

RETAIL SECTOR WEEKLY

Key Retail News and Commentary

Inside this issue:

Management on the Move	2
Options and Resources	2
Bankruptcy Blotter	3
Off the Rack	4
Mass Merchant Musings	4
Hi Tech Entertainment	5
Heard in the Grocery Aisle	5
The Global World of Sports and Footwear	6
Specialty Items	6
Rating Changes & Outlooks	6
Health & Beauty Aids	7
Upcoming Reporting Dates	7
FYI for the DIY	11
Second Quarter Scorecard	11

Job Losses Moderate In July

In another hopeful sign that the worst recession in generations is finally easing, the government estimated last week that fewer jobs were lost in July than in any month in nearly a year.

The unemployment rate, meanwhile, unexpectedly fell to 9.4% as nearly a half a million people dropped out of the labor market. U.S. nonfarm payrolls declined by 247,000 to 131.5 million in July, the 19th consecutive month of job losses, about in line with economists' estimates of a 275,000 decline.

It was the fewest lost payroll jobs since last August, just before the global credit meltdown that followed the collapse of Lehman Bros. and the government rescue of several large financial companies.

Economists said the July jobs report showed the labor market was "getting better but was still not good," in the words of economists for Merrill Lynch. Economists were particularly encouraged that the average work week rose for the first time since August 2008.

But structural unemployment worsened. The number of people who have been out of work longer than six months soared by a record 584,000 to 5 million, accounting for more than a third of all unemployment for the first time on record.

Most industries continued to shed jobs in July, but at a much slower pace than they did in the autumn and winter. Payrolls have fallen by an average of 331,000 in the past three months, compared with an average of 645,000 in the six months before that.

(continued on page 2)

Retailer of the Week: Office Depot

We are upgrading Office Depot to a "D" moderately high-risk credit while reaffirming a "negative" outlook. While the operations at Office Depot haven't shown much sign of improving, the actions taken in the first half of the year have improved the short term side of the balance sheet and have put the company in much better position for the near term. Vendors should still continue to monitor the company, as we have yet to see the operations bottom out.

During the second quarter, Office Depot received a sizeable investment from BC Partners. The company issued \$350 million in Redeemable Preferred Stock, for which Office Depot received cash proceeds of \$326.9 million. Office Depot also continued to sell off some fixed assets, which provided \$48.5 million in cash during the second quarter. This is in addition to the \$98.2 million in cash the company received in the first quarter from the sale of assets. A portion of this money was used to pay off the revolver borrowings that were on the books to open the year, but the majority of the money has gone straight onto the balance sheet as cash. The firm's cash position had swelled to \$558.7 million at the end of the second quarter, much higher than we have seen at this company in some time. The firm also has over \$750 million available on its revolver. Office Depot does not expect to have to borrow on its revolver for the remainder of the year.

Surely, Office Depot still has plenty of issues to deal with. The firm's revenue stream has continued to falter under the weight of the economy, as most of its business and local government customers drastically cut spending. The company recorded another sizeable loss during the period, and the bottom line has shown no signs of flattening out.

(continued on page 8)

Remember...

When your work speaks for itself, don't interrupt.

[RETURN TO FIRST PAGE](#)

Job Losses Moderate In July

(continued from page 1)

Since the recession began in December 2007, 6.7 million jobs have been lost, a 4.8% decline, according to a survey of hundreds of thousands of work sites around the nation. In percentage terms, it's the biggest decline of any recession since 1950.

A separate survey of 60,000 households also showed some improvement in July, with the unemployment rate falling to 9.4% from 9.5% in June. It was the first decline in the jobless rate since April 2008. Economists were expecting the jobless rate to rise to 9.7%. An alternative measurement of unemployment that includes discouraged workers and workers forced to work just part-time fell to 16.3% in July from 16.5% in June.

Unemployment fell by 267,000 to 14.5 million, while employment fell by 155,000. The labor force declined by 422,000, which means the jobless rate declined because people dropped out of the work force, not because they got jobs. The employment-participation rate fell from 65.7% to 65.5%.

The report did show some signs of improvement. The average work week rose to 33.1 hours after falling to a record-low 33 hours in June. The average work week in manufacturing (a key leading indicator) rose from 39.5 hours to 39.8 hours. Total hours worked in the private-sector were unchanged. The increase in the factory work week could mean industrial production will rise for the first time since October.

Job losses moderated in many major industries in July. Of 271 industries, 30.1% were hiring on net in July, up from 28.6% in June. In manufacturing, 22.3% of industries were hiring, the highest percentage since September.

Feedback?

Questions?

Suggestions?

[Click Here](#)

Management on the Move

Pier 1 Imports, Inc. appointed **Catherine David** EVP - Merchandising. David was most recently President and COO of Kirkland's, Inc.

Stein Mart, Inc. appointed **Gregory W. Kleffner** Chief Financial Officer. Kleffner was previously CFO at Kellwood Company.

GameStop Corp. appointed **Chris Petrovic** as General Manager, Digital Media, a newly created position. Petrovic comes from Playboy Enterprises, where he was Vice President of Digital Media.

Cardinal Health's Vice Chairman and CEO of the company's Healthcare Supply Chain Services **George Barrett** has been elected to

the company's board of directors. Barrent will serve as chairman and chief executive officer of Cardinal Health following the CareFusion spinoff.

Children's Place Retail Stores, Inc. terminated the employment of **Richard Flaks** who was SVP Planning, Allocation and Information Technology.

Best Buy Co., Inc. promoted SVP Marketing **Barry Judge** to EVP and Chief Marketing Officer, and SVP of Customer Experience Creation **Tim Sheehan** to EVP Enterprise Retail Operations. Judge has been with BBY since 1999; Sheehan since 1985.

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.

How to Advertise in this Publication: If you wish to advertise in our weekly newsletter please contact us via email at serdenis@gcszone.com.

Subscribe to our Newsletter: Click [here](#) to subscribe to *Retail Sector Weekly*.

[RETURN TO FIRST PAGE](#)

Bankruptcy Blotter

Another seven global corporate issuers defaulted last week, bringing the year-to-date total to 194, nearly quadruple the amount a year earlier, according to Standard & Poor's. This year's defaults surpassed 2008's total in May.

Finlay Enterprises Inc., which operates such high-end jewelry chains as **Bailey Banks & Biddle**, filed for Chapter 11 protection with plans to put its assets on the auction block. The company, in a deal that's subject to higher bids at auction, is seeking to award **Gordon Brothers Retail Partners LLC** the right to liquidate the inventory at its remaining 106 stores. The company expects proceeds from the liquidation of approximately \$116 million.

The Boscov's Inc. chain received a \$43.7 million loan from the **U.S. Department of Housing and Urban Development** that will be used to help fund the company's exit from bankruptcy. The money will be used as part of a financing package, including \$200 million in bank loans and about \$60 million from **Boscov** family members, to purchase the company's assets.

Eddie Bauer completed its previously announced sale to **Golden Gate Capital**, enabling it to emerge from bankruptcy protection as a new, privately held company. Golden Gate won a bankruptcy auction last month with a \$286 million cash bid, and agreed to operate at least 300 of Eddie Bauer's 370

North American stores and keep most of its employees, including management.

In the wake of the company's sale, **Eddie Bauer** wants to hire a \$100,000 per month Chief Restructuring Officer to help steer it through the final phase of its bankruptcy case. Most of its employees were hired by the new entity, and all of its officers have resigned.

Weisman Discount Home Centers, a chain of home centers with locations in Brooklyn, Queens and Levittown, New York, filed Chapter 7 bankruptcy in Delaware. **William Hazeltine** of the firm **Sullivan Hazeltine Allinson** is the attorney for the petitioner.

Protests by unsecured creditors yielded changes to **Crabtree & Evelyn Ltd.**'s bankruptcy loan, cutting the amount of the loan to \$26.4 million from the originally proposed \$40 million. The creditors committee was wary of protections afforded to lender **KLK Overseas Investments Ltd** under the pact.

The unsecured creditors of **Crabtree & Evelyn** are also seeking to hire financial advisers whose duties will include taking a closer look at transactions between the retailer and its affiliates or other "insiders." In particular, the creditors cast doubt on a \$13.7 million claim posted by lender **KLK Overseas Investments Ltd.**, saying there was no proof the debt is secured.

Did You Know...?

The Institute for Supply Management factory index rose to 48.9% in July from 44.8% in June, and a low of 32.9% in December 2008. Both production and new orders rose above 50%.



With your
trade risks
under control,
how high
could you go?

- Credit Insurance
- Business Information
- Collection Services
- Factoring

coface 

www.coface-usa.com

Your Trade Risks, Under Control

[RETURN TO FIRST PAGE](#)

Off the Rack

Charming Shoppes Inc. has a new senior secured revolving credit facility through Wells Fargo Retail Finance and Bank of America Merrill Lynch. The new \$225 million (expandable to \$300 million) facility expires in July 2012.

Nordstrom, Inc. will open a 45,000 sq. ft. Nordstrom Rack in Tampa, Florida in fall 2010.

Stage Stores is now projecting earnings for the second quarter of \$0.23 per share, within the company's guidance range of \$0.20 to \$0.27.

Wet Seal, Inc. narrowed its second quarter earnings guidance to between \$0.02 and \$0.03 per share, within the lower end of the WTSLA's initial guidance.

Gymboree Corp. raising its second quarter earnings guidance to \$0.36 to \$0.39 per share, up from prior guidance of \$0.19 to \$0.24. Q2 2008 earnings were \$0.27 per share.

Macy's, Inc. now expects second quarter earnings of \$0.15 to \$0.17 per share, excluding restructuring-related costs from initiatives announced in February 2009.

Gap Inc. expects earnings in the second quarter to be \$0.30 to \$0.32 per share, on the strength of healthier than expected merchandise margins. GPS broke out second quarter comp store sales as follows: Gap North America, -10%; Banana Republic North America, -15%; Old Navy North America. -4%; International, -5%.

American Eagle Outfitters, Inc. now expects second quarter earnings of \$0.16 per diluted share, including a \$0.02 tax benefit, up from previous guidance of \$0.12 to \$0.15 per share.

Chico's FAS, Inc. expects earnings for the second quarter to be \$0.09 to \$0.10 per share, excluding any special charges, up from \$0.04 per share last year.

Aeropostale, Inc. raised earnings guidance for the second quarter to \$0.54 to \$0.55 per share, based on a better than expected July. Previous guidance was for earnings in the range of \$0.45 to \$0.47 per share, and Q2 2008 net income was \$0.31 per share.

TJX Companies expects second quarter earnings to be near the high end of previously issued guidance of \$0.56 to \$0.59 per share.

Kohl's Corp. raised earnings guidance to \$0.73 to \$0.74 per diluted share for the second quarter, up from previous guidance of \$0.56 to \$0.64.

J. C. Penney Company, Inc. now expects second quarter loss will be only \$0.01 per share, compared to a loss of \$0.08 to \$0.12 per share guided previously.

Ross Stores, Inc. raised earnings guidance for the second quarter ended August 1 to increase to \$0.81 to \$0.82 per share compared to \$0.54 last year.

Cato Corp. says second quarter earnings will be near the high end of previous guidance of \$0.48 to \$0.54 per share, and up from \$0.41 last year.

Children's Place Retail Stores, Inc. saw a stockholder lawsuit filed in the Superior Court of New Jersey, which alleges that management breached their fiduciary duties in connection with the Disney Store sale.

Did You Know...?

Personal incomes fell 1.3% in June following the 1.3% gain in May, the Commerce Department reported. The change was almost entirely due to a one-time payment to Social Security recipients in May.

Mass Merchant Musings

Former **Kmart** CEO Charles Conaway should pay \$22.6 million—\$13.7 million in "ill-gotten gains" and \$8.9 million in civil penalties—the SEC said in a court filing. Conaway was found liable for misleading investors in the months before the company filed for bankruptcy.

Dollar General Corp. replaced CIT with Wells Fargo as Administrative Agent, Collateral Agent, Swingline Lender and Letter of Credit Issuer under the company's ABL Credit Agreement.

99c Only Stores sales increased 9.2% to \$321.8 million for its fiscal first quarter ended June 27, 2009. Same store sales increased

7.2%. Net income was \$9.5 million from a loss of \$1.5 million in Q1 2009. Looking ahead to the second quarter NDN expects positive low single digit same-store sales and earnings of approximately \$4.2 million. For the fiscal year, earnings before taxes are expected to be approximately 4.5% of total sales. Also, the company announced it will continue to operate in Texas and canceled its plan to exit that market.

BJ's Wholesale Club, Inc. noted that it's -7.7% comp store sales in the second quarter would have been +2.9% excluding the effects of lower gasoline prices.

[RETURN TO FIRST PAGE](#)

Hi Tech Entertainment

Amazon.com, Inc.'s remote deletion of certain Kindle e-books has resulted in lawyers for two of the victims—a high school student and another person—filing a lawsuit in U.S. District Court in Seattle seeking class-action status. The suit seeks unspecified damages and that Amazon not be permitted to delete e-books going forward.

Also, **Amazon** released a mobile shopping application for phones running Google's Android operating system. Shoppers can snap a picture of an item or scan its bar code and get instant competitive price information from Amazon and its vendors.

Systemax Inc. has signed a definitive agreement to acquire European IT products supplier WStore Europe, SA. The acquisition is expected to close in the third quarter, and terms were not disclosed.

Overstock.com, Inc. terminated its loan agreement with Wells Fargo Retail Finance, citing the fees and restrictions imposed by the terms of the agreement. OSTK paid approximately \$135,000 to WFRF in connection with the termination.

Coinstar Inc. will place Redbox DVD rental kiosks in all 2,600 Kroger-owned supermarkets, following a successful 200 store test. There are currently over 15,000 Redbox kiosks installed nationwide.

RadioShack has re-branded itself as "The Shack," a name that has been used internally for years. The company itself will not change its name.

Borders is expanding its toy and game selection in all its stores, and will staff the departments with a dedicated specialist who can make recommendations.

Office Depot Middle East licensee M.H. Alshaya Co. has opened its first store in Kuwait.

REX Stores Corp. leased 16 stores to Appliance Direct instead of the 37 stores the two companies previously had agreed. REX will offer the remaining 21 stores to other tenants.

PC Mall, Inc. will open a new 28,000 sq. ft. sales and marketing office in Chicago, Illinois. The facility is expected to open later in the third quarter of 2009.

Did You Know...?

ADP Employment Services reported that the U.S. economy lost 371,000 jobs in July, which was fewer than expected.

Heard in the Grocery Aisle

Ingles Markets, Inc. sales fell 1.0% to \$826.8 million for the fiscal third quarter ended June 27. Excluding gasoline, net sales increased 5.1%. Comp stores sales, excluding gasoline and the Easter shift, increased 1.9%. Net income fell 70.6% to \$4.7 million on higher SG&A and interest expenses.

Ruddick Corp. sales increased 1.1% to \$1.02 billion in the fiscal third quarter ended June 28. Net income was off 32.7% to \$16.5 million, brought down by non-cash charges totaling \$6.1 million after tax for goodwill and long-lived asset impairments. Harris Teeter sales increased by 4.1% to \$964.2 million, as comp store sales increased 1.42%.

Also, **Ruddick** noted that Harris Teeter's new \$100 million Virginia distribution center is likely to be delayed, as the company conducts due diligence and explores other alternatives.

Empire Co. sales increased 6.8% to C\$15.02 billion for the year ended May 2. The Sobeys's

parent saw net income fall 15.8% to C\$265.9 million in the period.

Whole Foods Market, Inc. sales increased 2.0% to \$1.878 billion in its fiscal third quarter ended July 5. Comp store sales decreased 2.5%, and identical store sales, excluding relocations expansions, decreased 3.8%. Net income was up 3.1% to \$35.0 million, including a \$6.8 million non-cash asset impairment charge related to the FTC settlement. WFMI raised its fiscal year 2009 earnings guidance to \$0.80 to \$0.82 per share from previous guidance of \$0.65 to \$0.70 (including charges).

Colorado **King Soopers** and **Safeway** have extended union contracts through September 12, as negotiations continue with UFCW Local 7.

Metro Inc. sales increased 4.3% to \$3.513 billion in its third quarter ended July 4. Same store sales increased by 4.2%. Net income increased 22.5% to \$112.6 million

[RETURN TO FIRST PAGE](#)

The Global World of Sports and Footwear

U.S. outdoor retail sales in June declined 2.9% to \$433.8 million year-over-year from \$446.7 million in June 2008, according to research done by Leisure Trends Group for the Outdoor Industry Association. Aggregate core outdoor retail sales, excluding paddle sports, fell 2% in June to \$382.5 million from \$388.5 million. By channel, specialty outdoor suffered a 4% drop in unit sales, 2% decline in retail prices and 6% dip in dollar sales to \$103.4 million. In outdoor chains, y-o-y June sales were off 1.4% to \$207.3 million and down 1% in units on flat retail prices. Over the trailing 12 months, footwear has accounted for 19% (\$379.7 mm) of chain revenues; apparel, 41% (\$846.2 mm); equipment, 12% (\$234.9 mm) and accessories, 28% (\$574.1 mm). The internet/catalog channel for outdoor merchandise, meanwhile, realized a 5.1% increase in y-o-y June sales to \$71.8 million despite a 5% drop in units.

Big 5 Sporting Goods' current Q3 outlook is calling for comparable store sales of flat to up low single digits and an EPS range of \$0.27 to \$0.34 versus \$0.21 in the year-ago period.

Sport Chalet said it continues to make progress on a number of operating cost-cutting initiatives it disclosed in late June, including amending its loan agreement, improving inventory

management and renegotiating its store lease terms and agreements.

Former **Dick's Sporting Goods** SVP of Real Estate Joseph Queri Jr. and three others were indicted for mail and wire fraud related to approximately \$2 million in kickbacks in the development of new Dick's stores between 1998 and 2005.

The Athlete's Foot parent **NexCen Brands** strikes a 99-year deal with Australia's RCG Corp. Ltd. and its subsidiary, The Athlete's Foot Australia Pty Ltd., the previous master franchisee for TAF in Australia and New Zealand. The new contract includes a one-time, non-refundable licensing fee of \$6.2 million cash to NexCen and grants TAF Australia a royalty-free exclusive license to, and the right to sublicense, the TAF trademarks and trade dress in Australia and New Zealand for additional stores. TAF Australia currently operates 136 doors in the market.

Eastern Mountain Sports completes a \$50 million refinancing that includes raising new equity from existing EMS investors and closing on a new, larger senior credit facility with lenders led by Wells Fargo Retail Finance.

Specialty Items

Zale Corp. announced that more store closings are on the way. Including the already announced 118 stores, Zale Corporation will now shutter a total of 191 under performing sites. This includes 160 fine jewelry locations and 30 kiosks. The company also reached settlements with 34 of the 45 retail locations operated by Finlay Enterprises-owned Bailey Banks & Biddle. Zale Corp. expects to record a charge of \$50 million in the fourth quarter of fiscal 2009 (ending July 31) to cover the additional store closures and settlements with Bailey Banks & Biddle landlords. Proceeds from inventory

reductions are expected to generate about \$55 million in cash between Q4 2009 and Q1 2010.

Ethan Allen has shifted to made to order model for its American case goods manufacturing operation. The company plans to convert its entire American-made case goods business to custom within twelve months.

Blue Nile, Inc. expects third quarter sales will be flat to slightly down compared to last year. For the full year, NILE expects net sales of \$288 to \$295 million, and diluted EPS in the range of \$0.78 to \$0.82.

Rating Changes & Outlooks

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
FINLAY ENTERPRISES INC	NR	D	NR	NM	11
GREAT ATLANTIC & PACIFIC TEA CO	B-	B	STABLE		E
GROUP HEALTH COOPERATIVE	BBB+	A-	NEGATIVE	STABLE	NR
STEWART & STEVENSON HQ	B	B	NEGATIVE	STABLE	NR
DRIVETIME AUTOMOTIVE GROUP	NR	B-	NR	NEGATIVE	NR

[RETURN TO FIRST PAGE](#)

Did You Know...?

U.S.-made factory goods orders rose 0.4% in June, the Commerce Department reported. Orders for durable goods fell 2.2%, while orders for non-durable goods rose 2.7%.

Health & Beauty Aids

CVS Caremark Corp. reported its second quarter results, and raised earnings guidance for the full year. It now expects GAAP earnings of \$2.41 to \$2.46, per share, up from previous guidance of \$2.37 to \$2.45. CVS' second quarter same store sales increase of 6.1% consisted of pharmacy same store sales up 7.5% and front store same store sales up 3.0%.

CVS Caremark opponent Change to Win, which is backed by labor groups, has posted contracts between CVS and various municipalities on its web site. CVS has demanded the documents be removed, and says they contain confidential pricing information.

Also, **CVS Caremark** partnered with **Inverness**

Medical Innovations, adding the services of Inverness' Alere health management business to CVS Caremark's disease management programs for chronically ill patients. Also, Alere customers will have access to service in MinuteClinics.

Walgreens has partnered with Nashville's Vanderbilt Medical Center in a joint venture to provide home infusion, respiratory services and durable medical equipment. The venture will be branded Vanderbilt Home Care, and will be located in Brentwood, Tennessee.

Fred's Inc. now expects earnings near the mid-range of its projected \$0.12 to \$0.15 per diluted share for the second quarter.

Upcoming Reporting Dates

Company	Event	Date
1-800-Flowers.com	Financial Results	Aug 20, 2009
Abercrombie & Fitch	Financial Results	Aug 14, 2009
Advance Auto Parts	Financial Results	Aug 12, 2009
American Eagle Outfitters	Financial Results	Aug 27, 2009
AnnTaylor Stores	Financial Results	Aug 21, 2009
Barnes & Noble	Financial Results	Aug 20, 2009
Bebe Stores	Financial Results	Aug 27, 2009
Big Lots	Financial Results	Aug 25, 2009
BJ's Wholesale Club	Financial Results	Aug 19, 2009
Bon-Ton Stores	Financial Results	Aug 20, 2009
Borders Group	Financial Results	Aug 25, 2009
Cato	Financial Results	Aug 20, 2009
Chico's FAS	Financial Results	Aug 25, 2009
Citi Trends	Financial Results	Aug 19, 2009
Conn's	Financial Results	Aug 27, 2009
dELiA*s	Financial Results	Aug 27, 2009
GameStop	Financial Results	Aug 20, 2009
Gap	Financial Results	Sep 3, 2009
Gymboree	Financial Results	Aug 19, 2009
Hibbett Sports	Financial Results	Aug 20, 2009
Home Depot	Financial Results	Aug 18, 2009
J. C. Penney	Financial Results	Aug 14, 2009
Jo-Ann Stores	Financial Results	Aug 26, 2009
Kirkland's	Financial Results	Aug 26, 2009
Kohl's	Financial Results	Aug 13, 2009
Limited Brands	Financial Results	Aug 19, 2009
Macy's	Financial Results	Aug 12, 2009
Nordstrom	Financial Results	Aug 13, 2009
Pacific Sunwear	Financial Results	Aug 20, 2009
Ross Stores	Financial Results	Aug 20, 2009
Sears Holdings	Financial Results	Aug 20, 2009
Stage Stores	Financial Results	Aug 20, 2009
Stein Mart	Financial Results	Aug 20, 2009
Supervalu	Investor Conference	Aug 13, 2009
Systemax	Financial Results	Aug 11, 2009
Target	Financial Results	Sep 3, 2009
Tech Data	Financial Results	Aug 20, 2009
TJX Companies	Financial Results	Aug 18, 2009
Wet Seal	Financial Results	Aug 20, 2009

[RETURN TO FIRST PAGE](#)

Retailer of the Week: Office Depot

(continued from page 1)

Included in the \$97.9 million operating loss for the second quarter was \$35 million in restructuring charges. This brings the total restructuring charges for the first half of the year to \$155 million. The company has also said that it is expecting a further \$85 million to \$115 million in restructuring charges in the second half of the year. Of the \$35 million charge in the second quarter, \$17 million of it was in the form of a non-cash asset impairment charge.

So far during 2009, Office Depot has closed down 112 locations and opened just three. This is in contrast to past years, when the firm was rapidly expanding its store base. The firm has said that it will open fewer than 10 stores during the last six months of the year. The firm closed down five more stores in the second quarter.

The third quarter, which the firm is currently in, is one of great importance to the company as many consumers head back-to-school. Traditionally, it is a strong quarter from a cash flow perspective. The firm's management does expect this year's back-to-school season to be more price promotional than usual, as it attempts to compete with other retailers that are in similar situations. While management was vague with any sort of projections, they did say that the company is expecting to be EBIT negative for the back half of the year.

\$ figures in millions, 6-Months ended	06/27/2009 (Q2 YTD FY09)	06/28/2008 (Q2 YTD FY08)	Year-over-Year Change
Liquidity Ratios			
Cash and Equivalents	\$558.7	\$156.6	256.76%
Cash and Equivalents % Current Liabilities	\$0.2	\$0.1	1,819 bps
Working Capital	\$1,000.8	\$684.7	46.17%
Current Ratio	1.42x	1.24x	18 bps
Leverage Ratios			
EBITDA * / Interest Expense	2.98x	8.94x	-596 bps
Total Debt	\$731.8	\$912.5	-19.8%
Total Debt / Total Equity **	46.66%	27.93%	1,873 bps
Total Debt / Tangible Equity **	48.08%	51.72%	-364 bps
Total Liabilities / Total Assets	70.22%	55.36%	1,486 bps
Total Liabilities / Tangible Assets	70.85%	69.66%	119 bps

* The EBITDA calculation excludes the \$155 million in special restructuring charges in the first half this year as well as the \$27 million in special restructuring charges in the first half last year. This is a generous exclusion and a conservative credit manager may want to include these charges in the EBITDA calculation, as many of these were cash charges. The non-cash portion of these charges totaled \$26 million.

** Total Equity for the most recent period is inclusive of the \$325.3 million in Redeemable Preferred Stock, which the company classifies as neither permanent equity nor a liability, but in a gray area somewhere in between. Ultimately, shareholders must approve of the conversion of these securities to common stock.

OPERATIONAL PERFORMANCE

Second Quarter Ended June 27, 2009

Revenues for the second quarter ended June 27, 2009 were \$2.82 billion, down 21.7% from the same quarter a year ago. Drilling down on a segment basis, the North American Retail Division revenues fell 21% to \$1.13 billion, the result of an 18% reduction in the segment's comp store sales. Weaknesses in Florida, Texas and California affected the firm's selling ability. North American Business Solutions Division saw revenues fall 18% to \$868.1 million for the three months, driven by a decrease in spending by the firm's corporate and government customers as well as aggressive price cuts. The company's International segment saw revenues fall 25% to \$830 million, but revenues in local currencies fell just 12%.

(continued on page 9)

Did You Know...?

The Institute for Supply Management's non-manufacturing index fell to 46.4% in July from 47.0% in June. The new orders index fell to 48.1% from 48.6%. The business activity index fell to 46.1% from 49.8%.

[RETURN TO FIRST PAGE](#)

Retailer of the Week: Office Depot

(continued from page 8)

During the quarter, the company's gross margin fell just 20 basis points, one relatively bright spot for the firm's beleaguered operations. The firm's margins held relatively steady as the company seems to have gotten its inventory levels down to necessary levels and therefore required fewer markdowns than we have seen in past periods, most notably in Retail. The firm has been working on cutting costs, and the closure of a huge swathe of locations has helped the SG&A spending. The total SG&A spending was down \$124.9 million on a dollar basis. However, revenues fell even faster and the figure still grew 310 basis points as a percentage of revenues.

As was mentioned above, the firm's restructuring plan cost the company \$35 million for the three months. The majority of the charges were taken at the store and warehouse level, while the firm also had a significant charge at the corporate level. During the first quarter last year, there were \$16 million in special charges for similar activities.

For the three months, Office Depot reported an operating loss of \$97.9 million, a sharp drop from a \$1.5 million operating loss for the same quarter last year. Even without the special charges, Office Depot still would have posted a significant operating loss. The North American Retail sector reported the largest loss during the quarter, losing \$13.1 million on the operating line. The Business Solutions Division reported profits of \$22.5 million, while International reported profits of \$3.1 million. All segments reported sharp drops in margins.

Even if we ignore the special charges on the firm's income statement associated with the store closings (a generous exclusion given the fact that much of the charges were cash charges), the firm's adjusted EBITDA still would have remained in negative territory. The adjusted EBITDA for the three months fell over \$90 million from the same quarter a year ago.

Despite the lower net debt position, the firm's interest expense was up 16% to \$16.7 million.

The above factors caused Office Depot to report a large net loss, falling from a small net loss of \$2 million during the quarter last year to an \$82.6 million loss this year.

Adjustable Items	Second Quarter Ended June 27, 2009	Second Quarter Ended June 28, 2008
GAAP Operating Profits (Loss)	(\$97.9 million)	(\$1.5 million)
Severance Expense	\$6 million	\$6 million
Lease/Contract Fees	\$9 million	-
Asset Impairment (Non-cash)	\$17 million	\$8 million
Other	\$3 million	\$2 million
Adjusted Operating Profits (Loss)	(\$62.9 million)	\$14.5 million
Depreciation/Amortization	\$53.1 million	\$66.8 million
Adjusted EBITDA (Loss)	(\$9.8 million)	\$81.3 million

Six Months Ended June 27, 2009

Revenues for the six months ended June 27, 2009 were \$6.05 billion, down 20.1% from the first half a year ago. On a segment basis, North American Retail Division revenues fell 19% to \$2.56 billion, the result of a 17% reduction in the segment's comp store sales. North American Business Solutions Division saw revenues fall 18% to \$1.78 billion for the six months. The company's International segment saw revenues fall 24% to \$1.7 billion, but revenues in local currencies fell 10%.

During the first half of the year, the company's gross margin fell 70 basis points. Most of the drop came in the first quarter, as Office Depot worked to get rid of the rest of the excess inventory. By the time the second quarter came around, the company seemed to be less worried about revenues and more worried about making sure the balance sheet was in proper order. While this was certainly harmful to the top line, it was a necessary step in the restructuring of the company. Even with the \$155 million in special charges during the first half, the SG&A spending was \$219.6

(continued on page 10)

[RETURN TO FIRST PAGE](#)

Retailer of the Week: Office Depot

(continued from page 9)

million lower than it was during the same period last year. Most of the savings was due to the closure of well over 100 stores so far this year.

As was mentioned above, the firm's store closing and restructuring plans cost the company \$155 million for the six months. The company took a \$10 million hit to its cost of goods sold as it was forced to mark down inventory as it held liquidation sales at many of its locations. The company also took a \$145 million charge associated with the store closings as it had to break leases and offer severance, amongst other things. During the first half last year, there were \$27 million in special charges for similar activities.

For the three months, Office Depot reported an operating loss of \$158.4 million, a nasty drop from \$103.7 million in operating profits last year. Without the special charges, Office Depot would have reported just a small operating loss, but the results were still far inferior to the first half last year. The North American Retail saw its profits fall only slightly to \$68.3 million, while the North American Business Solutions Division segment saw its profits halved to \$55.6 million. The poorest segment in terms of profits was the International Division, where profits plummeted over 80% to just \$21.7 million for the six months.

If we ignore the special charges on the firm's income statement associated with the store closings, the firm's adjusted EBITDA would have remained positive. However, the figure would have fallen by more than half from last year.

The above factors caused Office Depot to report a net loss, falling from \$68.8 million in profits during the quarter last year to a \$54.7 million loss this year.

Adjustable Items	Six Months Ended June 27, 2009	Six Months Ended June 28, 2008
GAAP Operating Profits (Loss)	(\$158.4 million)	\$103.7 million
Inventory Write Down	\$10 million	-
Severance Expense	\$17 million	\$15 million
Lease/Contract Fees	\$97 million	-
Asset Impairment (Non-cash)	\$26 million	\$9 million
Other	\$5 million	\$3 million
Adjusted Operating Profits (Loss)	(\$3.4 million)	\$130.7 million
Depreciation/Amortization	\$106.8 million	\$130.4 million
Adjusted EBITDA	\$103.4 million	\$261.1 million

CAPITAL STRUCTURE

If there is one thing for vendors to take solace in for the time being, it is the company's relatively strong liquidity position. After fees, the second quarter investment by BC Partners provided the company with \$326.9 million in extra liquidity. The company also sold more assets during the quarter, turning fixed assets into \$48.5 million in cash. This is in addition to the \$98.2 million that was received from the sale of assets in the first quarter.

The cash from operations did seize up during the quarter, providing the firm with just \$8.6 million in cash flow. For the unsecured creditor, the firm's cash flows should at least suffice for the moment. The company added a lot of liquidity to the balance sheet this year, and while a good portion was used to pay down the revolver, most of the liquidity has gone straight to the balance sheet. Additionally, we head in the third quarter, which is traditionally the firm's strongest quarter from a cash flow perspective. The Back to School season has provided an average of \$265.4 million in positive cash flow over the past five years. While it is likely this year will come in below average, it should provide the firm with at least some more liquidity to cushion the balance sheet.

There was \$558.7 million in cash on the books at the end of the quarter, well over twice the amount that was on the books at the same point a year ago. The cash on hand should, for the

(continued on page 11)

[RETURN TO FIRST PAGE](#)

Retailer of the Week: Office Depot

(continued from page 10)

short term, provide vendors with some comfort. As was mentioned above, the firm used the cash from operations and the cash from the sale of assets to pay off all the borrowings on the revolver. There was nothing outstanding at the end of the second quarter. After accounting for the \$167.6 million in letters of credit, Office Depot had \$753 million available to be borrowed. The facility does not have any covenants until the availability falls below \$187.5 million.

While the net debt position has decreased from last year, the large losses have pulled the firm's equity position lower and have caused the debt indicators to deteriorate accordingly. Even with the addition of the money from BC Capital (which we have classified as equity for comparison purposes), the net equity is still lower than it was a year ago. There was \$731.8 million in debt on the books at the end of the second quarter, down nicely from \$912.5 million last year. The bulk of the firm's debt rests in the \$400 million in senior notes that don't mature until 2013. The remainder is a mixture of capital leases, of which \$54.7 million is classified as current.

FYI for the DIY

Construction spending rose for the second time in three months in June as residential building increased, fresh evidence that the housing sector may be recovering. Still, June's \$965.7 billion in spending was 10.2% below the year-ago level.

McCoy's Building Supply opened its new 73,550 sq. ft. headquarters in San Marcos, Texas, *Home Channel News* reported. McCoy's operates 83 lumberyards and home centers in the south and southwest.

Boosted by low interest rates and bargain home prices, pending sales of existing homes rose in June for the fifth straight month, the longest streak of gains since 2003. The pending home sales index rose 3.6% in June after an upwardly revised gain of 0.8% in May.

ProBuild Holdings, Inc. will close its lumberyard, truss plant and millwork facility in Racine, Wisconsin. ProBuild purchased the operation, formerly known as Big Buck Building Centers, in July 2008.

Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
Apparel							
Abercrombie & Fitch	\$648.5	\$845.8	-23.3%	-30.0%	tba	\$77.8	tba
Aeropostale, Inc.	\$453.0	\$377.1	20.1%	12.0%	tba	\$21.1	tba
American Eagle Outfitters	\$657.6	\$688.8	-4.5%	-10.0%	tba	\$59.8	tba
Bon Ton Stores, Inc.	\$609.2	\$673.4	-9.5%	-9.8%	tba	(\$33.8)	tba
Cache, Inc.	\$56.9	\$74.0	-23.1%	-23.0%	\$0.8	\$2.1	-59.9%
Cato Corporation	\$225.4	\$231.0	-2.4%	-3.0%	tba	\$12.1	tba
Chico's FAS, Inc.	\$419.9	\$405.2	3.6%	1.3%	tba	\$6.7	tba
Dillard's, Inc.	\$1,366.3	\$1,606.7	-15.0%	-13.0%	tba	(\$38.3)	tba
Gap Inc.	\$3,240.0	\$3,499.0	-7.4%	-8.0%	tba	\$229.0	tba
Gymboree Corporation	\$212.3	\$202.8	4.7%	-1.0%	tba	\$8.0	tba
J.C. Penney Company	\$3,943.0	\$4,282.0	-7.9%	-9.5%	tba	\$117.0	tba
Jo-Ann Stores, Inc.	\$419.4	\$403.0	4.1%	1.8%	tba	(\$11.7)	tba
Kohl's Corporation	\$3,806.0	\$3,725.0	2.2%	-2.3%	tba	\$236.0	tba
Limited Brands	\$2,067.0	\$2,284.0	-9.5%	tba	tba	\$102.0	tba
Macy's, Inc.	\$5,165.0	\$5,718.0	-9.7%	-9.5%	tba	\$73.0	tba
Nordstrom, Inc.	\$2,145.0	\$2,287.0	-6.2%	-9.8%	tba	\$143.0	tba
Ross Stores, Inc.	\$1,769.0	\$1,640.0	7.9%	3.0%	tba	\$71.3	tba
Saks Incorporated	\$555.9	\$650.9	-14.6%	-15.5%	tba	(\$31.7)	tba
Stage Stores, Inc.	\$342.0	\$373.0	-8.3%	-10.7%	tba	\$9.7	tba
Stein Mart, Inc.	\$287.5	\$311.6	-7.7%	-4.5%	tba	(\$8.0)	tba
Tandy Leather Factory	\$13.2	\$13.8	-4.3%	4.3%	\$0.8	\$0.7	16.2%
Wet Seal, Inc.	\$136.4	\$149.1	-8.5%	-10.6%	tba	\$9.8	tba

(continued on page 12)

[RETURN TO FIRST PAGE](#)

RETAIL SECTOR WEEKLY

Second Quarter Scorecard

(continued from page 11)

\$ 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%
CVS Caremark Corporation	\$24,871	\$21,140	17.6%	6.1%	\$886.5	\$774.8	14.4%
Drugstore.com, Inc.	\$100.3	\$92.2	8.8%	NA	\$1.0	(\$2.3)	145.2%
Duane Reade Holdings	\$479.1	\$451.4	6.1%	1.7%	(\$11.6)	(\$12.1)	4.1%
Express Scripts, Inc.	\$5,503.3	\$5,530.8	-0.5%	NA	\$192.3	\$190.2	1.1%
Shoppers Drug Mart (C\$)	\$2,288.8	\$2,109.3	8.5%	5.7%	\$136.1	\$126.6	7.5%
Food							
Loblaw Companies Ltd (C\$)	\$7,233.0	\$7,037.0	2.8%	2.5%	\$193.0	\$140.0	37.9%
Nash Finch Company	\$1,216.6	\$1,023.9	18.8%	-0.8%	\$9.5	\$9.4	1.1%
Publix Super Markets	\$6,000.0	\$5,850.1	2.6%	-2.6%	\$300.8	\$295.8	1.7%
Safeway, Inc.	\$9,462.1	\$10,120.0	-6.5%	-1.5%	\$238.6	\$234.3	1.8%
Weis Markets, Inc.	\$615.4	\$603.4	2.0%	2.4%	\$15.2	\$12.8	18.5%
High-Tech & Electronics							
Amazon.com, Inc.	\$4,651.0	\$4,063.0	14.5%	NA	\$142.0	\$158.0	-10.1%
Conn's, Inc.	\$190.3	\$190.6	-0.2%	-5.2%	tba	\$10.2	tba
IAC/InterActiveCorp	\$340.0	\$354.2	-4.0%	NA	\$40.8	(\$421.6)	109.7%
Ingram Micro Inc.	\$6,578.6	\$8,816.6	-25.4%	NA	\$25.3	\$58.9	-57.0%
Office Depot, Inc.	\$2,824.1	\$3,605.1	-21.7%	-18.0%	(\$82.6)	(\$2.0)	-4030%
OfficeMax Incorporated	\$1,657.9	\$1,984.6	-16.5%	-11.6%	(\$17.7)	(\$895.3)	98.0%
PC Connection, Inc.	\$377.3	\$449.4	-16.0%	NA	(\$6.5)	\$5.1	-227.5%
PC Mall, Inc.	\$261.4	\$331.2	-21.1%	NA	\$0.8	\$3.0	-73.3%
RadioShack Corporation	\$965.7	\$994.9	-2.9%	-4.0%	\$48.8	\$41.4	17.9%
Home Centers							
Builders FirstSource, Inc.	\$175.5	\$282.3	-37.8%	NA	(\$22.6)	(\$45.9)	50.8%
Fastenal Company	\$474.9	\$604.2	-21.4%	-24.2%	\$43.5	\$76.2	-42.9%
Griffin Land & Nurseries	\$19.7	\$21.1	-6.6%	NA	(\$1.0)	(\$0.4)	-158.1%
Interline Brands, Inc.	\$269.9	\$311.4	-13.3%	NA	\$6.4	\$11.2	-42.9%
Sherwin-Williams Company	\$1,947.8	\$2,229.5	-12.6%	-13.5%	\$158.0	\$171.7	-8.0%
Tractor Supply Company	\$946.5	\$898.3	5.4%	-2.7%	\$54.8	\$43.4	26.3%
True Value Company	\$540.7	\$571.3	-5.4%	-2.2%	\$27.8	\$18.5	50.3%
United Rentals, Inc.	\$615.0	\$831.0	-26.0%	NA	(\$17.0)	\$37.0	-145.9%
W.W. Grainger	\$1,533.3	\$1,756.9	-12.7%	tba	\$92.5	\$113.2	-18.3%
Wesco International	\$1,159.2	\$1,587.8	-27.0%	NA	\$26.4	\$58.0	-54.5%
Mass Merchants							
Big Lots, Inc.	\$1,071.2	\$1,105.2	-3.1%	-2.4%	tba	\$26.0	tba
BJ's Wholesale Club, Inc.	\$2,500.0	\$2,702.7	-7.5%	-7.7%	tba	\$36.5	tba
Dollar Tree Inc.	\$1,220.0	\$1,090.0	11.9%	6.8%	tba	\$37.6	tba
Fred's, Inc.	\$434.0	\$447.1	-2.9%	-1.3%	tba	\$1.0	tba
Overstock.com	\$176.1	\$188.8	-6.7%	NA	\$0.4	(\$7.4)	105.4%
Target Corporation	\$14,567	\$15,472	-5.8%	-6.2%	tba	\$634.0	tba
Specialty							
Aarons, Inc.	\$417.3	\$387.0	7.8%	8.4%	\$27.8	\$23.3	19.3%
Blue Nile, Inc.	\$69.9	\$73.7	-5.2%	NA	\$2.8	\$3.2	-12.5%
Brookstone, Inc.	\$73.0	\$97.4	-25.1%	-18.6%	(\$16.7)	(\$8.7)	-92.0%
Haverty Furniture	\$129.7	\$168.4	-23.0%	-22.6%	(\$6.6)	(\$2.3)	-187.0%
Rent-A-Center, Inc.	\$679.6	\$719.0	-5.5%	-6.2%	\$41.9	\$37.7	11.1%
Sports & Footwear							
Bakers Footwear Group, Inc.	\$43.7	\$43.6	0.2%	0.7%	tba	(\$2.3)	tba
Big 5 Sporting Goods Corp.	\$216.0	\$209.0	3.3%	0.3%	\$4.7	\$1.7	170.0%
Cabela's	\$549.2	\$526.0	4.4%	6.1%	\$9.1	\$7.3	24.7%
Golfsmith International	\$114.8	\$130.0	-11.7%	-9.5%	\$6.8	\$8.6	-20.9%
GSI Commerce	\$187.2	\$193.2	-3.1%	NA	(\$13.1)	(\$20.3)	35.5%
West Marine, Inc.	\$215.4	\$226.7	-5.0%	-1.0%	\$32.5	\$4.4	638.6%
WinMark Corporation	\$8.8	\$8.7	1.4%	NA	\$1.2	\$0.9	28.5%

Numbers in italics are implied or company estimates.

[RETURN TO FIRST PAGE](#)