Global Credit Services

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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Remember...

When everyone is against you, it means that you are absolutely wrong - or absolutely right.

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Attack On The 7-Foot Tall Woman

Besides wrangling with their lenders to keep fees and interest rates down and ensure their credit lines will be renewed, corporate borrowers making use of asset-based lending have had a new nuisance to deal with in recent months: bankers seem to be upping their due diligence by making more onsite inspections of their borrowers' collateral.

Under Asset-Based-Loan Agreements (ABLs), lenders reserve the right to regularly check whether the collateral posted against their secured loans—typically working-capital assets—is all there. And that right entails the ability to make sure what borrowers claim in their weekly or monthly updates is accurate. In good economic times, however, lenders haven't always been consistent about how often they send in their examiners.

During the current downturn, as regulators push banks to maintain their capital ratios and as companies' inventories have ballooned in size, lenders are boosting their scrutiny of borrowers and the claims they make about their assets.

Although the increase in the number of collateral audits hasn't been significant, questioning by examiners has grown more intense, say some who work in the industry. Besides being a bit disruptive, some auditors will ask management a lot of questions, one more distraction for the business. But it's a necessary distraction.

First Capital, a financial services company specializing in ABLs, conducts about 1,200 of these examinations every year, as much as three to four times in the case of some borrowers. Those exams are designed to verify that receivables are indeed collectable and that a borrower doesn't have shelves stocked with, for example, unsellable T-shirts for 7-foot-tall women.

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Retailer of the Week: West Marine

The difficult national economy has hammered the boating industry and West Marine's management has tried to scale back operational costs, in light of expected sales declines. West Marine reported that first quarter revenue for the period ended April 4, 2009, declined 10.9% to $101.0 million compared to $113.3 million during the same period last year. Although revenue declined, the company did report that its gross margin improved, SG&A expenses dropped substantially 21.2%, compared to last year and West Marine was also able to pay down debt. Geoff Eisenberg, CEO of West Marine, commented, "We are pleased to report these considerably improved operating results, despite a sales decline which reflects market and industry conditions. While we've always experienced a loss in the first quarter due to seasonality in our business, this quarter's operating results reflect changes we have made to strengthen the company in the face of current economic conditions. We also continue to improve our balance sheet by increasing cash flow, reducing debt and maintaining unused credit facility availability of over $86.0 million." Management has made a number of decisions to cut back its operations due to further expected sales declines. These include the closure of 32 stores, the closing of one of the company's distribution centers, as well as the closing of a call center. Despite the operational cut backs, the economy and more specifically the boating industry is not expected to bounce back in the near future and we are maintaining our "E" high risk credit rating with a "Negative" outlook. If the boating market continues to decline, the balance sheet, which the company has worked hard to improve, could again become pressured.

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Attack On The 7-Foot Tall Woman

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But during the good times, some lenders may not have been regularly conducting the audits. Instead, they were more likely to waive the right to win over a potential borrower.

The shift to greater due diligence began late last year, as sales across industries fell, inventory turnover slowed, and commodity prices declined. By that point, companies were sitting on products that they had overpaid for when, earlier in the year, the price of copper, oil, and aluminum had been much higher.

When such discrepancies crop up, borrowers are expected to make up the difference in their borrowing base. The borrowing base being the agreement between lenders and borrowers about how much in the way of receivables, inventory, and other assets the company can use as collateral. Negotiations tend to focus on the value of the collateral and the borrower's risk profile.

To be sure, banks have their own problems. Federal bank examiners have stepped up their scrutiny of financial institutions in recent months, paying close attention to lenders' risk-assessment policies.

In any case, regulators may not be the only ones triggering changes in how banks deal with their borrowers. Some companies are in dire straits and surely warrant a lender's close watch. A lender may boost its monitoring if a borrower's main customer—one of the Big Three automakers, for instance—is having serious trouble.

Feedback?

Questions?

Suggestions?

Click Here

Mass Merchant Musings

Costco Wholesale Corp. has settled a class-action lawsuit over membership renewal procedures, and will give some members one to three months free membership. The suit alleged that when lapsed members renewed their membership, the renewal was dated retroactively. Members who renewed one to three months after expiring are eligible.

But another lawsuit, also seeking class-action status, was filed against **Costco** by a California employee, alleging that the company imprisons workers after hours, and after they've clocked out. The suit, which seeks $50 million in damages, claims managers locked employees in the store for 15 minutes at closing time while cash registers were closed out.

Wal-Mart Stores' is making an aggressive push in consumer electronics, including higher-end products and facelifted departments, according to a report in the *Wall Street Journal*. All 3,500 U.S. stores are getting new interactive merchandise displays as the mass merchant hopes to capitalize on the more affluent shoppers now walking its aisles.

Sam's Club eliminated most of the paperwork small businesses needed to become Business Members at the warehouse club. Now, rather than showing licenses or permits to prove eligibility, a business card or letterhead will be accepted.

BJ's Wholesale Club, Inc. revised earnings guidance for the year ending January 30, 2010, and now expects earnings of $2.44 to $2.54 per share up from previous guidance of $2.42 to $2.52.

Options and Resources

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Bankruptcy Blotter

Eleven more global corporate issuers have defaulted in the past couple of weeks, bringing the year-to-date total to 132 and topping all of last year's total. Of the 11 defaults, eight were base in the U.S. and three in emerging markets, bringing the totals to 93 and 24, respectively.

Gottschalks is seeking court approval to have **Forever 21 Retail Inc.'s** bid of $17.7 million to purchase three stores and 14 leases serve as a stalking horse bid. If Gottschalks' proposed timeline, the company will seek final approval of the transaction at a sale hearing June 10th.

The court granted permission to S&K Famous Brands Inc. to close its 105 remaining stores and liquidate its assets. The court awarded the right to sell off the chain's merchandise and fixtures to Gordon Brothers Retail Partners LLC for $7.3 million after an auction last week.

The first possible closings following **Stock Building Supply's** new joint venture cam to light last week with a published report that Stock will shut down five locations in New York State—Oneonta, Sidney, Richmondville, Roxbury and Walton—by June 30th.

Did You Know...?

U.S. housing starts fell 12.8% to an annual rate of 458,000 in April, much weaker than expected. Starts of single-family homes rose 2.8%, while multifamily housing starts fell 46.1%.

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Off the Rack

Saks Inc. expects a fiscal 2009 comp store sales decline of low double digits: down mid-teens in the second quarter, and down mid-to-high single digits in the second half. Gross margins are expected to decrease to 27% to 29% in Q2, but recover in the second half of 2009 to 35% to 37%. Saks has been very aggressive with SG&A cuts, and now sees about $60 million reductions for the full year 2009, up from $20 to $30 million in savings guided earlier. To that end, Saks cut the base salary of CEO Stephen Sadove and President and CMO Ronald Frasch by 7%, and of the company's other named executive officers by 5%.

Saks Inc. will offer $105 million of its 7.5% convertible notes due 2013 in a private offering. The notes will be convertible to Saks common stock at a rate equivalent to $5.54 per share, a premium of 25% relative to the current share price. Proceeds will be used to pay down the company's revolving credit facility and for general corporate purposes.

Also, **Saks Inc.** saw shareholder P. Schoenfeld Asset Management LP file a proxy statement calling for corporate governance improvements at the company. The fund wants shareholders to vote to withhold their support for the re-election of C. Warren Neel to the Saks Board, vote to end Saks' staggered Board terms, and implement majority voting for Board member elections.

Puerto Rico's first **Saks** and first **Nordstrom** stores will be anchors in the planned Plaza International in San Juan.

Stage Stores, Inc. updated second quarter and full-year guidance. The company projects Q2 sales at $350 to $360 million, with a comp store sales decrease of 6.0% to 9.0% and income of $0.20 to $0.27 per share. For the full fiscal year, SSI projects sales of $1.432 to $1.467 billion, with comp store sales off 5.5% to 8.0%. Earnings guidance was narrowed to $0.40 to $0.65 per share from $0.35 to $0.65.

Casual Male Retail Group, Inc. expects 2009 full-year sales will be down about 10% from last year. Margins are expected to improve 275 to 325 basis points, but the lower sales will result in deleveraging of occupancy costs that will offset about 150 basis points of that improvement. Also, Casual Male has announced its intention to create what it is calling "hybrid" locations. The firm is taking five Rochester locations and co-branding them as Casual Male. Each of these locations has a Casual Male located within a half-mile, and the firm will close the Casual Male and operate both stores in the bigger box Rochester location.

Gap, Inc. capex will be about $350 million in fiscal year 2009, as it plans to open about 50 stores and close about 100 stores this year.

Gymboree Corp. expects second quarter comp store sales to drop mid to high-single digits. Q2 earnings are forecast at $0.09 to $0.14 per diluted share.

A federal judge upheld an $8 million judgment against **Coldwater Creek** in a copyright and trade dress lawsuit brought by accessories chain Brighton Collectibles.

TJX Companies, Inc. expects second quarter earnings from continuing operations of $.43 to $.49 per share, up from $.48 per share in the second quarter last year. The earnings guidance assumes comp store sales from flat to -2%.

Pacific Sunwear of California, Inc. issued second quarter earnings guidance for a loss of $0.11 to $0.17 per share, which assumes a same store sales decline of 17% to 20%.

J.C. Penney Co., Inc. made a voluntary contribution of $340 million (13.4 million shares) of newly issued JCP stock to its pension plan, noting that the plan is fully funded under ERISA rules and has a funding ratio over 110%.

Macy's is investigating the creation of an outlet-store group, with an eye toward capturing the outlet mall shopper, *The Cincinnati Enquirer* reported. But *Syracuse.com* notes that it's not entirely new territory for the chain, which operated several Macy's Close-Out doors in the 1990s.

Limited Brands, Inc. updated guidance for the second quarter and full year. LTD expects second quarter 2009 earnings of $0.11 to $0.16 per share, and fiscal 2009 earnings of $0.67 to $0.87 per share.

American Apparel, Inc. lowered its guidance for 2009, and now expects sales of $550 to $575 million and net income of between $8 to $15 million. APP has opened ten new stores YTD, and has four more under lease and in development. The Company still expects to open a total of 25 to 30 new stores this year.

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Did You Know...?

High and middle-income shoppers are increasingly turning to dollar stores. Households with incomes higher than $100,000 spent 18% more at dollar stores in the second half of 2008 compared to the year prior.

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Off the Rack

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Also, **American Apparel** will pay pay Woody Allen $5 million to settle a lawsuit over unauthorized use of his image in advertising.

Sears Holdings Corp. amended its credit agreement, extending the maturity date 27 months to June 22, 2012. The total borrowing capacity is $4.1 billion through March 24, 2010, after which it drops to $2.4 billion.

Hot Topic, Inc. issued second quarter guidance of a loss of $0.04 to $0.06 per share, assuming comp sales decline in the mid-single-digit range.

Aeropostale, Inc. expects income in the second quarter of $0.43 to $0.45 per share, which includes $0.03 a share for charges related to closing the Jimmy'Z concept.

Ross Stores, Inc. raised guidance after a stronger than expected first quarter. Second quarter same store sales are now forecast to be flat to down 1%, compared to previous guidance for a mid single digit decline. Q2 earnings are expected to be $.60 to $.63 per share. Full year comp store sales are expected to be flat to up 2% to 3%, with earnings of $2.62 to $2.72 per share. Earlier guidance was for earnings of $2.25 to $2.45 per share.

New York & Company, Inc. expects second quarter comp store sales to be similar to the –15% seen in the first quarter. Second quarter loss is also expected to be similar to the first quarter loss of $4.9 million.

Bebe Stores, Inc. has a new $25.0 million credit agreement with Wells Fargo Bank which expires on May 15, 2012. It replaces a previous business loan agreement with Bank of America.

Bon-Ton Stores, Inc. maintained its full year 2009 earnings guidance for a loss of $3.40 to $4.30 per share. Comp store sales are expected to decrease 6.5% to 9.0%.

Dress Barn, Inc. sales increased 7% to $375.7 million in its fiscal third quarter ended April 25. Comp store sales increased 3%. Net income was off 4.0% to $23.9 million in the quarter. DBRN raised earnings guidance for fiscal 2009 to $1.00 to $1.05 per share, which assumes flat to a low single digit increase in comp store sales.

Upcoming Reporting Dates

Company	Event	Date
American Eagle Outfitters	Financial Results	May 27, 2009
Big Lots	Financial Results	May 28, 2009
Borders Group	Financial Results	May 27, 2009
Brown Shoe	Financial Results	May 27, 2009
Charming Shoppes	Financial Results	May 27, 2009
Chico's FAS	Financial Results	May 27, 2009
Coldwater Creek	Financial Results	May 27, 2009
Collective Brands	Financial Results	Jun 3, 2009
Conn's	Financial Results	Jun 4, 2009
dELiA*s	Financial Results	May 28, 2009
Dollar Tree	Financial Results	May 27, 2009
Fred's	Financial Results	May 28, 2009
GSI Commerce	Investor Conferences	May 20 & 28, 2009
Hhgregg	Financial Results	Jun 2, 2009
Hibbett Sports	Investor Conference	Jun 2, 2009
J.Crew Group	Financial Results	May 28, 2009
Jo-Ann Stores	Financial Results	May 27, 2009
Lowe's	Investor Conference	May 29, 2009
Lowe's	Investor Conference	May 27, 2009
Men's Wearhouse	Financial Results	Jun 10, 2009
Sears Holdings	Financial Results	May 28, 2009
Shoe Carnival	Financial Results	May 28, 2009
Staples	Financial Results	May 27, 2009
Talbots	Financial Results	Jun 9, 2009
Wet Seal	Financial Results	May 28, 2009
Zale	Financial Results	May 27, 2009

Did You Know...?

First-time state unemployment claims fell by 12,000 to a seasonally adjusted 631,000 in the week ended May 16, the Labor Department reported. Continuing claims were up 75,000 to a seasonally adjusted 6.66 million for the week ended May 9.

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The Global World of Sports and Footwear

Retail Sporting Goods Sales hit $53.4 billion in 2008, a 1% drop from $53.5 billion in 2007, according to data released by National Sporting Goods Association (NSGA) in the trade group's *The Sporting Goods Market in 2009* report. The trade organization forecasts another 1% decline in retail SG sales in 2009 to $52.3 billion. By major category, athletic and sport footwear sales fell 1.9% in 2008 to $17.19 billion and are expected to be flat this year. Retail equipment sales declined a modest 0.7% to $24.88 billion and are forecast to slip another 1% in 2009. Meanwhile, athletic and sport apparel sales declined 2.5% in 2008 to $10.56 billion are expected to fall another 1% this year.

Citi Trends' raised its full year earnings guidance to $1.33 per share on comp store growth expectations of +3%. The guidance reflects an unrealized loss of $728,000 related to an investment in auction rate securities and a similar-sized hit related to charges for non-vested shares of restricted stock. In addition, retail selling sq. footage is expected to increase at least 15%.

Dick's Sporting Goods is projecting fiscal year earnings of $0.85 to $0.97 per share. Same store sales are forecast to decline 6% to 9% (including Dick's and Golf Galaxy stores). CapEx budget will be cut by 48% this year to $60 million from $115 million last year. In the second quarter, DKS sees an earnings range of $0.27 to $0.32 per share and negative 6% to 9% same store sales.

Foot Locker, Inc. continues to close stores in the U.S. and may contract another 80 to 100 stores by year end. However, it believes that at that point it will have addressed most of the issues with underperforming U.S. stores.

Hibbett Sporting Goods is retaining its FY guidance for the 12 months ending Jan. 30, 2010 that calls for earnings of $1.03 to $1.17 per share and a low single-digit increase in same store sales. HIBB is bracing for a difficult Q2 due to a shift in sales tax holidays to Q3 this year and the lack of federal stimulus checks that consumers received in Q208. In 2008, 11 states where the retailer operates stores had a tax-free holiday in Q2. But this year, there will only be two.

NexCen Brands, Inc. opened of the first The Athlete's Foot store in Beirut, Lebanon. Khalid Al-Mutawa is the master developer for TAF Lebanon and has opened 11 TAF stores in Kuwait since 1997.

Zumiez Inc. declined to give annual guidance, but said for the fiscal second quarter ending August 1, it was expecting a net loss of $0.17 to $0.14 per share, with a comp store sales decline in the low-to-mid twenty percent range. ZUMZ plans to open approximately 36 new stores in fiscal 2009.

Golfsmith has acquired rights to the century-old MacGregor Golf brand for North and South America, Europe, Australia/New Zealand and Africa, for $1.75 million, payable over two years. The multi-channel retailer intends to re-launch MacGregor branded game-improvement clubs, golf balls, bags, gloves and accessories at holiday with a full rollout slated for Spring 2010. At the time of its late Oct. 2007 recapitalization, MacGregor Golf was believed to have annual sales in the $150 million range.

Cabela's saw the South Dakota Supreme Court rule that the retailer did not infringe on another company's trademarks when it sold apparel under the Dakota vest and jacket name. The court found the plaintiff abandoned the trademark through non-use.

Forzani Group Ltd.'s proxy battle with shareholder Crescendo Partners LP is continuing. The Canadian retailer and franchisor is urging its shareholders to deny the New York hedge fund's demands of two FGL board seats and is expected to officially file a response to Crescendo's proxy during the last week of May. But Crescendo, in its own statement urging the election of its two FGL director nominees, said Forzani's board has failed to effectively oversee the company and provided several examples. Among them: Forzani's low return on equity invested, inability to meet long-term revenue and EBITDA margin targets and failure "to crystallize value" through a sale in 2007.

General Retail News

Google has integrated cell phone bar code scanning with Google Product Search. Shoppers can compare on-line prices and find reviews on specific items while shopping in a brick-and-mortar store. The application is initially limited to phones running Google's Android software.

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Heard in the Grocery Aisle

The **Food Marketing Institute** released its *2009 Food Retailing Industry Speaks: Annual State of the Industry Review.* Supermarket industry sales increased 5.2% in 2008, with identical-store sales up 4.5%, the report said. Industry net margin was 1.43%, down from 1.82% last year. Smaller independent retailers, which FMI defines as companies with 1-10 stores, performed best, with net margin of 1.90% and identical-store sales up 5.11%.

Southern California supermarkets are lowering prices—or maintaining lower pricing—according to *The Los Angeles Times*. **Albertsons**, which operates 222 stores in the region, will be announcing a plan to lower everyday prices for thousands of goods to recapture share lost to lower-priced retailers such as Wal-Mart and Target. **Stater Brothers** has maintained its favorable pricing and **Ralphs** and **Vons** have also taken initiative on the pricing front.

Weis Markets, Inc. is acquiring the 12 stores of Giant Markets, a family owned supermarket chain based in Binghamton New York. The stores are located in Binghamton, Endicott, Endwell, Johnson City and Vestal, New York, so there is almost no overlap with Weis' coverage in Pennsylvania and Maryland. The transaction is expected to close within 90 days, but terms were not announced.

Fresh & Easy parent Tesco will add about 1,000 new items—focusing on value—to Fresh & Easy stores, *The Guardian* reported. The small format stores carry about 3,500 products currently.

Raley's supermarket has offered buyouts to 3,000 employees—about one-fifth of the total workforce—and will accept the first 100 to take the offer, the *Sacramento Bee* reported.

As talks continue between Colorado supermarket chains and UFCW Local 7, Colorado Governor Bill Ritter vetoed a hastily-passed bill that would have benefited the union, the *Denver Post* reported. The legislation would have allowed workers whose union provoked a lock out to collect unemployment compensation.

Did You Know...?

Many banks are still pulling in the reins on commercial credit, with about 40% of domestic respondents reporting that they tightened their credit standards.

FYI for the DIY

U.S. homebuilders outlook was up in May, as the National Association of Home Builders-Wells Fargo index rose to 16 from 14 in April. That means 16% of homebuilders think the market for new homes is good. The low point for the index was 6, in January.

Also, the NAHB Remodeling Market Index improved in the first quarter of 2009 to 34.5 from 25.5 in the fourth quarter of 2008. The future projects component hit 30.0 in Q1 from 18.6 in Q4 08, as contractors see the market improving.

Home Depot reported a 44.4% gain in first quarter net income (see the scorecard), but noted that the results reflect a $117 million impact this year from the closing of the EXPO businesses and that there were $543 million in charges in the first quarter of 2008. On an adjusted basis, HD's first quarter 2009 net would have been $587 million, down from $697 million in Q1 2008. Home Depot maintained fiscal 2009 guidance, and expects sales will be down 9% with negative comp store sales in the high-single-digits, with earnings down 7%.

Lowe's Companies, Inc. raised its full-year forecast after reporting a better than expected first quarter. The company expects a second quarter 2009 sales change between –2% and +1%, with comp store sales declining between 4% and 8% and net income of $0.51 to $0.55 per share. Store opening costs in Q2 are expected to be about $13 million, as the company plans to open 18 new stores. For the full year, sales are expected to change between –2% and +1%, with comp store sales declining between 4% and 8%. Net income is projected at $1.13 to $1.25 per share. In 2009, total store opening costs are expected to be about $50 million, for 60 to 70 new stores. In the first quarter, LOW opened 21 new stores.

Stock Building Supply will shut down five locations in New York State—Oneonta, Sidney, Richmondville, Roxbury and Walton—by June 30th, according to a report in the *Daily Star* of Ontogeny, New York, which attributed an unnamed employee. Stock would not confirm or deny the report. Stock may break more leases at other locations, following it's Chapter 11 bankruptcy filing and acquisition by the private equity firm, the Gores Group.

HD Supply entered into an agreement to purchase **Orco Construction Supply**, a distributor of specialty tools, fasteners and other construction materials. Orco reported sales of $227 million in 2007, and has eight locations in California, two in Arizona and one in North Las Vegas. Orco will be folded into HD Supply's White Cap division. Terms were not disclosed.

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Specialty Items

Advance Auto Parts, Inc. closed 9 stores and relocated 3 stores in the first quarter, while opening 46 new stores. AAP expects to divest a total of 40 to 55 unprofitable stores in 2009. The incremental store divestures are estimated to result in a $0.15 to $0.22 per share charge in fiscal 2009.

Rent-A-Center, Inc. has completed the redemption of $150 million of its 7½% senior subordinated notes due 2010, leaving about $75 million of the notes outstanding. The redemption was funded with cash flow from operations.

PetSmart, Inc. expects second quarter comp store sales up low-single digits and earnings of $0.26 to $0.30 per share. For the full year, PETM raised earnings guidance to $1.42 to $1.52 per share, with total sales up mid- to high-single digits and comp store sales up low-single digits. Capex is planned at $115 to $125 million, with 40 to 42 net new stores, and 20 net new PetsHotels.

Kirkland's, Inc. expects 2009 full year sales to be moderately below fiscal 2008, with pre-tax earnings expected to be moderately above fiscal 2008 levels.

Cost Plus, Inc. expects second quarter sales of $176 to $186 million, with same store sales off 9.5% to 14.5%. Loss from continuing operations before interest and taxes is expected to be $14 to $21 million.

Management on the Move

A.C. Moore Arts & Crafts, Inc. named **David Stern** EVP and Chief Financial Officer effective June 8. Stern was Divisional VP, Financial Planning and Analysis for Coldwater Creek Inc. previously.

Ross Stores, Inc. elected **Gregory L. Quesnel** to its board of directors. Quesnel was CEO of freight transportation and logistics company CNF, Inc.

Tween Brands, Inc. shareholders elected **Elizabeth M. Eveillard** and **Fredric M. Roberts** to the company's board of directors.

Sport Chalet, Inc. director **Al D. McCready** resigned from its Board.

Hi Tech Entertainment

TWICE's *Top 100 CE Retailers Report* says that major consumer electronics retailers saw sales growth of 3% last year to $126.2 billion, down from a 10% increase in 2007. The industry's 10 largest CE retailers gained almost half a percentage point of share, and they now control control nearly 73 percent of the Top 100 revenues.

GameStop Corp. second quarter earnings are expected to be $0.28 to $0.33 per share compared to $0.34 in Q2 last year. Comp store sales are projected to decline 8% to 11%. GME reiterated full year earnings guidance of $2.83 to $2.93 per share, but comp store sales are now expected to range from flat to +2%.

Barnes & Noble, Inc. expects second quarter comp store sales to decline 5% to 7%. Earnings are expected to be $0.05 to $0.15 per share in the quarter. BKS raised its full-year earnings guidance to $1.10 to $1.40 per share from $0.95 to $1.25. Full year comp store sales are now expected to decline 3% to 5%, compared to a decline of 4% to 6% guided previously.

Circuitcity.com—now owned by Systemax—is back on-line and doing business.

Health & Beauty Aids

CVS Caremark opened another of its high-end Beauty360 stores next to an existing CVS location in Ridgefield, Connecticut. It's the third Beauty360 to open.

AmerisourceBergen Corp. will split its stock two-for-one in the form of a stock dividend of one additional share for each share owned. The new shares will be distributed June 15 to stockholders of record on May 29.

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Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
LIMITED BRANDS INC	BB	BB+	NEGATIVE	STABLE	C
SONIC AUTOMOTIVE INC	CCC+	SD	DEVELOPING	NM	F+
BRODER BROS CO/ SPORTSWEAR DISTRIBUTOR	SD	CC	NM	NEGATIVE	F+
HERTZ GLOBAL HOLDINGS INC	B		NEGATIVE		E-
BIG LOTS INC /FKA CONSOLIDATED STORES INC	BBB-	BBB-	POSITIVE	STABLE	C+
SONIC AUTOMOTIVE INC	CCC+	SD	DEVELOPING	NM	F+
REGIONS BANK	A+	A+		NEGATIVE	NR
LAZY DAYS RV CENTER INC	SD	CC	NM	NEGATIVE	E-

Retailer of the Week: West Marine

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OPERATIONS

$ in Millions	For the First Quarter Ended		Change
	April 4, 2009	March 31, 2008	
Total Revenue	$101.0	$113.3	(10.9%)
Gross Margin	$21.9	$22.5	(2.6%)
% of Sales	21.7%	19.9%	185 BP
Overhead	$37.0	$46.8	21.1%
Operating Income	($15.1)	($24.3)	(38.2%)
% of Sales	N.A.	N.A.	N.A.
Net Income	($15.8)	($18.3)	13.6%
% of Sales	N.A.	N.A.	N.A.

West Marine generates revenue through three reported segments which include the company's stores, port supply which consists of West Marine's wholesale business and the direct sales which consists of the internet and call center business. West Marine's consolidated revenues declined by 10.9%, to $101.0 million compared to $113.3 during the first quarter last year. The store division was the major driver of the sales decline as the division posted a drop of $8.8 million or a 9.1% decrease to $88.3 million for the first quarter. Comparable store sales decreased 6.8% in the first quarter of 2009, which compares to a comp decline of 9.4% during last year's first quarter. The lower sales revenue is a result of a decline in higher priced items as well as lower traffic in the stores. West Marine has seen a decline in usage-based products, such as fishing and water sports equipment, which is evidence of a decline in the boating industry. Management has also commented that they expect to see similar declines in the second quarter.

At the end of the first quarter the company operated 341 stores in 38 states, Puerto Rico, Canada, and a franchised location in Turkey. The store division closed 29 stores compared to last year, as management is trying to align operations with sales expectations. Wholesale (Port Supply) net sales are derived through the distribution centers. The wholesale revenues declined $2.3 million, or 24.9%, to $6.8 million in the first quarter compared to last year. This is mainly due to lower sales to boat dealers and boat builders. The direct sales division decreased $1.2 million, or 17.6%, to $5.8 million which is due to lower call center volume and lower sales of bigger ticket items.

Gross profit decreased by $0.6 million, or 2.6%, to $21.9 million in the first quarter, compared to $22.5 million for the same period last year. As a percentage of sales, the gross margin actually increased by 185 basis points driven by an increase in product margins as the company spent

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Did You Know...?

Small, nimble retailers are taking advantage of the recession and larger rivals' woes as they move into abandoned store fronts with short-term leases negotiated at a discount.

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Retailer of the Week: West Marine

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less on promotional and clearance activity during the quarter, as well as a moderate shift to higher margin categories. SG&A showed a substantial decrease, declining $9.9 million, or 21.2%, to $36.9 million compared to $46.8 million for the same period last year. The company cut $7.4 million in lower payroll, marketing and other expenses which all reflects management's decision to scale back operations. West Marine reported a loss of $15.8 million to end the first quarter which compares to a loss of $18.3 million, during the first quarter last year.

LIQUIDITY & CAPITAL RESOURCES

The company ended the first quarter of 2009 with $12.3 million in cash. West Marine's working capital did decline by $30.6 million to $228.3 million compared to last year. This was due to management's decision to reduce inventory levels because of lower expected sales levels. The company's working capital provides West Marine with close to three months of expense coverage.

West Marine is further supported by a $225.0 million credit facility that expires in December 2010. At the end of the first quarter the company reported $81.3 in total borrowings which include $5.5 million in outstanding letters of credit. After calculating for the borrowing base, West Marine reported total availability of $86.6 million.

The company spent $3.3 million on capital expenditures during the first quarter of 2009, a $1.3 million decrease compared to the same period last year. The reduction is primarily due to lower spending on production improvements at the company's distribution center. The company opened three stores in the first quarter including two flagship stores, which are much larger than the average West Marine location.

Did You Know...?

Forty-four states lost jobs in April, led by California where employers slashed 63,700 positions, as the recession took a further toll on workers.

OUTLOOK

Historically, West Marine has been a very seasonal business. Last year, approximately 64% of the company's net sales and all of the company's income occurred in the second and third quarters, principally from April through August which has been the height for boating. Management has admitted that its research indicates that the US boating industry continues to experience a downward cycle. In light of diminishing sales the company is responding by reducing expenses and maximizing cash flow. We do not expect revenue to increase in the short term, however the company's balance sheet and reduction in SG&A expenses should help to offset declines in revenue.

First Quarter Scorecard

$ in Millions. Quarter ended closest to 4/30/09	Sales 2009	Sales 2008	Sales Change	Comps	Net Income 2009	Net Income 2008	Net Income 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%	$31.7	$17.5	81.1%
American Apparel	$114.3	$111.6	2.4%	-7.0%	($9.0)	$1.1	-918.2%
American Eagle Outfitters	$612.0	$640.3	-4.4%	-10.0%	tba	$43.9	tba
American Tire Distributors	$538.3	$511.0	5.3%	NA	($3.2)	$1.7	-288.2%
AnnTaylor Stores Corp.	$426.7	$591.7	-27.9%	-30.7%	($2.3)	$25.9	-108.9%
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%	($45.4)	($34.1)	-33.3%
Buckle, Inc.	$199.7	$160.3	24.6%	17.7%	$26.9	$18.7	43.9%
Cache, Inc.	$53.0	$67.7	-21.7%	-20.7%	($1.6)	($2.1)	22.3%
Casual Male Retail Group	$97.6	$107.6	-9.3%	-10.7%	$0.3	$0.1	250.0%
Cato Corporation	$238.1	$225.8	5.4%	3.0%	$18.8	$16.9	11.6%
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%	$23.5	$19.5	20.4%
Citi Trends, Inc.	$143.1	$121.0	18.3%	7.4%	$7.9	$5.2	53.4%
Dillard's, Inc.	$1,505.3	$1,713.6	-12.2%	-13.0%	$7.7	$2.7	186.2%

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First Quarter Scorecard

(continued from page 10)

$ in Millions. Quarter ended closest to 4/30/09	Sales 2009	Sales 2008	Sales Change	Comps	Net Income 2009	Net Income 2008	Net Income Change
Apparel							
Eddie Bauer Holdings	$179.8	$213.2	-15.7%	-13.7%	($44.5)	($19.3)	-130.6%
Gap Inc.	$3,127.0	$3,384.0	-7.6%	-8.0%	$215.0	$249.0	-13.7%
Gymboree Corporation	$228.0	$238.9	-4.6%	-10.0%	$21.8	$25.0	-12.9%
Hot Topic, Inc.	$175.1	$159.0	10.1%	7.1%	$1.2	($1.4)	187.5%
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	$1,725.2	$1,925.1	-10.4%	-7.0%	$2.6	$35.4	-92.7%
Macy's, Inc.	$5,199.0	$5,747.0	-9.5%	-9.0%	($88.0)	($59.0)	-49.2%
New York & Company, Inc.	$232.9	$270.1	-13.8%	-15.0%	($4.9)	$6.7	-173.1%
Nordstrom, Inc.	$1,706.0	$1,879.0	-9.2%	-13.2%	$81.0	$119.0	-31.9%
Pacific Sunwear	$223.5	$266.9	-16.3%	-18.0%	($8.7)	($37.1)	76.5%
Ross Stores, Inc.	$1,691.6	$1,556.3	8.7%	3.0%	$91.4	$79.5	15.0%
Saks Incorporated	$621.3	$850.0	-26.9%	-27.6%	($5.1)	$17.3	-129.5%
Stage Stores, Inc.	$333.6	$353.5	-5.6%	-9.0%	($0.9)	$2.3	-139.8%
Stein Mart, Inc.	$319.6	$352.1	-9.2%	-8.0%	$16.1	$7.0	130.0%
Tandy Leather Factory	$13.4	$13.3	0.8%	tba	$0.7	$0.6	16.7%
TJX Companies	$4,354.2	$4,303.6	1.2%	2.0%	$209.2	$193.9	7.9%
Tween Brands, Inc.	$205.2	$251.7	-18.5%	-23.0%	($1.4)	$4.3	-133.5%
Urban Outfitters, Inc.	$384.8	$394.3	-2.4%	-7.0%	$30.8	$42.6	-27.6%
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
GameStop Corp.	$1,980.8	$1,813.6	9.2%	-1.5%	$70.4	$62.1	13.4%
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%
Tech Data Corporation	$4,991.0	$6,065.8	-17.7%	NA	$31.8	$21.4	48.6%
Trans World Entertainment	$191.4	$232.6	-17.7%		($13.7)	($11.8)	-16.1%
United Stationers Inc.	$1,121.3	$1,252.5	-10.5%	NA	$13.5	$21.3	-36.6%
Home Centers							
Ace Hardware	$851.2	$872.1	-2.4%	-0.6%	$14.4	$10.8	33.3%
Builders FirstSource, Inc.	$163.8	$259.9	-37.0%	NA	($30.6)	($15.8)	-93.7%
Building Materials Holding Co	$167.5	$342.9	-51.2%	NA	($45.2)	($33.9)	-33.3%

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First Quarter Scorecard

(continued from page 11)

$ in Millions. Quarter ended closest to 4/30/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Home Centers							
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%
Home Depot, Inc.	$16,175	$17,907	-9.7%	-10.2%	$514.0	$356.0	44.4%
Huttig Building Products	$100.0	$166.8	-40.0%	NA	($14.3)	($9.8)	-45.9%
Interline Brands, Inc.	$256.8	$289.1	-11.2%	NA	$2.9	$8.7	-66.7%
Lowe's Companies	$11,832.0	$12,009.0	-1.5%	-6.6%	$476.0	$607.0	-21.6%
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.	$2,314.0	$2,307.8	0.3%	-1.5%	$24.3	$17.2	41.3%
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%
Sears Canada Inc.	$1,116.5	$1,254.4	-11.0%	-10.4%	$10.3	$70.8	-85.5%
Sears Holdings Corp.	$10,055.0	$11,068.0	-9.2%		$26.0	($56.0)	146.4%
Target Corporation	$14,361	$14,802	-3.0%	-3.7%	$522.0	$602.0	-13.3%
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%
Advance Auto Parts, Inc.	$1,683.6	$1,526.1	10.3%	8.2%	$93.6	$82.1	14.0%
Barnes & Noble, Inc.	$1,105.2	$1,155.9	-4.4%	-5.7%	($2.7)	($2.2)	22.7%
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%
Cost Plus, Inc.	$184.3	$201.9	-8.7%	-8.9%	($41.6)	($32.0)	30.0%
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%
Kirkland's, Inc.	$83.3	$84.1	-1.0%	5.2%	$3.5	($2.6)	237.1%
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%
PetSmart, Inc.	$1,327.6	$1,212.9	9.5%	3.9%	$46.3	$41.2	12.4%
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%
Dick's Sporting Goods, Inc.	$959.7	$912.1	5.2%	-6.0%	$10.2	$19.6	-48.0%
Foot Locker	$1,216.0	$1,309.0	-7.1%	-2.4%	$31.0	$3.0	933.3%
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%
Hibbett Sporting Goods, Inc.	$157.7	$145.8	8.2%	2.4%	$10.9	$9.4	16.0%
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%
Zumiez Inc.	$76.8	$78.7	-2.4%	-15.3%	($1.7)	$1.4	-221.7%

Numbers in italics are implied or company estimates.

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