Global Credit Services

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RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Remember...

Children should be educated and instructed in the principles of freedom.

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Banks Take Aim At Revolvers

Companies are finding themselves in a liquidity squeeze. At a time when financial markets and counterparties are scanning companies' liquidity with a sharpening eye, a large swathe of lenders is tightening access to revolving lines of credit, recent data shows.

Banks are cutting the size of revolvers, upping interest rates, shortening maturities, and enhancing their collateral positions, regardless of where companies fall on the credit-quality spectrum.

Revolving lines of credit are a critical capital source for payroll, buying raw materials, and paying rents, as well as a liquidity backstop for commercial paper. Higher rates and reduced capacity on such debt can mean companies have to consume more of their cash on hand in daily operations.

Unused commercial-credit commitments at large banks shrank in the first quarter, according to a review of call reports by CFO.com. Citigroup's unused commercial credit commitments dropped to $262 billion in the first quarter of 2009, down from $405 billion a year earlier; JPMorgan Chase's obligations fell to $247 billion, from $311 billion; and Bank of America's dipped to $269 billion, from $305 billion.

What's more, new issuance of corporate revolvers continues to plunge. In the first half of 2009, banks issued $163 billion in new revolving lines of credit, down from $292 billion the first half of 2008,according to new date from Reuters Loan Pricing Corp. Total issuance for 2008 was $455 billion, while in the prior three years it had exceed $1 trillion.

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Retailer of the Week: Duckwall ALCO

After a not so pleasant battle for control of the company's Board of Directors by some dissident shareholders, the new Board dubbed last year the “Year of Transition”, laying the foundation for significantly improving operations. The company's focus was and remains threefold:

- Overhaul the company's merchandising strategy and performance
- Reduce costs
- Upgrade the company's organizational talent

As one might expect, the cost of such a dramatic shift in operations was high, both from a human resources standpoint and from an earnings standpoint. Keep in mind that the company's Board of Directors was completely revamped in March 2008, while two-thirds of the company's senior executives were replaced over the course of the year. Tearing down an organization and building it up again does not come cheap, and the day-to-day operations suffer in the short term. However, the first quarter ended May 3, 2009 has begun to bear witness to the turnaround envisioned by the new Board of Directors and CEO. Sales for the company for the quarter rose a respectable 9.3% to $115.5 million, especially for a retailer that should be taking advantage of a sagging economy and lots of consumers looking for bargains. A comp store sales increase of a solid 6.2% for the quarter was the main contributor to the sales increase. It was a turnaround from the previous four consecutive quarters of negative comp store sales. Enhancing the sales gains, the company improved gross margin as a percent of sales by 209 basis points and leveraged its SG&A by 203 basis, turning a loss of $3.4 million in operating income to a positive operating income of $438,000 for the quarter.

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Banks Take Aim At Revolvers

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"Revolvers represent contingent liabilities for the banks," says Richard Speer, chief executive at bank consultancy Speer & Associates. "They're trying to reduce their risk levels and focus on managing their exposure. It's typical right now for them to tighten."

Mr. Speer says another trend is driving the lower numbers: the highest quality corporate credits aren't borrowing, choosing to fund business through working capital improvements or other forms of credit. "The companies that are borrowing are those that don't have a choice," he says. "That's why banks have to be that much more careful."

Spreads, generally, are three times higher for companies refinancing their revolvers. And maturities are shortening. Five-year revolvers, for example, are being eliminated entirely or "split" between a 364-day maturity and one that goes out to three years. The percentage of revolvers with 364-day maturities reached 50% in the first half of 2009. As late as 2007, less than 20% of new issuances had maturities as short as 364 days.

The pain is not being spread evenly, however. Highly leveraged borrowers are feeling more of the brunt of banks' new prudence. But some upper-tier borrowers in that group are taking an active stance and not waiting for banks to come to them. They are offering lenders "amend and extend" deals. Lenders can opt-in to extend a revolver's maturity, in return for a sizable rate increase (200 to 400 basis points). But not all lenders want to renew their commitment, so the revolver can be split into two tranches, old and new.

That can result in diminished revolver capacity later on, when the commitment of the old lenders ceases. On company, for example, obtained a $122.8 million extension, but that was only half the size of its existing revolver. Such deals become a de facto collateral enhancement for the lenders that agree to re-up.

Why are changes to revolvers so important? The refinancing issues with revolvers affect more than just banking relationships, as most of you well know. When a bank reduces or revokes a line of credit, it's a "trigger" for aggressive action on the part of unsecured trade creditors.

Feedback?

Questions?

Suggestions?

Click Here

Specialty Items

Toys "R" Us, Inc. priced its $950 million offering of senior unsecured notes due 2017 to be issued by subsidiary Toys "R" Us Property Company I, LLC. The notes will have an interest rate of 10.750% per annum and priced at 97.399% of their face amount at maturity. Proceeds will go towards repaying the company's $1.3 billion senior unsecured credit agreement.

Finlay Enterprises, Inc. failed to make a $1.7 million interest payment on its 8-3/8% senior notes during a 30-day grace period, which ended on July 1. The payment was due June 1. This puts Finlay in default under the indenture governing the senior notes.

AutoZone, Inc. completed the sale of $500 million of its 5.750% Notes due 2015.

Pet Valu, Inc. and **Pet Valu Canada Inc.** have entered into an agreement to be acquired by private equity firm Roark Capital Group for $13.68 per share in cash. That puts a value on the company of approximately $143.7 million.

Options and Resources

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Bankruptcy Blotter

The major creditors of **Eddie Bauer** won a concession from the bankruptcy court allowing interested parties to bid for all or a portion of the company's assets, which could lead to a break up of the company. **CCMP Capital Advisors LLC** was selected as the stalking horse bidder for the auction with a $200 million plus bid for the entire chain, hoping to keep the reorganized company operating.

The court signed off on an outline of **Sportsman's Warehouse's** reorganization plan to exit bankruptcy. The disclosure statement was approved by the judge, allowing the company to solicit its plan to creditors for approval. The plan call for unsecured trade creditors to receive approximately 11% of the $130 million that they are owed from cash flow generated from the reorganized business. **000**, a unit of **Seidler Equity Partners**, will proved a $12 million exit loan.

Circuit City Stores, Inc. completed the sale of its Canadian operations (**InterTAN Canada Ltd**., an indirect, wholly-owned subsidiary of the company) to **Bell Canada**. In addition, Bell purchased certain trademarks from Circuit City Stores West Coast, Inc., a wholly-owned subsidiary, and the equity shares of a global sourcing company from **Ventoux International, In**c., a wholly-owned subsidiary.

Unsecured creditors have agreed to a deal with anchor **Blue Retail Group Inc**. and its lenders that will provide them with a percentage of the proceeds reaped from the sale of Anchor Blue's chain of mall retail stores.

Crabtree & Evelyn Ltd., which sells perfumed soaps, lotions and other personal-care products and is a unit of **Kuala Lumpur Kepong Berhad**, filed for bankruptcy protections last week. The company, with 126 stores across the country, plans to shutter some of its underperforming locations. As part of its bankruptcy proceedings, Crabtree & Evelyn is seeking permission to borrow $40 million from its parent.

Stock Building Supply Holdings emerged from bankruptcy protection under the control of its new owner, buyout firm Gores Group. Gores agreed to plow $75 million in new preferred equity into the reorganized company. Additionally, the new owner is providing $125 million worth of operating credit for the business.

Cavco Industries Inc. and the **Third Avenue Trust Value Fund** offered $28.9 million for **Fleetwood Enterprises Inc.'s** manufactured housing business. The deal includes seven factories, an office building, inventory, trade names, and contracts and leases. The sale still requires a bankruptcy auction and court approval.

Did You Know...?

U.S. home prices were down 18.1% year-on-year in April, according to the Case-Shiller home price index. But prices fell just 0.6% in April compared to March, a marked slowing in the rate of decline.

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The Global World of Sports and Footwear

Sport Chalet revenues declined 12.7% to $84.5 million for the fiscal fourth quarter ended March 29. Comp store sales declined 17.7% for the period. Net loss was $11.1 million versus a loss of $2.8 million in Q407. For the full year, Sport Chalet recorded a net loss of $52.2 million against a loss of $3.4 million. Excluding a non-cash impairment charge and income tax valuation allowance in Q3, the annual net loss was $35.6 million. Comps for the year declined 12.4%. Annual revenues, meanwhile, slid 7.4% to $372.7 million from $402.5 million.

Also, **Sport Chalet** noted that it's taken a number of initiatives in recent months to improve its financial performance. Among them—the launch of an aggressive inventory management program ($138.6 million in fresh retail inventory between January and May 31), a renegotiation of lease terms and agreements for project savings of $14 million over the next three fiscal years and a lowered expense structure. Payroll expense is forecast to fall $10.7 million in FY10; additional cost cuts will equal approximately $9.4 million in FY10.

Sport Supply Group expanded its reach in the Indiana team market by acquiring the rights to Gus Doerner Sports' team division, an Evansville, Indiana business that caters to high school, college and out of school sports programs in southern Indiana. The acquisition price wasn't immediately disclosed.

The Doerner team sales group will be added to Sport Supply's existing Indiana sales force through its Kessler's subsidiary.

NexCen Brands, in the final stages of completing its annual report for 2008, expects to report revenues from continuing operations of approximately $47 million, up from $20 million in FY07. But the company also expects its year-end balance sheet to reflect significant reductions in the value of its intangibles, which comprise its principal assets, due to anticipated impairment charges of $242 million in 2008. NexCen noted that it introduced the TAF (The Athlete's Foot) retail concept in both Lebanon and Botswana and Shoebox New York in Korea, where three locations have already opened and a fourth door will open this month.

Dick's Sporting Goods will open its second store in Oregon in a former door operated by bankrupt Joe's Sports & Outdoor.

Health & Beauty Aids

Walgreen Co. is looking to work-site health clinics as a growth opportunity, and may open as many as "several thousand" of the facilities. Currently, WAG operated 373 employer-sponsored workplace clinics.

CVS Caremark has renewed distribution agreements with **Cardinal Health** and **McKesson Corp.** to supply branded and generic drugs to its pharmacies.

Rite Aid Corp. completed its $1.9 billion refinancing of debt maturing in 2010 with three separate transactions: the incurrence of $525 million of senior secured term loans due 2015, the issuance of $410 million of 9.75% first lien senior secured notes due 2016 and the incurrence of a new $1.0 billion revolving credit facility expiring in 2012.

Also, **Rite Aid** is now back in compliance with the NYSE's share price listing requirement, after maintaining an average share price of more than $1 for 30 trading days. RAD has scrapped its planned reverse stock split.

Cardinal Health spinoff company CareFusion launched its brand on July 1, introducing a new logo and initiating a print advertising campaign. The spinoff is expected to be completed later this summer, after which CareFusion will be publicly listed.

Did You Know...?

U.S. factory orders climbed 1.2% in May driven by transportation equipment, the Commerce Department reported. The number of orders was the highest since June 2008.

Upcoming Reporting Dates

Company	Event	Date
Family Dollar Stores	Financial Results	Jul 8, 2009
Ingram Micro	Financial Results	Jul 30, 2009
Loblaw Companies	Financial Results	Jul 24, 2009
Rent-A-Center	Financial Results	Jul 28, 2009
Shoppers Drug Mart	Financial Results	Jul 22, 2009
Supervalu	Financial Results	Jul 28, 2009

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Off the Rack

Children's Place Retail Stores, Inc. will pay $12 million to settle a stockholder class action suit which claimed misrepresentations made by former officers artificially inflated the company's stock price.

Also, former **Children's Place** CEO Ezra Dabah fired off a letter to PLCE shareholders critical of interim Chairman Sally Frame Kasaks and interim CEO Charles Crovitz. Dabah has proposed an alternative slate of three candidates in a proxy battle for control of the board. The company replied with a letter of its own, alleging mismanagement in several areas by Dabah when he was CEO.

Casual Male Retail Group, Inc. directors amended to its "poison pill" shareholder rights plan to include shareholders who own as little as 5% of the of the company's stock, down from 15%. The stated purpose of the plan is to help preserve the tax benefits of the company's net operating loss carryforwards.

Sears Holdings Corp. will adopt the OpenID platform for its MySears and MyKmart community sites. OpenID is already supported by most online community sites, and allows a user to have a single identity across sites.

Talbots, Inc. has completed the sale of its J. Jill brand and assets to Jill Acquisition LLC, owned by Golden Gate Capital. The final price was $75 million less an $8.1 million adjustment for working capital.

Management on the Move

Zale Corp. promoted **Jim Sullivan** to VP, Controller and Chief Accounting Officer following the resignation of **Cindy Gordon**. Sullivan was VP, Financial Reporting and Compliance prior. Also, EVP and Chief Marketing and E-Commerce Officer **Steve Larkin** has left the company.

J. C. Penney Company, Inc. appointed **Pam Mortensen** SVP and GMM of Fine Jewelry. Mortensen was VP and DMM of Fine Jewelry and Watches for Wal-Mart Stores, Inc. previously.

Foot Locker inks a new employment agreement with **Ronald J. Halls**, President and CEO, that extends his contract to June 30, 2011 with an option to renew.

Hackett's Stores appointed **Herbert Becker** as VP and CEO of Patrick Hackett Hardware. Becker has 30 years of experience with a number of retailers, including Wet Seal, Tommy Hilfiger, La Curacao, Betty Barclay, W. T. Grants and Zeller's.

Cardinal Health added **Bruce L. Downey** to its board of directors effective upon the completion of CareFusion spinoff. He'll replace **John B. McCoy** who has retired. Downey is the former Chairman and CEO of Barr Pharmaceuticals, Inc.

Huttig Building Products, Inc. appointed **Philip Keipp** VP and Chief Financial Officer. Keipp comes from HD Supply Waterworks, Ltd., where he was CFO and COO.

Did You Know...?

The U.S. consumer confidence index fell in June to 49.3 after a big jump to 54.8 in May, the Conference Board reported.

Heard in the Grocery Aisle

Independent grocers' same store sales gained 4.31% in 2008, store margins increased to 26.94% versus 25.55% in 2007, and net profit before taxes was higher, according to the *2009 Independent Grocers Survey* from The National Grocers Association (NGA) and FMS Solutions.

Kroger Co. is building a 125,000 sq. ft. large format "Marketplace" store in Little Rock, Arkansas, the *Arkansas Democrat-Gazette* reported. The new store is being built next to an existing Kroger, and is expected to open in mid-2010.

Management at Abingdon, Virginia-based chain **Food City** denied reports that the company is being sold to Publix Super Markets Inc. the *Knoxville News-Sentinel* reported. Food City parent K-VA-T Food Stores Inc. operates 103 locations.

Bruno's Supermarkets stores are beginning to re-open under new owners Southern Family Markets, *Birmingham Business Journal* reported. 31 stores in Alabama were converted in 29 days.

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FYI for the DIY

Sherwin-Williams Co. saw a Mississippi jury award $7 million in damages in a lead paint contamination suit. The company plans to appeal the verdict.

Home Depot received approval from the Ohio Tax Credit Authority for a five-year, 45% tax credit if it builds a warehouse in Findlay, Ohio. HD has not yet decided on a final site for the planned distribution center.

MSC Industrial Direct Co., Inc. sales dropped 23.3% to $350.5 million for its fiscal 2009 third quarter ended May 30. Net income fell 45.9% to $27.8 million. The company noted it was able to convert over 300% of its net income into operating cash flow, resulting in free cash flow of $86.0 million. For the fiscal fourth quarter, MSC expects sales of $336 to $348 million and earnings of $0.33 to $0.37 per share.

The **U.S. lawn and garden products market** will total $26 billion in 2014, according to *Lawn and Garden Products in the U.S., 8th Edition* from market research publisher Packaged Facts.

Hi Tech Entertainment

Sixth Avenue Electronics has now completed an 18 month long implementation of SAP software, which will provide the infrastructure for aggressive expansion, *TWICE* reported. The New York CE chain sees the Circuit City and Tweeter bankruptcies as an opportunity to grow its regional footprint and capture market share.

Overstock.com, Inc. terminated its affiliate advertisers in North Carolina and Rhode Island as those states are in the process of passing new “nexus” laws that would require internet retailers to collect taxes if they have affiliate advertisers in the state. OSTK had originally planned on terminating its California and Hawaii affiliates, too, but reversed that decision upon hearing California Governor Schwarzenegger and Hawaii Governor Lingle would veto such a provision in their states.

Specialty chain **Anderson’s TV** discontinued operations last month, according to a story in *TWICE*. The Silicon Valley retailer had revenues of $44 million at its peak.

General Retail News

Unused retail gift cards are getting the eye from revenue-strapped states, according to a report in the *Wall Street Journal*. 27 states already collect expired gift cards after a period of time, ostensibly as abandoned property to attempt to find their owners. But since most gift cards are anonymous, the funds usually end up in state coffers. More states are considering similar laws, essentially imposing expiration dates on cards that otherwise would never expire.

$775 billion in **kiosk transactions** will be processed in 2009, according to the market study, *2009 North American Self-Service Kiosks*, from the IHL Group. The report predicts sales will grow to more than $1.6 trillion by 2013.

The **Top 100 Retailers** list is out from STORES. Based on 2008 sales, the top names are the same as in 2007, but Home Depot dropped from #2 to #4. The top 5, with their 2008 revenues:

1	Wal-Mart	$405.6 billion
2	Kroger	$76.0 billion
3	Costco	$72.5 billion
4	Home Depot	$71.3 billion
5	Target	$64.9 billion

Mass Merchant Musings

Wal-Mart Stores Inc. surprised many when it released a letter to President Obama indicating support for a mandate that employers provide health insurance benefits to employees. The National Retail Federation said it was ‘flabbergasted’ by Wal-Mart’s position. But there is speculation of an ulterior motive underlying WMT’s position: raising costs for competitors, notably **Target Corp.** Wal-Mart already offers health insurance to employees but many of its competitors don’t. A national mandate would level the playing field and remove a great deal of uncertainty as well.

Also, **Wal-Mart** has agreed to pay $54 million to settle a class-action suit brought by former employees in Minnesota over wage and hour policies.

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Retailer of the Week: Duckwall ALCO

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Luckily the company always had a rather strong balance sheet and was able to absorb the "Year of Transition" without significant damage to its balance sheet. As a result, we have decided to upgrade our current "D-" Credit Rating to a "D" Credit Rating with a "Stable" Outlook. We are very encouraged by the results the company has shown, especially over the last three months and expect operations to significantly improve this year and fully expect that we will be looking at further Credit Rating upgrades during the balance of the year.

BACKGROUND

Duckwall ALCO is a regional retailer operating 258 stores in 23 states in the central U.S. The company's strategy is to target smaller markets not served by other regional or national broad line retail chains. The company's ALCO stores offer a broad line of merchandise consisting of approximately 35,000 items. The company's Duckwall stores offer a more limited selection of similar merchandise. Of the company's 208 ALCO stores, more than 70% operate in primary markets that do not have another broad line retailer, and account for 96% of the company's net sales.

Did You Know...?

U.S. non-farm payrolls fell by 467,000 jobs in June, raising the unemployment rate to 9.5%, the Labor Department reported. According to the ADP national employment report, U.S. companies shed 473,000 jobs in June.

OPERATIONS

$ in millions	For the Fiscal Year Ended			
	April 29, 2007	May 4, 2008	May 3, 2009	Change
Sales	$106.3	$105.7	$115.5	9.3%
Gross Margin	$32.8	$33.1	$38.6	16.5%
% of Sales	30.9%	31.3%	33.4%	209 BP
Overhead	$35.1	$36.6	$38.1	(-4.1%)
Operating Income	($2.3)	($3.5)*	$0.4	NA
% of Sales	NA	NA	0.4%	NA
Net Income	($2.2)	($5.9)**	($0.1)	99.1%
% of Sales	1.2%	NA	NA	NA

*Excludes $5.4 million of one-time charges for inventory reserves and severance
**Includes $5.4 million of one-time charges for inventory reserves and severance.

Total Sales for the quarter increased by $8.3 million to $115.5 million, basically the result of a 6.2% increase in comp store sales, the reflection of the introduction of a plethora of new products, the upgrading of the quality of the products offered, and the company's revamped promotional program. On top of the solid increase in sales, management was able to improve its gross margin percent by 209 basis points, the result of the increased sales volume, improved merchandising mix, lower shrink, lower markdowns, and reduced freight, providing the company with a 16.5% increase in gross margin dollars.

In addition, the gross margin increase was more than enough to offset the modest increase in overhead, leveraging SG&A by 203 basis points, leaving the company with a operating income of $438,000 of operating income versus an operating loss for the first quarter of last year of $3.5 million.

While the company reported a loss for the quarter, we believe that the actions taken during last year have successfully repositioned the company for significant improvement this year in both sales and earnings as the company will enjoy additional sales through its merchandising initiatives when at the same time cutting cost, giving management a double whammy.

LIQUIDITY AND CASH FLOW

As one might expect, operations over the past two years has taken its toll on the company's balance sheet, though not to a critical stage. The company's liquidity, while tighter, is still fairly

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Retailer of the Week: Duckwall ALCO

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strong. The company current ratio at the end of the first quarter was at 1.6:1.0, down from 1.7:1.0 last year. Working capital of $63.7 million in down versus last year's $64.9 million, but still covers 53 months of expense coverage, well above the 3 months we consider adequate. Adding to the company's liquidity strength, management maintains a $105 million revolving credit facility, which at the end of the first quarter had roughly $46 million of availability, again more than adequate for what we see as the company's operating needs.

The company's total debt was $60.9 million at year end, up $19.9 million, or 48.4% versus the prior year. The additional borrowings were needed to cover operations and to fund capital expenditures. We do not believe the company will need to raise additional capital during this year.

OUTLOOK

Based on what we have observed over the past nine months, we are confident in the new management team put in place this past year and believe shareholders will be able to rest easy knowing that the company is taking every opportunity to better its financial performance and increase shareholder value. While we are looking for continued improvement throughout the new year, the current economic conditions may temper but not seriously harm that improvement.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook	
	Current	Prior	Current	Prior
RITE AID CORP	B-	B	NEGATIVE	NEGATIVE
NEFF CORP	B-	SD	NEGATIVE	NM
BRODER BROS CO/ SPORTSWEAR DISTRIBUTOR	NR	SD	NR	NM
GREAT ATLANTIC & PACIFIC TEA CO ,THE	B-	B	STABLE	
SAFEWAY INC	BBB	BBB	STABLE	
STATER BROS HOLDINGS INC	B+	B+	STABLE	

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