-1.3%
Drugstore.com, Inc.	\$98.3	\$92.6	6.2%	NA	\$1.3	(\$2.7)	148.1%
Duane Reade Holdings	\$444.5	\$427.1	4.1%	1.1%	(\$17.2)	(\$21.0)	18.1%
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							
Arden Group	\$108.8	\$118.8	-8.4%	-8.4%	\$5.8	\$6.5	-10.8%
Loblaw Companies Ltd (C\$)	\$6,718.0	\$6,527.0	2.9%	2.1%	\$109.0	\$63.0	73.0%
Nash Finch Company	\$1,140.3	\$1,004.9	13.5%	-2.3%	\$14.4	\$10.6	35.8%
Publix Super Markets	\$6,416.6	\$6,276.4	2.2%	-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%
BMTC Group Inc.	\$168.8	\$181.7	-7.1%	NA	\$3.1	\$11.6	-73.3%
Conn's, Inc.	\$200.1	\$195.1	2.6%	-4.6%	tba	\$10.6	tba
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%
PC Mall, Inc.	\$259.3	\$336.6	-23.0%	NA	\$1.0	\$3.0	-66.3%
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%
Calloway's Nursery, Inc.	\$8.7	\$9.8	-11.2%	5.6%	(\$0.3)	(\$0.1)	-107.3%

[RETURN TO FIRST PAGE](#)

(continued on page 13)

First Quarter Scorecard

(continued from page 12)

\$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Home Centers							
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%
Greybar Electric	\$1,057.5	\$1,282.7	-17.6%	NA	\$2.5	\$19.0	-86.8%
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%
Lumber Liquidators	\$123.9	\$122.6	1.1%	-5.8%	\$5.1	\$4.3	18.6%
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%
W.W. Grainger	\$1,465.2	\$1,661.0	-11.8%	tba	\$96.4	\$11.2	760.7%
Wesco International	\$1,179.6	\$1,465.2	-19.5%	NA	\$23.3	\$42.7	-45.4%
Mass Merchants							
Big Lots, Inc.	\$1,129.4	\$1,139.0	-0.8%	-0.5%	tba	\$34.5	tba
BJ's Wholesale Club, Inc.	\$2,260.0	\$2,250.0	0.4%	-1.5%	tba	\$17.3	tba
Dollar Tree Inc.	\$1,200.0	\$1,050.0	14.3%	9.2%	tba	\$43.6	tba
Fred's, Inc.	\$457.6	\$464.4	-1.5%	2.8%	tba	\$7.3	tba
Overstock.com	\$187.4	\$202.8	-7.6%	NA	(\$2.1)	(\$4.7)	55.3%
Target Corporation	\$14,361	\$14,802	-3.0%	-3.7%	tba	\$602.0	tba
Wal-Mart Stores, Inc.	\$96,077	\$95,264	0.9%	2.9%	tba	\$3,020	tba
Specialty							
Aarons, Inc.	\$473.9	\$412.7	14.8%	7.9%	\$35.2	\$24.8	42.0%
Blue Nile, Inc.	\$62.4	\$70.5	-11.5%	NA	\$1.9	\$2.6	-24.5%
Brookstone, Inc.	\$61.5	\$89.8	-31.5%	-25.1%	(\$27.4)	(\$11.7)	-134.2%
Haverty Furniture	\$144.2	\$185.3	-22.2%	-22.9%	(\$7.3)	\$1.0	-830.0%
Sports & Footwear							
Bakers Footwear Group, Inc	\$45.0	\$43.5	3.4%	4.8%	tba	(\$4.9)	tba
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%
Footstar, Inc.	\$2.5	\$117.9	-97.9%	tba	(\$2.2)	(\$1.5)	46.7%
Golfsmith International	\$68.8	\$79.2	-13.1%	-11.7%	(\$5.1)	(\$5.4)	5.8%
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.

[RETURN TO FIRST PAGE](#)