

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

The way to get good ideas is to get lots of ideas, and throw the bad ones away.

The Deadly Sins Of The Chrysler Bankruptcy

The proposed bankruptcy reorganization of the new defunct Chrysler Corp. is the culmination of serious policy missteps by the Bush and Obama administrations. To be sure, the long overdue Chrysler bankruptcy is a welcomed turn of events. But the heavy-handed meddling of the Obama administration that forced secured creditors to the brink is not.

A sound bankruptcy proceeding should do two things: productively redeploy the assets of the bankrupt firm and correctly prioritize various claims against the bankrupt entity. The Chrysler bankruptcy fails on both counts.

On asset deployment, the bankruptcy court may approve a plan to either reorganize or liquidate the firm. The former is desirable when the "going-concern" value of a firm exceeds the fair market value that its pieces can fetch when sold off in liquidation. But when the firm is not viable, the bankruptcy trustee should sell off its assets in sensible units to maximize total revenue. For both reorganization and liquidation, the trustee in bankruptcy may disaffirm those executory (i.e. still unperformed) contracts that hurt the firm, thereby reducing them to the status of unsecured creditors.

On claim priority, unsecured creditors come at the bottom of the bankruptcy totem pole. The basic rule of credit transactions distributes the net assets first to secured creditors in the order of their priority. First mortgages are normally paid in full before second, and lower mortgagees receive anything, in order, on their loans. Unsecured creditors of all types have an equal claim regardless of the time they perfected their claims. But they receive their first dime only after secured creditors have been paid in full.

It is critical to follow these priority rules inside bankruptcy in order to allow creditors to price risk outside of bankruptcy. Upsetting this fixed hierarchy among creditors is just an illegal taking of property from one group of creditors for the benefit of another, which should be struck down on both statutory and constitutional grounds.

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Retailer of the Week: The Great Atlantic & Pacific Tea Company

We are maintaining our high risk, 'E' credit rating on The Great Atlantic & Pacific Tea Company but are lowering our outlook from stable to a new level of negative. Though total borrowings actually dipped during the recent fourth quarter ended (from the third quarter), a generally increasing reliance on bank borrowings to support existing operations and capital investment over the past year is a concern. Given the level of economic uncertainty and companies' lack of control with respect to when overall conditions will begin improving, we find it best for retailers to maintain as much financial flexibility as they possibly can. Revolver availability is not exactly plentiful, and the facility's borrowing base will come down in fiscal 2010, further limiting availability. While adjusted operating profits were technically better in fiscal 2009 than they were in fiscal 2008, the existing level is quite substandard when compared to other grocers. Eliminating a local competitor by acquiring Pathmark was a good thought, and one would think Pathmark would be well positioned for the current environment; however, management mentioned that Pathmark hasn't performed up to its expectations as of yet. Furthermore, pricing at some of A&P's remodeled Fresh stores to the naked eye looks high. We recommend vendors continue to keep close tabs on their exposures with A&P.

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The Deadly Sins Of The Chrysler Bankruptcy

(continued from page 1)

In a just world, that ignominious fate would await the flawed Chrysler reorganization, which violates these well-established norms, given the nonstop political interference of the Obama administration, which put its muscle behind the beleaguered United Auto Workers, whose onerous collective bargaining agreement are off-limits to the reorganization provisions, thereby preserving the current labor rigidities in a down market.

Equally bad, the established priorities of creditor claims outside bankruptcy have been cast aside in this bankruptcy case as the unsecured claims of the union health pension plan have received a better deal than the secured claims of various bond holders, some of which may represent pension plans of their own.

President Obama, no bankruptcy lawyer, twisted the arms of the banks that have received TARP money to waive their priority, which is yet another reason why a government ownership position in banks is incompatible with its regulatory role. Yet the president brands the non-TARP lenders that have banked together to fight this bogus reorganization as "holdouts" and "speculators."

Both charges are misinformed at best. A holdout situation arises when one party seeks to get a disproportionate return on the sale of an asset for which it has little value in use. Thus the owner of a small plot of land could hold out for a fortune if his is the last piece needed to assemble a large parcel of land. But the entire structure of bankruptcy eliminates the holdout position of all creditors, secured and unsecured alike, by allowing the court to "cram" the reorganization down their throats so long as it preserves the appropriate priorities among creditors and offers the secured creditors a stake in the reorganized business equal to the value of their claims. Ironically, Obama's interventions have allowed unsecured union creditors to hold out for more than they are entitled to.

His charge of "speculation" is also fatuous. Speculators (who often perform a useful economic function) buy high-risk assets at low prices in the hope that the market will turn in their favor. By injecting unneeded uncertainty into the picture, Obama has created the need for a secondary market in which nervous secured creditors, facing demotion, sell out to speculators who are better able to handle the newly created sovereign risk. He calls on citizens to buy Chrysler products, but patriotic Americans will choose to go to Ford, whose own self-help efforts have been hurt by the Chrysler and GM bailouts.

Feedback?

Questions?

Suggestions?

[Click Here](#)

Hi Tech Entertainment

Consumer electronics and appliance sales fell 2.8% in April from March and were down 11.9% year-over-year, the Commerce Department reported. The slide in the segment is accelerating, as the y-o-y decline was 8.8% in March and only 1.0% February.

constant currency basis, sales would have been up 12%. North American revenues would have grown 24%, including sales from TigerDirect and CompUSA, which was acquired last year. The company is optimistic about the addition of the Circuit City brand and ecommerce business.

Systemax noted that its first quarter results suffered from currency effects, and on a

Options and Resources

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Bankruptcy Blotter

With a short supply of lenders willing to fund businesses during lengthy bankruptcy proceedings, Standard & Poor's predicts that more companies will strike restructuring deals with their creditors before entering Chapter 11 protection. Already in the first three months of 2009, six parent-level issuers filed for bankruptcy after winning some or all of their creditors' support for a detailed restructuring strategy, the highest number of pre-packaged bankruptcies in eight year.

Nine more global corporate issuers defaulted last week, bringing the year-to-date total to 117, more than four times the amount at this time last year. Five of the nine issuers that defaulted were based in the U.S., bringing the year-to-date total for the U.S. to 81.

Circuit City Stores Inc. won court approval to sell its trademarks and Internet domain names to **Systemax Inc.** for \$14 million. Systemax was the stalking-horse bidder at an auction last week to consider competing offers.

S&K Famous Brands Inc. is seeking court approval to enter into a deal with **Hilco Merchant Resources LLC** that would give the liquidator the option of holding store-closing sales at the retailer's remaining 105 locations or of acquiring them as operating stores. Hilco, which offered a minimum of \$7.9 million for the company's merchandise, will serve as the lead bidder for the stores at a court auction.

After appealing the sale of **Everything But Walter LLC's** assets to a unit of hedge-fund manager **D.B. Zwirn's**, the retailer's unsecured creditors are now suing to recover assets they say the buyer had no right to acquire. In addition, the creditors accuse D.B. Zwirn of misrepresenting the security interests it had on the company's assets as its pre-bankruptcy lender.

The **Daily Bankruptcy Review** has put **Broder Bros. Co.** on its "Companies To Watch" list after the company warned that if it does not get most of its noteholders on board with an offer to trade old debt for new debt, it will file for Chapter 11 bankruptcy.

Did You Know...?

The U.S. trade gap increased in March by 5.5% to \$27.6 billion from \$26.1 billion in February. Exports fell 2.4% to a seasonally adjusted \$123.6 billion, while imports fell 1% to \$151.2 billion, the Commerce Department reported.

Management on the Move

Cost Plus, Inc. director **Christopher Dodds** will not stand for re-election to the board. Director **Ken Stevens** will replace Dodds as Chairman of the company's Audit Committee.

Pep Boys appointed **Ronald J. Stoupa** VP of Marketing. Stoupa was most recently Director of Brand Marketing for Bass Pro Shops.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
GREAT ATLANTIC & PACIFIC TEA CO ,THE	B	B		STABLE	E
JO ANN STORES INC	B+	B	STABLE	POSITIVE	C
STARBUCKS CORP	BBB	BBB	NEGATIVE	STABLE	C-
EL POLLO LOCO	B-	CCC+	STABLE	NEGATIVE	NR
OFFICE DEPOT INC	B	BB-	NEGATIVE	NEGATIVE	E-
ORIENTAL TRADING COMPANY INC/DBA FUN EXPRESS	CCC	CCC+	NEGATIVE	NEGATIVE	NR
SUBURBAN PROPANE PARTNERS L P	BB-	BB-	POSITIVE	STABLE	C-
GAYLORD ENTERTAINMENT COMPANY	B	B	STABLE	NEGATIVE	D-
MOTIVA ENTERPRISES LLC	A	A	NEGATIVE	STABLE	NR

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Heard in the Grocery Aisle

Whole Foods Market, Inc. sales fell 0.5% to \$1.858 billion in the fiscal second quarter ended April 12. Comp store sales decreased 4.8% and identical store sales decreased 5.8%. Net income was off 31.6% to \$27.3 million. Results included a pre-tax non-cash asset impairment charge of \$13.0 million. When WFMI's settlement with the FTC is approved, the company expects to record a non-cash charge of up to \$5.5 million to adjust the value of assets related to the 13 stores to be sold. Management lowered its full-year sales estimate to just under \$8 billion, down from \$8.3 billion projected earlier.

Winn-Dixie Stores, Inc. sales rose 0.2% in its third fiscal quarter ended April 1. Same store sales increased 0.2%, and would have been 1.2% higher adjusted for the Easter shift. Net income was \$16.6 million, up 10.7% compared to Q3 last year. WINN raised fiscal 2009 guidance, and now expects adjusted EBITDA of \$145 to \$152 million, up from its previous estimate of \$110 million to \$125 million.

Great Atlantic & Pacific Tea Company, Inc. sales gained 4.3% to \$2.290 billion in the fourth quarter ended February 28. Comp store sales decreased 1.3%, and net loss expanded 80.7% to \$111.1 million. Full year sales were 48.7% higher at \$9.516 billion on the Pathmark acquisition. Comp store sales were +2.0% for A&P and +0.8 % for Pathmark. Net loss was \$139.9 million compared to a loss of \$160.7 million last year. Loss from operations expanded 19.4% to \$46.8 million.

Spartan Stores, Inc. sales increased 1.9% to \$581.3 million in its fiscal fourth quarter ended March 28. Comp store sales were up 1.2%. Net income rose 9.9% to \$8.9 million. For the full fiscal year, revenues were up 4.0% to \$2.577 billion. Comp store sales gained 2.7% and net

income expanded 13.1% to \$38.8 million. Outlook for the current year is for slightly negative comp store sales and flat distribution sales.

Ingles Markets, Inc. completed its offering of 8 7/8% senior notes due 2017. The offering was increased to \$575 million from \$500 million, and the notes were issued at a price of 96.548%.

Stater Brothers Markets sales rose 0.6% to \$931 million in the fiscal second quarter ended March 29. Comp store sales were up 0.9%, or 0.4% taking into effect the Easter shift. Net income fell 17.7% to \$11.1 million.

Hannaford Bros. sees a US District Judge dismiss most claims against the supermarket stemming from a data breach in which hackers had access to 4.2 million credit card numbers. The judge ruled that only people who had fraudulent charges on their cards, and who were not reimbursed, could sue.

Safeway has purchased 23 acres of land on Kauai, Hawaii to build a shopping center, which will be anchored by a 56,000 sq ft Safeway Lifestyle store.

Also, **Safeway Canada** launched a website at safewayfoodmail.com for mail order delivery of food to Canadians who live in remote northern regions of the country.

Piggly Wiggly Midwest will build a new 40,000 sq ft distribution center in Sheboygan, Wisconsin, the *Sheboygan Press* reported.

Unified Grocers sales fell 4.1% to \$951.7 million in the second fiscal quarter ended March 28. Operating income was down 23.6% to \$6.8 million in the period. Net income (after patronage dividends) doubled to \$2.5 million.

Did You Know...?

U.S. single-family house prices fell 14% y-o-y in the first quarter to a median of \$169,000, the National Association of Realtors reported. The median price was down in 134 of the 152 metro areas covered by the survey.

FYI for the DIY

Building Materials Holding Corp. noted that it has obtained an extension of the limited waiver on its credit facility from its lenders, which will allow the Company to borrow up to \$20 million through June 29, 2009.

True Value Co., the hardware cooperative whose members boast over \$2 billion in annual revenues, says it is outperforming most of the home improvement industry. First quarter bottom line (see the scorecard) would have been even stronger excluding a \$2.9 million one

time gain in Q1 2008 from a legal matter. True Value credited lower fuel costs, better merchandise mix, some inflation and cost reduction measures with the improvement.

The **Home Depot** kickback investigation resulted in another guilty plea, as Melissa Deaton Tesvich, the ex-wife of HD flooring buyer Anthony Tesvich, pleaded guilty to felony filing of a false tax return, the *Atlanta Journal-Constitution* reported. Both are scheduled for sentencing this summer.

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Off the Rack

Correction: Barneys New York said it has no plans to close any flagship stores and it hasn't engaged in any conversations with its landlords about closures. A previous piece in the May 11th issue of the *Retail Sector Weekly* intimated that Barneys planned to close two of its seven department stores.

Childrens' Place former CEO and largest shareholder Ezra Dabah has launched a proxy contest for control of the company's board. He nominated three candidates—Raphael Benaroya, Jeremy J. Fingerma and Ross B. Glickman—to stand for election to the board at the PLCE's 2009 Annual Meeting of Stockholders on June 26. Dabah's priorities are to appoint a permanent CEO to replace Chuck Crovitz, who has been Interim CEO for 19 months, and to establish the direction for future growth.

Abercrombie & Fitch Co. reported a big swing to a loss in its first quarter (see the scorecard) but there is more to come. A non-cash impairment charge for Q1 related to the Ruehl business is currently being determined. It is estimated to be a maximum of \$55 million pre-tax.

J. C. Penney Co. issued guidance for the second quarter. Sales are expected to decrease 7% to 10%, with comp store sales down 9% to

12%. Net loss is expected to be in the range of \$0.15 to \$0.25 per share. For the full year, JCP now expects full year comp store sales of -9% and earnings of \$0.50 to \$0.65 per share.

Also, **J.C. Penney** repurchased \$104.4 million of outstanding 8% Notes due March 1, 2010 as of the expiration of its cash tender offer on May 11.

Macy's expects fiscal 2009 sales will be down 6% to 8%, with earnings of \$0.40 to \$0.55 per share, excluding division consolidation costs that are projected at \$230 million over the next three quarters.

Ann Taylor Stores management gave a preview of first quarter results, saying first quarter 2009 loss per diluted share is "much better" than the consensus analysts' estimate. ANN reports May 20.

Kohl's Corp. expects second quarter earnings of \$0.56 to \$0.64 per diluted share. KSS also raised its fiscal 2009 earnings guidance to \$2.19 to \$2.42 per share from initial guidance of \$2.00 to \$2.30 per share.

Nordstrom, Inc. revised its 2009 fiscal year outlook, and now expects earnings of \$1.25 to \$1.50 per share, up from the previous range of \$1.10 to \$1.40. Same store sales are expected to decrease 10% to 15% for the year.

Mass Merchant Musings

Target Corp.'s proxy battle with William Ackman and his fund, Pershing Square Capital Management (which owns 7.8% of TGT), has mostly been a bitter duel of letters to shareholders and press releases. But last week, Ackman introduced Target shareholders to his five nominees for the company's Board of Directors at a town hall meeting in New York, promising their expertise and fresh perspective could help the company become more profitable. The presentation offered hints at Ackman's plans, including exploring new ways to unlock Target's real estate value, and addressing getting the company out of underwriting its credit-card business so it can focus on marketing and branding its business. The outcome of the proxy battle is close since large shareholders such as State Street Global Advisors have not yet decided how to cast their votes before the May 28th annual meeting.

Meanwhile, **Target** is testing mini-grocery departments in 100 of its regular, non-

SuperTarget stores. If the concept is successful, it will roll out the program at most of the rest of its stores.

Also, **Target** is testing price matching at its Minneapolis and Medina, Minnesota stores, the *Minneapolis/St. Paul Business Journal* reported. Shoppers must bring a competitor's entire print ad to the customer-service desk. Of course, many restrictions apply.

Wal-Mart Stores, Inc. expects second quarter earnings of \$0.83 to \$0.88 per share. Second quarter comp store sales are expected to be flat to +3% at Walmart U.S. and Sam's Club stores.

Former **Kmart** CEO Charles Conaway is being sued by the SEC, alleging that he misled investors about the company's cash shortage prior to its 2002 bankruptcy filing. Former CFO John McDonald settled a similar suit last month.

Did You Know...?

U.S. retail sales were down a seasonally adjusted 0.4%, the Commerce Department estimated, and down 9.4% y-o-y, but lower fuel prices accounts for about a third of the decline.

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The Global World of Sports and Footwear

Sport Supply Group sales fell 3% to \$63.8 million in the fiscal third quarter ended March 31. Net income was \$3.5 million, up 4.0% from Q3 last year. But management said it would be "unsurprised" to see flat to -6% sales for the remainder of CY09 and said that the institutional sporting goods market is more of a laggard than a leader of economic trends. RBI noted that its direct b-to-c business is growing at a \$50,000-\$100,000 weekly clip, helped by improved technology and the addition of 6,000 affiliates.

Forzani Group faces a proxy battle with 5.1% shareholder Crescendo Partners, who has nominated two of its members for election to the FGL board. The New York hedge fund wants Forzani to utilize its franchise system more, reformat some of its corporate banners and cut back the number of different banners it operates, currently 17 between corporate and franchise. Its two suggested nominees to the FGL board are Barry Edos, CEO of FAO Schwartz, and former investment banker David Sgro, who has worked for the hedge fund for the last four years.

April retail sales were off 10.1% year-over-year for the sporting goods/hobby/book & music store category, according to monthly sales data released by the U.S. Commerce Dept. SG/hobby/book/music store, adjusted year-over-

year sales fell 1.7% in April to \$7,268 million from \$7,392 million.

The **U.S. Athletic Apparel Market** grew just 1% in 2008, topping \$27 billion at wholesale value according to *Sporting Goods Intelligence*. The 1.0% year-over-year growth rate represented a considerable slowdown from the 4.9% growth of the prior year and the 6.1% growth rate recorded in 2006. Although certain parts of the performance market held up reasonably well, more basic commodity business and the licensed category both suffered significant declines. The athletic apparel market remains very fragmented compared to other sectors in the sporting goods industry, with the top five brands accounting for just 29.2% of the market compared to the athletic footwear market, where Nike alone controls 41.7% of the market and the top five control 74.7% of the market. There are only five apparel brands with sales exceeding \$1 billion.

The **International Council of Shopping Centers-Goldman Sachs** February Sales Report said that year-over-year sales at sporting goods/bicycle dealers fell 8.6% in February, ahead of a 10.9% decline experienced by GAFO merchandise. Y-o-y sales in athletic shoe stores rose 5.7% in the month but remained down 2.2% through the first two months of 2009.

Did You Know...?

Initial unemployment claims were up 32,000 to 637,000 in the week ended May 9, the Labor Department reported. The four-week average of new claims rose by 6,000 to 630,500.

General Retail News

Leading retail undertaker **Great American Group, LLC** has reached a deal to be acquired by **Alternative Asset Management Acquisition Corp.** and form a new entity, Great American Group, Inc. which will be publicly traded. The senior management of Great American will lead the new company. The transaction, valued at approximately \$305.0 million, is expected to close in July 2009.

Chain store sales for the week ended May 9 rose 0.3% from the prior week and were up 0.5% y-o-y, according to the International Council of Shopping Centers-Goldman Sachs sales index. The gain was the first positive y-o-y sales reading since early December 2008 and

largest since November 29, 2008 (+1.3%). The report cited a bout of warmer-than-normal weather combined with the pending Mother's Day holiday as the probable sales catalyst.

comScore, Inc. released its first quarter 2009 retail e-commerce sales estimates. While online retail spending remained essentially flat year-over-year, there was a slight improvement over the 3% decline seen in the fourth quarter of 2008. The fastest-growing category in Q1 was Sport & Fitness with a 23% gain. Books & Magazines grew 19 percent, while Video Games, Consoles & Accessories grew 12%, as did Computer Software.

Specialty Items

Aaron's, Inc. has acquired naming rights to the Lakewood Amphitheatre in Atlanta, Georgia. For a three year term effective immediately, the venue will be called Aaron's Amphitheatre at Lakewood.

Pier 1 Imports has partnered with ExactTarget to implement a highly personalized online marketing system that emphasizes one-to-one customization of promotions and preferences. The new system will launch this summer.

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Health & Beauty Aids

The *Wall Street Journal* revealed more details about the FTC investigation into **CVS Caremark**. CVS reportedly sent letters to patients, warning that their co-payments would rise—or their refills would not be covered—

unless they switched their prescriptions to CVS.

The first walk-in clinic in a **Kmart** will be opened by Beebe Medical Center in a Rehoboth Beach store, according to *The Daily Times*.

Upcoming Reporting Dates

Company	Event	Date
Advance Auto Parts	Financial Results	May 20, 2009
Aeropostale	Financial Results	May 21, 2009
American Apparel	Financial Results	May 18, 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
Brown Shoe	Financial Results	May 27, 2009
Buckle	Financial Results	May 21, 2009
Cato	Financial Results	May 20, 2009
Chico's FAS	Financial Results	May 27, 2009
Children's Place	Financial Results	May 21, 2009
Citi Trends	Financial Results	May 20, 2009
Coldwater Creek	Financial Results	May 27, 2009
Collective Brands	Financial Results	Jun 3, 2009
Conn's	Financial Results	Jun 4, 2009
Cost Plus	Financial Results	May 21, 2009
dELiA*s	Financial Results	May 28, 2009
Dick's Sporting Goods	Financial Results	May 19, 2009
Dollar Tree	Financial Results	May 27, 2009
Dress Barn	Financial Results	May 21, 2009
Drugstore.com	Investor Conference	May 19, 2009
Express Scripts	Investor Conference	May 19, 2009
Foot Locker	Financial Results	May 21, 2009
Fred's	Financial Results	May 28, 2009
GameStop	Financial Results	May 21, 2009
Gap	Financial Results	May 21, 2009
GSI Commerce	Investor Conferences	May 20 & 28, 2009
Gymboree	Financial Results	May 20, 2009
Hhgregg	Financial Results	Jun 2, 2009
Hibbett Sports	Financial Results	May 21, 2009
Home Depot	Financial Results	May 19, 2009
Ingram Micro	Investor Conference	May 19, 2009
Jo-Ann Stores	Financial Results	May 27, 2009
Kirkland's	Financial Results	May 21, 2009
Limited Brands	Financial Results	May 21, 2009
Lowe's	Financial Results	May 18, 2009
Men's Wearhouse	Financial Results	Jun 10, 2009
New York & Company	Financial Results	May 21, 2009
Ross Stores	Financial Results	May 21, 2009
Sears Holdings	Financial Results	May 28, 2009
Stage Stores	Financial Results	May 21, 2009
Stein Mart	Financial Results	May 21, 2009
Talbots	Financial Results	Jun 9, 2009
Tech Data	Financial Results	May 21, 2009
TJX Companies	Financial Results	May 19, 2009
Trans World Entertainment	Financial Results	May 21, 2009
Tween Brands	Financial Results	May 20, 2009
Wet Seal	Financial Results	May 28, 2009
Williams-Sonoma	Investor Conference	May 19, 2009
Zumiez	Financial Results	May 21, 2009

Did You Know...?

U.S. foreclosure filings in April rose to a record, affecting one in every 374 housing units, with bank repossessions expected to spike in the next few months.

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Retailer of the Week: The Great Atlantic & Pacific Tea Company

*(continued from page 1)***OPERATING PERFORMANCE: 12 MONTHS ENDED FEBRUARY 28, 2009**

\$ in millions	53 Weeks 2/28/2009	YOY Var.	52 Weeks 2/23/2008
Revenue	\$9,516.2	48.7%	\$6,401.1
Comparable Store Sales (1)	2.0%		2.4%
Adjusted U.S. Operating Profit (2)	\$71.8	N/M	(\$3.6)
Adjusted U.S. Operating Margin (2)	0.8%	85 bps	-0.1%
Net Income Before Discontinued Operations (3)	(\$86.2)	N/M	\$87.0
Net Income Including Discontinued Operations (3)(4)	(\$139.9)	N/M	(\$160.7)
Adjusted Working Capital (5)	(\$161.6)	N/M	(\$57.3)
Cash & Marketable Securities (excluding restricted cash)	\$175.4	74.2%	\$100.7

(1) Includes the core northeast market only.

(2) Excludes one-time/non-recurring items in the current period of: \$40.2 million of net real estate losses, \$36.6 million of Pathmark acquisition costs, \$28.9 million of pension obligation costs, \$0.4 million of restructuring charges, \$14.1 million of impairment charges, \$2.7 million of pension plan withdrawal charges, \$3.1 million voluntary buyout charges, \$2.2 million worth of recovery related to credit card antitrust litigation, and \$5.2 million of stock compensation expense reversals, and in the year-ago period of: \$14.1 million of net real estate gains, \$17.9 million of Pathmark acquisition costs, \$5.9 million related to a voluntary buyout program, \$11.7 million of impairments, a \$4.4 million restructuring charge, and a change in the estimate of Pathmark self insurance settlement costs of \$9.8 million.

(3) The year-ago period also includes a \$184.4 million gain on the sale of Metro Inc. stock.

(4) Includes a net loss from discontinued operations of \$53.7 million and \$247.7 million, respectively, during current and year-ago periods.

(5) Revolving bank advances & term loans treated as current liabilities.

For its fiscal 2009 year (or what A&P calls its fiscal 2008 year) ended as of February 28, 2009, revenue growth of 49% at A&P to \$9.5 billion was largely byproduct of its Pathmark acquisition (which contributed 12 months to fiscal 2009 but only 3 months to fiscal 2008) and an extra week of sales in the recent period ended. Same store sales rose 2.0% in fiscal 2009 and actually declined 1.3% during Q4 2009 as Pathmark entered the comp base (see Comparable Store Sales). Management confirmed that it does not see business conditions.

The grocer's gross margin declined 26 basis points to 30.5%, indicative of the business mix now reflecting the lower-margin Pathmark stores. The legacy A&P store base expanded its gross margins by 97 basis points, thanks to greater buying power and an improved product mix. Moving forward, the company hopes to continue to improve its gross margin by growing its private label penetration.

The Great Atlantic & Pacific Tea Company posted an SG&A burden of 31.0%, down 39 basis points from the prior year period. The improvement was the result of the lower cost structure the firm has inherited from the Pathmark stores. After considering the laundry list of one-time items (disclosed in the footnotes of the table above), we deduce that the firm's adjusted operating profit of \$71.8 million did represent an improvement over the year-ago adjusted operating loss of \$3.6 million. It appears that the firm's Gourmet segment (Food Emporium) carries the most favorable margins. The company's interest expense as a percentage of sales equaled 1.62%, moderating 13 basis points on a year-over-year basis.

Of note, A&P reported nonoperating income of \$116.9 million during fiscal 2009, up noticeably from the \$37.4 million it reported one year ago. There is no cash impact here; it is simply the recording of fair value favorable adjustments to related to the warrants A&P acquired in connection with its purchase of Pathmark, the conversion features related to its two convertible notes issuances, and financing warrants issued in connection with those convertible notes.

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Retailer of the Week: The Great Atlantic & Pacific Tea Company

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SEGMENT REVENUE, \$ in millions	53 Weeks 2/28/2009	YOY Var.	52 Weeks 2/23/2008
Fresh	\$4,818.3	-0.5%	\$4,840.1
Price Impact *	\$4,161.2	N/M	\$1,065.9
Gourmet	\$281.8	9.4%	\$257.5
Other	\$254.9	10.0%	\$231.8
Investment in Metro, Inc.	-----	-100.0%	\$5.8
Total Sales	\$9,516.2	48.7%	\$6,401.1

SEGMENT INCOME, \$ in millions	53 Weeks 2/28/2009	YOY Var.	52 Weeks 2/23/2008
Fresh	\$147.1	90.1%	\$77.4
Price Impact *	\$20.5	-1.4%	\$20.8
Gourmet	\$24.9	50.0%	\$16.6
Other	\$2.2	N/M	(\$2.9)
Total Segment Income	\$194.7	74.0%	\$111.9

* - includes sales from A&P stores that were subsequently converted to Pathmark stores.

LIQUIDITY & FINANCIAL STRUCTURE

The Great Atlantic & Pacific Tea Company concluded fiscal 2009 with \$175.4 million of cash and equivalents on its balance sheet. The grocer also had \$5.1 million of restricted cash/marketable securities on its books as of this latest statement date. As of February 28, 2009, the supermarket chain had facility availability of \$96.2 million of its \$675 million bank agreement, representing an improvement of \$18.6 million from the depressed level seen just three months earlier. The bank facility had two fully drawn term loans of \$82.9 million and \$50 million, respectively, against it. Remaining usage on this facility was attributable to the \$542.1 million revolver component. Direct revolver borrowings (outside of the term loans) declined to \$198.9 million, representing a 13% decline from the \$228.9 million mark seen at November's end. Letters of credit subsided to \$206.3 million, also contributing to improved availability levels. However, borrowing base requirements offset much of the impact of reduced borrowings and L/Cs, trimming an additional \$40.7 million off of availability.

Of note, the Pathmark leaseholds are removed as eligible collateral during the new fiscal year. Specifically, this will result in an aggregate reduction to A&P's borrowing availability of \$73 million by December 2009 (see Bank Reference). A&P also reported \$5.0 million of borrowings drawn against its \$32.7 million secured line of credit from Blue Ridge Investments LLC.

During fiscal 2009, A&P's cash flow from operations of negative \$2.4 million was a bit better than the negative \$42.5 million it reported one year earlier. Capital spending of \$116.0 million, therefore, had to be funded via other means.

The northeast-based retailer exited this winter with a tangible net deficit of \$441.0 million, more than double the tangible net deficit that it reported one year ago. Debt-to-total capitalization climbed further during fiscal 2009 to 81%; one year ago, it was 74% and two years ago, it was 47%. If leverage continues to grow, it could become a concern. GAAP working capital rose 52% to \$170.7 million thanks to higher cash balances bolstered by recent borrowings; for those who prefer to adjust the working capital to reflect bank borrowings as part of current liabilities, A&P had an adjusted W/C deficit of \$161.1 million.

\$ in millions	2/28/2009	2/23/2008
Line of Credit	\$5.0	\$11.6
Credit Agreement Borrowings (Revolver & Term Loans)	\$331.8	\$169.9
Related Party Promissory Note due August 2011	\$10.0	-----
9.125% Senior Notes due December 2011	\$12.8	\$12.8
5.125% Convertible Senior Notes due June 2011	\$147.7	\$140.1
6.750% Convertible Senior Notes due December 2012	\$238.2	\$233.8
9.375% Notes due August 2039	\$200.0	\$200.0
Other	\$2.3	\$2.5
Total Debt	\$947.8	\$770.8
Less Current portion of Long-Term Debt	\$5.3	\$11.9
Long-Term debt	\$942.8	\$758.1

* - includes sales from A&P stores that were subsequently converted to Pathmark stores.

Did You Know...?

U.S. consumer prices were flat in April, and are down 0.7% in the past year, the Labor Department reported. Energy prices play a large role in the decline, and the core CPI is actually up 1.9% in the past year.

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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
Apparel							
Abercrombie & Fitch	\$612.1	\$800.2	-23.5%	-30.0%	(\$26.8)	\$62.1	-143.1%
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.	\$1,505.3	\$1,713.6	-12.2%	-13.0%	\$7.7	\$2.7	186.2%
Eddie Bauer Holdings	\$179.8	\$213.2	-15.7%	-13.7%	(\$44.5)	(\$19.3)	-130.6%
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%	\$25.0	\$120.0	-79.2%
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%	\$137.0	\$153.0	-10.4%
Limited Brands	\$1,725.0	\$1,925.0	-10.4%	-7.0%	tba	\$98.0	tba
Macy's, Inc.	\$5,199.0	\$5,747.0	-9.5%	-9.0%	(\$88.0)	(\$59.0)	-49.2%
Nordstrom, Inc.	\$1,706.0	\$1,879.0	-9.2%	-13.2%	\$81.0	\$119.0	-31.9%
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
Urban Outfitters, Inc.	\$384.8	\$394.3	-2.4%	-7.0%	tba	\$42.6	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%
Delhaize Group Le Lion	\$6,742.8	\$7,127.7	-5.4%	2.0%	\$167.7	\$161.1	4.1%
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%
Systemax Inc.	\$752.3	\$724.7	3.8%	NA	\$8.7	\$18.1	-51.9%
United Stationers Inc.	\$1,121.3	\$1,252.5	-10.5%	NA	\$13.5	\$21.3	-36.6%

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First Quarter Scorecard

(continued from page 10)

\$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Home Centers							
Builders FirstSource, Inc.	\$163.8	\$259.9	-37.0%	tba	(\$30.6)	(\$15.8)	-93.7%
Building Materials Holding Cor	\$167.5	\$342.9	-51.2%	NA	(\$45.2)	(\$33.9)	-33.3%
Calloway's Nursery, Inc.	\$8.7	\$9.8	-11.2%	5.6%	(\$0.3)	(\$0.1)	-107.3%
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%
Rona, Inc. (C\$)	\$846.0	\$911.5	-7.2%	-8.5%	(\$2.5)	(\$2.4)	-4.2%
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%
True Value Company	\$442.9	\$464.7	-4.7%	NA	\$11.2	\$5.2	115.4%
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
Canadian Tire	\$1,758.1	\$1,825.3	-3.7%	2.5%	\$49.7	\$67.1	-25.9%
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.	\$94,242	\$94,940	-0.7%	2.9%	\$3,139	\$3,144	-0.2%
Specialty							
A.C. Moore Arts & Crafts	\$108.6	\$126.5	-14.2%	-13.4%	(\$4.3)	(\$1.8)	-138.9%
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%
DGSE Companies, Inc.	\$25.9	\$32.2	-19.6%	NA	\$0.6	\$0.5	15.7%
Haverty Furniture	\$144.2	\$185.3	-22.2%	-22.9%	(\$7.3)	\$1.0	-830.0%
Leon's Furniture Limited	\$152.5	\$154.6	-1.4%	-1.3%	\$8.6	\$11.1	-22.5%
Pet Valu Inc.	\$49.1	\$53.3	-7.9%	8.1%	\$2.7	\$2.8	-4.1%
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.

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