

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

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Fed Sees Slow Recovery Holding Jobless Rate High

Although the economy is certainly better than earlier this year, Federal Reserve officials believe the recovery is going to creep along at a slow rate that won't lower the unemployment rate any time soon, according to a summary of the central bank's latest meetings.

"With the recovery projected to be rather sluggish, most participants anticipated that the employment situation was likely to be downbeat for some time," the summary said.

The unemployment rate could hit 10.1%, forecast the Fed, with the jobless rate staying elevated in 2010, and only dropping modestly the following year. The unemployment rate hit 9.5% in June. Unfortunately, we believe the unemployment will easily hit 10% and go as high as 10.5% to 11.0%.

But officials are wary of buying more Treasury bonds to support the economy. There were concerns that the move to expand the program to buy \$300 billion in Treasuries might only hike long-term interest rates given the opposition to the central bank monetizing the debt.

At the end of its June 23rd and 24th meetings, the Fed decided to keep interest rates at record lows and dropped its concern that inflation could fall too far. It took a wait-and-see stance toward Treasury purchases.

"Although an expansion of such purchases might provide additional support to the economy, the effects of further asset purchases, especially Treasury securities, on the economy and on inflation expectations were uncertain," according to the minutes.

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Retailer of the Week: Canadian Tire

All Dollars are Canadian

Reflecting the downturn in the economy, retail sales for Canadian Tire for the first quarter ended April 4, 2009 were down 2.7% year-over-year to C\$1.790 billion, with virtually all of the decreases related to the petroleum business, though it is important to note that earnings in petroleum were up despite the lower sales. Excluding petroleum, consolidated retail sales were actually up in the quarter by 3.2% mainly driven by growth in the Canadian Tire Retail segment, slightly offset by lower sales in Mark's Work Warehouse.

Net income, however, was down 25.9% to C\$49.7 million mainly due to higher distribution and operating expenses associated with the new distribution center at Canadian Tire Retail and higher bankruptcies and write-offs at the Financial Services segment. While earnings were down, it was not totally unexpected as results were within the company's expectations for the normally slow first quarter.

As mentioned above, the first quarter is not normally a stellar quarter for the company from an operating basis nor from a cash basis. However, in keeping with the economic environment, the company has taken to conserving its cash. For the first quarter this year the company used approximately \$425.1 million of free cash flow versus using approximately \$549.7 million for the first quarter last year, cutting back significantly on its discretionary capital spending. As a result, the company's balance sheet remained fairly healthy at the end of the first quarter with a current

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Remember...

Everybody gets so much information all day long that they lose their common sense.

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Fed Sees Slow Recovery Holding Jobless Rate High

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Officials had a lengthy discussion of the central bank's innovative monetary policy plan to pump over \$1 trillion into the financial markets. Some Fed officials want to add to the programs, some want to throttle back and other want to end them.

One concern about adding to the program is that, to have an effect on long-term interest rates some Fed officials said that the central bank would have to purchase a large amount of Treasuries.

The central bankers rejected a plan to give its trading desk flexibility to adjust the Fed's purchases in response to short-run market fluctuations. Fed officials said they were sure there was a way to adapt this new form of monetary policy to make it more flexible.

The Fed staff said that the size of the Fed's massive balance sheet might peak "late this year." In most scenarios, the Fed will make a profit from its purchases of securities, however the Fed has lowered the standards on what assets it will buy from banks in order to get frozen assets off bank balance sheets, leading to scenarios under which the Fed could lose money however.

In its latest forecast, Fed officials raised their estimates for GDP growth this year. But they also hiked their unemployment rate forecast to 10.1%. The jobless rate would stay elevated in a narrow range of 9.5% to 9.8% in 2010 and only drop to a range of 8.4% to 8.8% in 2011.

Most Fed officials said they though inflation "would remain subdued for some time." Some measures of inflation expectations had risen recently, the Fed officials note. Many Fed officials believe that the slack in the economy will keep prices low, but other officials, reject the analysis.

If I may summarize, the Fed can't decide whether inflation will hit or not (I think it will because of the deficit spending) but they can say for certain that the recovery will be slow and unemployment will remain high for a considerable period of time.

Feedback?

Questions?

Suggestions?

[Click Here](#)

General Retail News

The National Retail Federation lashed out at **Wal-Mart** after the company came out in support of an employer mandate to provide health insurance. NRF posted a letter on its website, saying, "Although the move may provide a short-term public relations boost to Wal-Mart, it could have long-lasting, devastating consequences to retailers throughout the country." and vowing to fight such mandates while condemning WMT. "We could stand idly by and allow Wal-Mart to tip the scales on the health care debate, cower and release an innocuous statement that would neither support nor condemn their decision, or stand up for all retailers and come out swinging."

Wal-Mart Stores, Inc. saw the 9th U.S. Circuit Court of Appeals rule that the retailer cannot be held responsible for labor law violations committed by foreign companies. A class action had been brought by groups representing workers at factories in China, Bangladesh, Indonesia, Swaziland and Nicaragua that supply WMT.

Wal-Mart is considering acquiring Russian discount supermarket chain Kopeyka, which operates 528 stores, *Just Food* reported. Sources said that due diligence is set to take place in August, the report said, although no confirmation from either company was given.

Options and Resources

Feedback and Questions: Should you have any feedback to provide us or questions to ask, please email us at inbox@globalcreditservices.com.

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Bankruptcy Blotter

Standard & Poor's said the number of issuers downgraded to speculative grade last month was the third highest monthly tally since it started keeping track of the figure in 1987. Fifteen entities were cut to junk territory in June, and with two more added so far this month, the year-to-date tally has jumped to 60 issuers, with rated debt of \$209.17 billion affected.

Crabtree & Evelyn Ltd. is hoping to settle a dispute with store managers that allege the company didn't play by the rules when determining compensation. The retailer of scented lotions, which filed for bankruptcy protection July 1st, wants to settle for a sum of \$270,000.

On Friday, July 17, 2009, **KB Toys Inc.** sought the court's permission to sell off intellectual property such as trademarks, logos, and Web sites. The defunct retailer concluded its going-out-of-business sales in February. KB Toys has proposed an August 6th auction.

Golfers' Warehouse Inc. has filed for Chapter 11 protection and is being sold to a California golf-accessories retailer. Golfers' Warehouse estimated its assets and liabilities each between \$10 million and \$50 million. Attorney Barry Feigenbaum said the company is preparing to sell six stores in Connecticut, Rhode Island and Massachusetts to Worldwide Golf. He added that the company has also had difficulty financing its inventory.

Anchor Blue Retail Group Inc. completed the sale of 73 of its Levi's and Dockers Outlets by MOST stores, handing over the assets to Levi Strauss & Co. in exchange for \$72 million. The transaction closed Monday, about a month and a half after Anchor Blue first sought bankruptcy protection in Wilmington, Del., and simultaneously introduced its plan to sell the locations to Levi Strauss.

Fleetwood Enterprises Inc. received approval to auction its housing assets, with a \$28.9 million offer from **Cavco Industries Inc.** and **Third Avenue Trust** serving as the lead bid. Other bidders will be able to challenge the Cavco-led offer at a court-supervised auction. Deadline for submitting bids is August 5th and the auction is August 7th.

Dial-a-Mattress's telephone and Web properties-but not its remaining 20 stores, which are closing - are to be acquired for \$25 million by Sleepy's. Dial-a-Mattress Operating Corp., founded in 1976, filed for bankruptcy in March. Dial-a-Mattress's creditors are expected to receive 84 cents for the dollar from the purchase price. On July 17, 2009, the company secured an extra four months to formulate its Chapter 11 plan after a delayed sale process began to encroach on its initial plan deadline.

Arizona grocer **Bashas' Supermarkets Inc.** filed for Chapter 11 bankruptcy protection late
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Did You Know...?

Retail sales rose 0.6%, in June, the Commerce Department reported. It was the biggest gain in five months. Excluding gasoline and automobiles, sales fell 0.2%.



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Bankruptcy Blotter

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Sunday, July 12th. The company has arranged \$45 million in debtor-in-possession financing to carry it through the process. On Wednesday, July 15, 2009, a federal judge cleared the way for Bashas' to use the cash it has on hand to keep the stores shelves stocked – at least for now.

After months of slumping sales and a loan default, **JMH Capital LLC's** religious bookstore chain, **Berean Christian Stores**, has filed for Chapter 11. The proposed restructuring includes debtor in possession loan facility from an affiliate of BCSE, which would purchase

substantially all of Berean's assets, subject to an auction process and the receipt of higher bids. The company's largest unsecured creditors include **Zondervan Publishing House, Dayspring Cards, Word Entertainment LLC and STL Distribution**.

Private-equity firm Golden Gate Capital emerged on top in an auction for **Eddie Bauer Holdings Inc.** that stretched into the early morning hours Friday, agreeing to pay \$286 million and keep the majority of the retailer's stores open. Under the deal, which still requires approval from the bankruptcy court, at least 300 of Eddie Bauer's 370 stores will remain open.

Heard in the Grocery Aisle

Florida grocery market shares were reported in a recent edition of *The Shelby Report*. Publix has a 41.4% share of the state's market, Wal-Mart has 24.7%, and Winn-Dixie was third with a 13.3% share.

Supervalu Inc. saw an investor filed a proposed securities class action lawsuit in the United States District Court for the Southern District of New York alleging that the company manipulated the share price through misleading guidance during a period from April 23 through June 23, 2009 when SVU was closing a bond issue.

Winn-Dixie Stores, Inc. finished remodeling and upgrading 51 stores in the Jacksonville, Florida area. The supermarket chain also introduced a new brand positioning tagline: "Fresh Checked Every Day" which will be used in television, radio, outdoor and on-line advertising. A new micro site,

freshcheckedeveryday.com will have events, promotions and special offers.

Ukrop's Super Markets Inc. may be for sale, according to several sources. Harris Teeter and Ahold were both mentioned as potential suitors.

Philadelphia area **Acme** stores reached a deal with UFCW Local 1776 after a year and a half of negotiations. The union's 4,000 members ratified the new contract that runs until 2012.

Food Lion is increasing its focus on the Latino market in the Winston-Salem and Greensboro North Carolina region, and now operates 13 stores featuring those items, *The Business Journal of the Greater Triad Area* reported.

Safeway and **King Soopers'** negotiations with UFCW Local 7 in Colorado continued last week as another contract extension—this time through August 15—was granted.

Off the Rack

Charming Shoppes, Inc. has discontinued the exploration of the sale of its Figi's Gifts in Good Taste catalog business, as no acceptable offers were forthcoming.

Bebe Stores, Inc. will rebrand the 62 Bebe Sport stores with a new PH8 banner in time for a November 2009 launch. The Bebe Sport brand will continue to be used for some product. PH8 will target the upscale active yoga mom.

Neiman Marcus, Inc. amended its \$600 million senior secured revolving credit agreement which expires January 15, 2013. The

amendment revises certain terms and covenants, and provides for new interest rates of LIBOR plus 4.25% through October 1, 2010 and in the range of LIBOR plus 4.0% - 4.50% thereafter.

Syms Corp. sales fell 22.2% to 50.3 million in the fiscal first quarter ended May 30. Comp store sales were off 20.5%. Net loss was 2.0 million, from a profit of \$626,000 in Q1 last year.

Clothing & clothing accessories stores had a 6.2% year on-year decline to \$17.4 billion in June.

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Management on the Move

Supervalu Inc. promoted **Brian Huff**, President of the Cub Foods division, to the position of SVP of Specialty Retail, Supervalu.

Rex Stores Corp. VP of Operations **Keith B. Magby** resigned on July 10 and left the company.

Weis Markets' Controller and Assistant Treasurer **Scott Frost** was named Acting Chief Financial Officer, as CFO **William (Rick) Mills** has left the company.

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Metzger's Do it Best Hardware named **David Jolly** General Manager. Jolly was Director of Merchandising at Russell Do it Centers previously.

Sherwin-Williams Co. elected **John M. Stropki** to its board of directors. Stropki is Chairman, President and CEO of Lincoln Electric Holdings, Inc.

Haggen Inc. President and CEO **Dale C. Henley**, announced his intention to retire. He will stay on until a replacement is named and help in the search for his successor.

The Andersons named President of the company's Retail Group **Daniel Anderson** to VP Corporate Services. He'll continue to oversee the company's retail operations.

Bi-Lo, LLC appointed **Bill Nasshan** SVP of merchandising and marketing, and promoted **Anthea Jones** to SVP of Store Operations. Nasshan comes from Shaw's Supermarkets, where he was SVP of Marketing and Merchandising. Jones has held several VP level positions at Bi-Lo.

Charming Shoppes, Inc. made several executive appointments:

- **Anthony M. Romano** had his role expanded and is now EVP - Global Sourcing and Business Transformation. Romano was EVP - Chief Supply Chain Officer at Ann Taylor, Inc. before joining Charming Shoppes last winter.
- **Bill Bass** has accepted the permanent position of President of the Company's Charming Direct division. Bass has been interim President since January 2009.
- **Lisa J. Batra** was appointed Director of E-commerce for the Fashion Bug brand. Batra was Head of Marketing for Lowes.com at Lowe's Cos. prior.
- **Kimberly Aylward** was appointed Director of E-commerce for the Catherines brand. Aylward comes from Garnet Hill, Inc., where she was Director of Web Merchandising and Cross-Brand Business Development.
- **Michele B. Pascoe** was appointed Division CFO and VP Finance for the Fashion Bug brand. Most recently, Pascoe was CFO for Taryn Rose.
- **Brett R. Schneider** was named Division CFO and VP Finance for the Catherines brand. Schneider has been with CHRS since 1996 in a variety of finance positions.
- **Joseph Long** was named Director of Finance for the Outlet stores division. Long has held various finance roles since joining Charming Shoppes in 1995.
- **Jeffrey H. Liss** was promoted to VP of Strategy. Liss joined Charming Shoppes in 2004 after a career in consulting.

Did You Know...?

Wholesale prices were up 1.8% in June from May, the biggest gain since November 2007. Prices were driven by higher energy costs at crude oil hit \$72 a barrel. Year-on-year, wholesale prices are down 4.6%.

Health & Beauty Aids

CareFusion Corp. will sell \$250 million of 4.125% senior notes due 2012, \$450 million of 5.125% senior notes due 2014 and \$700 million of its 6.375% senior notes due 2019. Proceeds from the sale will be used to pay a special dividend to Cardinal Health in connection with Cardinal Health's planned spin-off of CareFusion.

CVS Caremark will open a new CVS Pharmacy Customer Care Center in Cumberland, Rhode Island in December 2009. The facility will employ 125 pharmacists, pharmacy technicians and customer service reps.

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The Global World of Sports and Footwear

The global athletic footwear market gained 5.4% in 2008 thanks to growth in Asia, while the U.S. and European markets were flat to slightly down. Nike continued to gain share in the global marketplace, as did Adidas Group. These two giants now account for over 55% of the global total of athletic footwear sales. Local Chinese brands Li Ning and Anta were the fastest growing, both exceeding 50% gains in sales in 2008. Both brands are also moving cautiously towards having a more international presence.

Retail sales in the **U.S. skate/surf industry** declined 3.5% in 2008 to \$7.22 billion from \$7.48 billion a year earlier, but the market remained up 10.7% from its 2004 U.S. retail sales mark of \$6.52 billion. The research data is from Leisure Trends Group (LTG) as commissioned by the Surf Industry Manufacturers Association (SIMA). The surf/skate footwear segment has experienced 15.6% sales growth since 2006 to \$1.5 billion last year with men's styles and sandals accounting for 77% of the revenue. Meanwhile, the surf/skate apparel segment continues to generate the most retail sales at \$1.7 billion, off 0.8% from 2006. Accessory sales rose 13.1% last year from 2006 to \$561 million, led by sunglasses and hats. On the hard goods front, skateboard decks remain the highest volume

seller with 821 average units sold per retailer, according to the report.

Sporting goods, hobby, book & music stores saw June sales fall 2.7% year-on-year to \$7.23 billion, but that was 3.7% higher than its May level.

Zumiez will pay \$1.3 million to settle an employee class action suit brought in March 2008. The proposed settlement is expected to have an impact of \$0.03 a share on ZUMZ diluted EPS. The California suit alleged the retailer failed to pay all overtime wages, failed to provide meal breaks, failed to provide itemized pay stubs as required by law, failed to comply with restrictions on minors' work hours and failed to pay terminated staffers waiting time penalties.

Gander Mountain chose Oracle Retail Stores applications to help it streamline and improve retail operations. GMTN intends to integrate Oracle Retail stores applications with broader merchandising operations to enable customer transactions to automatically impact decisions regarding inventory replenishment.

L.L. Bean is opening its third retail store in Massachusetts and 14th overall at Legacy Place in Dedham on July 24.

Mass Merchant Musings

The National Retail Federation lashed out at **Wal-Mart** after the company came out in support of an employer mandate to provide health insurance. NRF posted a letter on its website, saying, "Although the move may provide a short-term public relations boost to Wal-Mart, it could have long-lasting, devastating consequences to retailers throughout the country." and vowing to fight such mandates while condemning WMT. "We could stand idly by and allow Wal-Mart to tip the scales on the health care debate, cower and release an innocuous statement that would neither support nor condemn their decision, or stand up for all retailers and come out swinging."

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Did You Know...?

The consumer price index rose 0.7% in June from May, the Labor Department reported. The core CPI excluding food and energy prices, rose just 0.2%. Consumer prices fell 1.4% year-on-year.

Hi Tech Entertainment

Sales at CE and appliance stores were up a seasonally adjusted 0.9% in June compared to May, according to U.S. Commerce Department data. The year over year decline was 11.5% compared to June 2008.

Worldwide PC shipments fell 5% to 68.1 million units in the second quarter of 2009, according to a Gartner, Inc. report, bettering its forecast of a 9.8% decline in the quarter.

Best Buy, Inc. is partnering with TiVo. Best Buy will increase marketing of TiVo products in stores and on-line, while TiVo will stream digital content and advertising from BBY and its Fuse new media venture. Financial terms were not disclosed.

Blockbuster reached a deal with Samsung Electronics America to provide access to

Blockbuster's OnDemand digital movie library for some of Samsung's HDTVs, home-theater systems and Blu-ray players.

Amazon.com, Inc. launched its Outdoor Recreation Store at www.amazon.com/outdoors, which offers outdoor gear and apparel.

Microsoft's first retail stores will open this fall. The retail concept directly targets Apple stores and will be in similar locations.

HHGregg, Inc. will offer up to 3,450,000 shares (including over-allotments) of its common stock to the public. Credit Suisse Securities (USA) LLC and Barclays Capital Inc. are the joint bookrunning managers for the offering. The proceeds from the sale will help fund the chain's aggressive expansion plans.

Specialty Items

Tuesday Morning Corp. sales declined 4.0% to \$188.7 million in the fourth quarter of fiscal 2009 ended June 30. Comp store sales for the fourth quarter declined 6.6%. Full year revenues fell 9.4% to \$801.7 million, while comps were off 12.5%. TUES anticipates a loss for the fourth quarter, and a small loss to a small profit for the full year. The company reports on August 25.

Perfumania Holdings, Inc. sales increased 58.3% to \$96.7 million in the first quarter of fiscal 2010 ended May 2. Top line was boosted by inclusion of Model, Inc. sales following the

merger of the two companies. Comp store sales fell 9.2% however. Net loss in the quarter was \$9.87 million from net income of \$647,000 in Q1 last year as SG&A expenses tripled.

Jennifer Convertibles, Inc. sales decreased by 21.9% to \$22.1 million for the third fiscal quarter ended May 30. Comp store sales were down 26.5%. Net loss more than doubled to \$1,532,000. Seven stores have been closed fiscal year to date and the Company continues to review locations for further closings. At quarter end, there were 142 stores in operation.

FYI for the DIY

U.S. housing starts expanded 3.6% June to a seasonally adjusted 582,000 units. Single-family home starts were up 14.4% to 470,000 and apartment unit starts fell 29.4% to 101,000,

True Value Hardware has filed a lawsuit against the Hackett's department store chain for \$1.8 million in unpaid debt. Several Hackett's stores have True Value departments in them.

Ace Hardware's Entrepreneurship Study of 538 U.S. small business owners found that 53% believe the economy will turn around enough within the next two to three years to benefit their firms. 15% said the economy has not had a negative impact on their business and 15% believe the economy will recover enough within one year to have a positive impact.

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Retailer of the Week: Canadian Tire

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ratio of 2.0:1.0 and total debt representing 45.4% of tangible net worth, roughly at the same position as at the end of the first quarter last year. Based on our analysis, we are maintaining our current "C+" Credit Rating with a "Stable" Outlook for the company. We expect it to be a tough year for all of retail but expect management to conserve its cash to maintain its balance sheet.

BACKGROUND

Canadian Tire, its Dealers, store operators, franchisees and Petroleum agents operate more than 1,200 general merchandise and apparel retail stores and gas bars. The Canadian Tire Financial Services division of the company also offers a variety of financial services to Canadians, primarily its proprietary Options MasterCard, personal loans, lines of credit, insurance and warranty products, guaranteed investment certificates offered through third-party brokers, and a retail banking pilot offering products to customers in certain test markets.

OPERATIONS

Gross Operating Revenue (C\$ in Millions)	For the First Quarter Ended		
	March 29, 2008	April 4, 2009	Change
Canadian Tire Retail	\$1,071.3	\$1,099.3	2.6%
Financial Services	\$208.7	\$217.3	4.1%
Petroleum	\$422.8	\$321.9	-23.9%
Mark's Work Warehouse	\$147.5	\$147.1	-0.3%
Eliminations	(\$25.0)	(\$27.5)	
Total Gross Operating Revenue	\$1,825.3	\$1,758.1	-3.7%

Earnings (C\$ in Millions)	For the First Quarter Ended		
	March 29, 2008	April 4, 2009	Change
Canadian Tire Retail	\$43.6	\$32.8	-24.8%
Financial Services	\$54.2	\$32.5	-40.0%
Petroleum	\$5.0	\$6.0	20.0%
Mark's Work Warehouse	(\$3.4)	(\$4.9)	-44.1%
Earnings Before Income Taxes	\$99.4	\$66.4	-33.2%
Income Taxes	\$32.3	\$16.7	
Net Earnings	\$67.1	\$49.7	-25.9%

Canadian Tire Retail - First quarter gross operating revenue increased 2.6%, primarily as a result of higher net shipments to Dealers, particularly in the automotive and home categories. Canadian Tire Retail's first quarter adjusted earnings before taxes were \$32.7 million, down \$6.6 million compared to a year ago. Despite strong margins, increased promotional expenses and expenses associated with the opening of the new Eastern Canada Distribution Center led to the earnings decline.

Financial Services - The segment's gross operating revenue increased 4.1% largely as a result of an increase in credit interest earned due to an increase in interest-bearing loan balances. In addition, ongoing expenses were well controlled as the first quarter operating ratio on a rolling 12-month basis was 47 basis points better compared to the same period in 2008. These were offset, however, by increased provisioning (Bad Debt) costs. Actions have been taken, including a third-party review of the company's risk management practices, to manage potential write-offs during a period in which higher than historical rates of delinquencies are occurring due to soft economic conditions and consequent higher unemployment levels.

During the first quarter of 2009, the company's net write-off rate on a 12-month basis has increased from 5.83% last year to 6.52% this year, reflecting the current economic environment. The company's goal is a write-off rate of between 5% and 6%.

Petroleum - Retail sales and gross operating revenues declined more than 20% in the first quarter, mostly due to a 23.7% decrease in retail gasoline prices year-over-year. However, despite

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Retailer of the Week: Canadian Tire

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this dramatic decrease in pump-prices, Petroleum enjoyed a 20.4% increase in pre-tax earnings as gasoline margins were stronger this quarter versus last year. This was partially offset by an increase in operating and environmental expenses.

Gasoline sales volumes during the first quarter were down slightly, consistent with industry gasoline volume declines reported by Statistics Canada. Even though the average retail gas price has declined significantly since the first quarter last year, gas prices have stabilized since late 2008.

Mark's Work Warehouse - Sales continued to be impacted by further softening of retail and economic conditions across many parts of Canada. Corporate store sales in industrial wear were down slightly, with men's industrial work wear suffering the largest-dollar decrease. Corporate store sales of men's casual clothing also declined in categories such as outerwear, sweaters, casual bottoms and t-shirts. A redeeming factor this quarter was that ladies' wear corporate store sales increased and performed better than men's wear across all major categories.

Pre-tax earnings decreased primarily as a result of a 4.1% decrease in comp store sales and higher expenses associated with the continued expansion of the store network and backline infrastructure. Overall, the gross margin rate on merchandise sold was very strong, up 7.7% thanks, in part, to improved markdown management, but that was not sufficient to offset the weaker sales and increased occupancy, depreciation, system and other cost.

LIQUIDITY AND CASH FLOW

For the most part the company's balance sheet remains fairly solid with a significant amount of liquidity. The company current ratio at the end of the first quarter was a solid 2.0:1.0 versus 1.7:1.0 last year. Cash on hand of \$519.5 million represents approximately 21% of current liabilities, augmented by a \$1.2 billion revolving credit facility, of which about \$1.1 billion was available as of the end of the quarter.

In addition, management continues to focus on managing capital expenditures and expenses to insure adequate cash flow in the current economic environment. Gross capital expenditures for the quarter were \$79 million and the company expects 2009 Capex to be approximately \$360 million, significantly lower than 2008's capital expenditures of \$472 million and down from the initial budget of \$390 million. For the balance of the year, there are no corporate debt maturities that are anticipated, but later in the year, the company has term notes of \$625 million, which will be repaid or refinanced.

OUTLOOK

Canadian Tire has and continues to managed aggressively, with a mindset of continuous improvement. While the company is suffering like all in retail, it continues to generate significant earnings. While we are a bit concerned regarding the company's Financial Services segment in the current environment, we believe that the company has adequately reserved for any bad debt or forfeitures that it may encounter, and has sufficient borrowing flexibility and access to the credit markets.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
SMART & FINAL STORES CORP	B-		STABLE		NR
RITE AID CORP	B-	B-	STABLE	NEGATIVE	E
NEFF CORP	NR	B-	NR	NEGATIVE	NR
CARDINAL HEALTH INC	BBB+	BBB	STABLE	POSITIVE	C-
HARRY & DAVID HOLDINGS INC	CC	NR	NEGATIVE	NR	NR
STAR GAS PARTNERS L P	B	B-	STABLE	POSITIVE	D

Did You Know...?

First-time state unemployment claims fell 47,000 to 522,000, the Labor Department reported. Continuing claims also declined, falling 642,000 to 6.27 million.

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Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Drug							
Abbott	\$7,495.0	\$7,314.0	2.5%	NA	\$1,288.0	\$1,322.0	-2.6%
Home Centers							
Griffin Land & Nurseries	\$19.7	\$21.1	-6.6%	NA	(\$1.0)	(\$0.4)	-158.1%
Tractor Supply Company	\$946.5	\$898.3	5.4%	-2.7%	tba	\$43.4	tba
W.W. Grainger	\$1,533.3	\$1,756.9	-12.7%	tba	\$92.5	\$113.2	-18.3%
Sports & Footwear							
West Marine, Inc.	\$215.4	\$226.7	-5.0%	-1.0%	tba	\$6.1	tba
WinMark Corporation	\$8.8	\$8.7	1.4%	NA	\$1.2	\$0.9	28.5%

Upcoming Reporting Dates

Company	Event	Date
Amazon.com	Financial Results	Jul 23, 2009
Bebe Stores	Financial Results	Aug 27, 2009
Cabela's	Financial Results	Jul 30, 2009
Cache	Financial Results	Jul 20, 2009
Charlotte Russe Holding	Financial Results	Jul 21, 2009
Express Scripts	Financial Results	Jul 30, 2009
Golfsmith	Financial Results	Jul 30, 2009
GSI Commerce	Financial Results	Jul 29, 2009
IAC Interactive	Financial Results	Jul 29, 2009
Ingram Micro	Financial Results	Jul 30, 2009
Loblaw Companies	Financial Results	Jul 24, 2009
McKesson	Financial Results	Jul 28, 2009
Metro Inc.	Financial Results	Aug 6, 2009
Nash Finch	Financial Results	Jul 28, 2009
Nordstrom	Financial Results	Aug 13, 2009
Office Depot	Financial Results	Jul 28, 2009
OfficeMax	Financial Results	Jul 30, 2009
Overstock.com	Financial Results	Jul 22, 2009
Rent-A-Center	Financial Results	Jul 28, 2009
Ross Stores	Financial Results	Aug 20, 2009
Safeway	Financial Results	Jul 23, 2009
Sherwin-Williams	Financial Results	Jul 21, 2009
Shoppers Drug Mart	Financial Results	Jul 22, 2009
Spartan Stores	Financial Results	Jul 28, 2009
Supervalu	Financial Results	Jul 28, 2009
Tractor Supply	Financial Results	Jul 22, 2009
United Rentals	Financial Results	Jul 30, 2009
Wesco International	Financial Results	Jul 23, 2009
Whole Foods Market	Financial Results	Aug 4, 2009

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