

# RETAIL SECTOR WEEKLY

## Key Retail News and Commentary

### Inside this issue:

Specialty Items	2
Options and Resources	2
Bankruptcy Blotter	3
Heard in the Grocery Aisle	3
Off the Rack	4
Management on the Move	5
Hi Tech Entertainment	5
The Global World of Sports and Footwear	6
Mass Merchant Musings	6
Health & Beauty Aids	6
FYI for the DIY	7
General Retail News	7
Rating Changes & Outlooks	7
Upcoming Reporting Dates	9
Second Quarter Scorecard	10

#### Remember...

*Do or do not.  
There is no try.*

[RETURN TO FIRST PAGE](#)

### The Changing Face Of Bankruptcy

The need for speed, a shortage of DIP financing, government bailouts, and a complex web of debt structures are the hallmarks of the most recent crop of Chapter 11 filings.

There was a heightened sense of urgency to the Chrysler bankruptcy petition. When the company signed an agreement in May to sell most of its assets to Italy's Fiat, the clock began ticking. The American carmaker needed to make a quick exit from bankruptcy.

Fiat said it wouldn't wait past June 15th to ink the deal. Meanwhile, Chrysler was being pressed by dealers and vendors to restart idle factories, as those groups had about three months before they ran out of inventory and working capital, respectively. What's more, the Obama Administration said it was willing to provide financing to restructure the company, but only for about the same three-month period.

In a notable effort, Chrysler emerged from bankruptcy 45 days after it filed its Chapter 11 petition using what is known as a Section 363 sale. Now other companies that succumb to Chapter 11 protection may want to follow, and in fact many already have. Since the beginning of the year, General Motors, Midway Games, Nortel, and Tropicana Atlantic City Casino and Resort have all initiated 363 sales.

Unlike traditional bankruptcies, a petitioner that files a 363 transaction – which is named for the bankruptcy code provision under which it falls – does not submit a reorganization plan to the court. Rather, the company arranges to sell assets to a buyer in an expedited process that does not require buy-in from the debtor or its shareholders.

Creditors balk at such deals, as the speedy sale process leaves little but unwanted assets and liabilities to be liquidated in a Chapter 7 proceeding. In contrast, buyers love the idea of quickly purchasing assets at fire-sale prices, free and clear of liens and claims.

*(continued on page 2)*

### Retailer of the Week: Whole Foods Market

We are reiterating our moderately high risk, 'D' credit rating on Whole Foods, but raising our outlook from stable to a new level of positive. No, we're not raising this account's outlook due to anything found in outspoken CEO John Mackey's Wall Street Journal editorial on health care reform where he argued for less government control. Instead, we're sticking with the numbers, where we saw some tangible signs that the worst may be over for this high-end organic grocer who some know as "Whole Paycheck". While any kind of continued economic downturn would likely be bad Whole Foods business, maybe the worst is now in the grocer's rearview mirror.

Same store sales declines were less severe in Q3 2009 than in previous quarters; moreover, comp declines appeared to be narrowing further as the firm's fiscal fourth quarter got underway. Additionally, we've seen the company be able to reverse the downward trajectory of its gross margin. Recent gross margin gains were not eroded by the retailer's SG&A expenses; hence, these proceeds dropped down to the operating profit line. So, in a nutshell, some good things could be transpiring on the P&L statement.

Liquidity remains ample thanks to a greatly enhanced cash balance after Q1 2009's preferred stock transaction and heightened revolver availability. Balance sheet leverage is not overwhelming from our perspective. Finally, the company's FTC settlement has received final approval and essentially eliminates what had been a multi-year distraction.

*(continued on page 8)*

## The Changing Face Of Bankruptcy

(continued from page 1)

In some cases, all parties agree that a 363 sale makes sense. The classic time-sensitive example involves a bankrupt vegetable wholesaler that runs out of money to pay its growers for the broccoli, lettuce, and spinach that sit rotting in boxcars while Chapter 11 proceedings drag on. The faster the company emerges from bankruptcy and pays its creditors, the faster the veggies make it to grocery-store shelves.

Of course, Chrysler and GM were not hampered by rotting broccoli. However, industry experts believe no automaker could survive protracted bankruptcy proceedings, simply because of their interdependency with dealers and major suppliers. It was very possible that none of the three would have survived had production lines remained idle for an extended period of time, and it was virtually impossible for the carmakers to ramp up production with demand tumbling and cash dwindling. For them, the fast 363 sales seemed necessary.

While there is no central repository that tracks 363 sales, there is reason to believe these accelerated transactions are becoming more popular. The number of Chapter 11 filings rose 69%, year-over-year, for the 12-month period ending March 31, 2009, according to the U.S. Bankruptcy Courts. That "sheer number of bankruptcies," combined with the lack of availability of DIP financing, probably means that more 363 sales are being completed, posits Douglas Pugliese, managing director of valuation consultancy Marshal & Stevens. "Companies are going straight into liquidation" because there is not enough DIP financing in the market, says Mr. Pugliese.

Another reason for the increase in 363 sales is lender impatience. Tight credit markets have forced lenders to be stingy with respect to giving borrowers more time before declaring them in default. While lenders won't be "irrational," and will continue to rework credit terms for most commercial customers, the time horizon for working out new payoff schedules has shrunk from about a year down to three months. That's because banks and other lenders know they may be able to quickly recoup some of their investment through an accelerated bankruptcy process or liquidation.

Section 363 sales are also popular because the expedited process keeps bankruptcy costs at bay, and lenders are keen on that feature. Paying fees to creditor committees, lawyers, advisers, and consultants for their work to strip out debt from the balance sheet is a relatively expensive proposition. And it can be hard to convince lenders that a company needs to spend time and money to work out operational issues while still in Chapter 11.

## Specialty Items

**PetSmart, Inc.** issued third quarter and full year guidance. In Q3, the company expects earnings of \$0.20 and \$0.24 per share on flat comp store sales. For the full year PETM expects earnings of \$1.37 to \$1.45 per share assuming comp store sales growth of low single digits. Total sales for the year are expected to grow mid-single digits. CapEx budget is \$115 to \$125 million, with 40 to 42 net new stores and 20 more PetsHotels.

**1-800-Flowers.com, Inc.** revenues fell 7.7% to \$172.5 million in the fiscal fourth quarter ended

June 28. Net loss was \$13.1 million from a profit of \$4.8 million in Q4 2008. Full year revenues were down 3.4% to \$714.0 million, with a net loss of \$66.5 million compared to a profit of \$7.4 million last year. Charges related to FLWS exit from its Gourmet Food and Gift Baskets business were \$9 million in Q4 and \$85 million for the year. Gross margin for the year was off 280 basis points to 39.4% due to more promotional pricing. Looking ahead to 2010, the company expects revenues will be flat to down 5% with EPS from continuing operations up more than 30%.

## Options and Resources

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[RETURN TO FIRST PAGE](#)

## Bankruptcy Blotter

**1-800-Mattress Corp.**, which operates mattress stores under the banner Dial-A-Mattress, closed on the \$25 million sale of its assets to Sleepy's LLC (through a unit called NewCo Holdings LLC) in a deal that allowed the company to pay off its secured debt. This transaction was also thought to be sufficient enough to leave some funds for unsecured creditors. The company entered bankruptcy in March 2009 with more than \$9 million in debt, \$1.68 million of which was secured.

**BI-LO LLC** reported its July operating results for the period beginning on June 21<sup>st</sup> and ending July 18<sup>th</sup>. Limited income statement data included total sales of \$105.1 million and operating income of nearly \$12 million. DIP borrowings totaled \$17.1 million, up from \$10.3 million at the beginning of the period, while cash balances totaled \$26.9 million.

The hearing that was set for September 2<sup>nd</sup> to award the winning bid for **Finlay Enterprise's** assets has been delayed and reset for September 25<sup>th</sup>. There have been numerous objections to the planned sale filed by landlords. The additional three weeks should permit more time to resolve such disagreements.

Home furniture retailers are bracing for continued tough times by consolidating manufacturing and adopting new sales and lower-cost production strategies. During the current downturn in real estate and credit (which is used for 70% of home furnishings and furniture purchases), the likes of **Levitz Furniture**, **Gottschalks**, and **Door Store** have filed for bankruptcy.

**Crunch**, which sought Chapter 11 protection in May 2009, is working on a debt-payment plan with the backing of its buyer, CH Fitness Investors LLC. CH Fitness Investors LLC won court approval this week to purchase the majority of the Crunch gyms from operator AGT Crunch Acquisition LLC. CH Fitness offered to forgive

up to \$40 million in debt in order to acquire the assets; this deal's completion is expected by this month's end. The company has also been engaged in selling off stores and membership agreements at locations not included in the aforementioned bid.

**Chiyoda America** filed for bankruptcy protection on August 19<sup>th</sup> due to serious liquidity issues. The company makes gravure-printed products for firms that manufacture countertop, laminated floors, and cabinets for kitchens and bathrooms. The firm had \$44.5 million in debt as of July 31<sup>st</sup>. The firm's parent, the Japanese firm Chiyoda Gravure Corp., has offered to support the firm through and following bankruptcy.

**Stant Corp.**, an auto parts suppliers owned by private investment firm H.I.G. Capital, won approval to auction off its assets in mid-September. The firm had filed for Chapter 11 bankruptcy on July 27<sup>th</sup> as its automaker customers adjust to an environment in which they're selling far less vehicles than in recent years.

On August 19<sup>th</sup>, a judge approved **Bally Total Fitness Holding Corp.'s** restructuring plan, which calls for lenders to take control of the health club operator. The company, which filed for Chapter 11 back in December 2008 for the second time in 2 years, could emerge from bankruptcy under the control of JP Morgan Chase and Anchorage Advisors at the end of this month.

**Accuride Corp.**, a commercial auto parts maker, again revised a waiver agreement with its lenders, including Sun Capital, as it aims to restructure.

**Metromedia Steakhouses**, which operates Ponderosa and Bonanza steakhouse restaurant chains, secured approval of its Chapter 11 plan outline.

## Heard in the Grocery Aisle

Rumors of **Ukrop's** sale continue, as *Supermarket News* reported that a private equity group was now in negotiations to acquire supermarket chain. Earlier rumors had placed Harris Teeter as the most likely buyer.

**Aldi** will double the number of its stores in Florida from the current 26 in the next two years, the *St. Petersburg Times* reported. The Tampa Bay

region will see the most expansion, from nine stores to around 20.

**Penn Traffic Co.** named KPMG to serve as the company's new auditor, replacing Eisner LLP.

**Weis Markets** will complete the purchase of eleven Giant Markets stores on August 24. The acquired stores will reopen on August 25.

### Did You Know...?

*U.S. home builders' index climbed to 18 in August from 17 in July, and has improved from a low of 8 in January. But the low number indicates that four out of five builders still think the housing market is bad.*

[RETURN TO FIRST PAGE](#)

## Off the Rack

**Saks Inc.** looked ahead to the second half of 2009, expecting comp store sales will be down mid-to-high single digits, leading to a decline of low double digits for the full fiscal year. The company will continue to pare inventories, and expects comp store inventories will fall low- to mid-teen percentages for the rest of the year.

**TJX Companies, Inc.** expects fiscal 2010 earnings from continuing operations of \$2.26 to \$2.38 per share, up from \$2.08 per share last year. This outlook assumes comp store sales growth of 2% to 3%. For Q3, TJX expects earnings from continuing operations of \$.62 to \$.68 per share, compared to \$.58 in Q3 last year, assuming comp store sales growth of 2% to 4%.

**Dress Barn, Inc.**'s acquisition of **Tween Brands, Inc.** is on track for completion in the fourth quarter of 2009. The companies submitted for Hart Scott Rodino approval on July 28, and filed an S-4 with their proxy statement on August 11. Once the S-4 is declared effective, the stockholder will vote on a proposal to adopt the merger agreement.

**Gap Inc.** will open a 6500 sq. ft. store in Tel Aviv, Israel in February 2010. GPS just opened its first store in the country, in Jerusalem.

**Limited Brands, Inc.** saw 35%, or \$103.1 million, of the \$294.6 million in outstanding 6 1/8% Notes due 2012 tendered in an offer by the company that expired August 18.

**Citi Trends** lowered its 2009 outlook, and now expects earnings will be in a range of \$1.28 to \$1.33 per diluted share, compared to \$1.33 a share, and comp store sales will increase approximately 1%, down from +3% guided earlier. Expansion continues, with 15% sq. footage growth expected by year end.

**Limited Brands, Inc.** expects a third quarter loss of \$0.07 to \$0.12 per share compared to earnings of \$0.01 per share last year. For the full year, LTD expects adjusted earnings of \$0.75 to \$0.90 per share.

**Gymboree Corp.** issued guidance for third quarter earnings of \$0.95 to \$1.03 per share, based on a low-single digit decrease in comps.

**Hot Topic** expects third quarter earnings of \$0.11 to \$0.13 per share, assuming a mid-single-digit decline in comp store sales.

**Bon Ton Stores, Inc.** revised its full year 2009 guidance to a loss of \$3.70 to \$2.50 per share, and expects a comp store sales decrease of 7.0% to 9.0%.

**Kohl's Corp.** is looking at a site for a New York City store in the Columbus Circle and Times Square areas, according to *Women's Wear Daily*.

**Stage Stores, Inc.** opened its first three stores in former Goody's markets under the Goody's name on August 6. It plans to open eleven more Goody's stores over the next three months and another 30 to 35 stores in former Goody's markets in future years. SSI is projecting a third quarter comp store sales decrease of 4.0% to 7.0%, a fourth quarter comp store sales decrease of 5.0% to 8.0% and a full year comp store sales decrease of 7.0% to 8.5%. The company raised the low end of full year earnings guidance to \$0.47 to \$0.65 per share.

**Sears Holdings Corp.** noted that its second quarter results were skewed by a number of significant items, including store closing costs, pension plan expense, and mark-to-market losses. Excluding these items, SHLD would have a net loss of \$20 million in Q2 2009 compared to net income of \$28 million in Q2 2008.

Following a strong second quarter (see the scorecard), **Ross Stores, Inc.** is now forecasting same store sales of +5% to +6% for both the third and fourth quarters, up from previous guidance of +2% to +3% increase. Earnings are now forecast at \$.57 to \$.63 per share in Q3, and \$.88 to \$.94 per share in Q4. For the full year, ROST now projects earnings will increase 29% to 34% to \$3.00 to \$3.12 per share.

**Cato Corp.** estimates that earnings for the full year will be in the range of \$1.21 to \$1.29 per share: Q3 is expected to have a loss of \$.07 to \$.03 per share and Q4 income is expected to be \$.08 to \$.13 per share. Comp store sales are expected to be flat to -3% in both the third and fourth quarters.

**Wet Seal, Inc.** issued third quarter earnings guidance of \$0.02 to \$0.05 per share. Sales are expected to be \$138 to \$142 million, down from \$146.6 million in Q3 2008. Comp store sales are expected to decline 6% to 9%.

**Aeropostale, Inc.** defied the economy with another strong quarter (see the scorecard). ARO expects to earn \$0.76 to \$0.78 per share for the third quarter, compared to earnings of \$0.63 per share in the third quarter last year.

**Pacific Sunwear** is forecasting a comp store sales decline of high-teens to low 20s in Q3, non-cash store asset impairment charges of approximately \$10 million and loss of \$0.16 to \$0.23 per share.

[RETURN TO FIRST PAGE](#)

## Management on the Move

**AmerisourceBergen Corp.** will make several executive changes effective September 1:

- **Steven H. Collis** will become EVP of AmerisourceBergen and President of AmerisourceBergen Drug Corporation (ABDC), the Company's largest subsidiary. Collis was previously EVP and President of AmerisourceBergen Specialty Group (ABSG).
- **Michael D. DiCandilo** continues as EVP and CFO of AmerisourceBergen.
- **Michael A. Mullen** will be COO of ABSG. Mullen was President of Distribution Services at ABSG previously.

**Stage Stores, Inc.** appointed **Christine Johnston** SVP of Cosmetics. Johnston was most recently with Macy's New York, where she was SVP and GMM for the Cosmetics and Fragrance business.

**Stein Mart, Inc.** appointed **Robert L. Mettler** to its board of directors. Mettler is the former Chairman & CEO of Macy's West.

**Family Dollar Stores, Inc.** named EVP Strategy and Marketing **Dorlisa K. Flur** to the position of EVP and Chief Merchandising Officer. Flur

joined Family Dollar in 2004 from McKinsey & Company.

**Books-A-Million, Inc.** promoted several senior executives:

- **Clyde B. Anderson** added the duties of President to his current positions as Chairman and CEO.
- **Douglas Markham** was named EVP and CAO in charge of Warehouse Operations, Information Technology and Human Resources. Markham was CFO prior, and will maintain oversight of the company's finance function.
- **Brian W. White** was promoted to Chief Financial Officer. White was BAMB's controller.
- **Terrance G. Finley** has added EVP and Chief Merchandising Officer to his current responsibilities as President, Books-A-Million, Inc. Merchandising Group.

**Walgreens** appointed **Jason Dubinsky** as Divisional VP and Treasurer. Dubinsky was a VP at Goldman Sachs previously.

### Did You Know...?

*Housing starts fell 1% in July to a seasonally adjusted annual rate of 581,000 from a rate of 587,000 in June, the Commerce Department reported. Single family starts rose 1.7%, while apartment and condo starts fell 13%.*

## Hi Tech Entertainment

**Systemax** opened its 25th CompUSA store—and the first new store to use the company's Retail 2.0 spec—in Pembroke Pines, Florida. The new design has in-store computer terminals with product information.

**Tech Data Corp.** expects third quarter sales to decline year-over-year on weaker demand and a strengthening dollar.

**Barnes & Noble, Inc.** expects third quarter comp store sales will decline 1% to 3%. For the full year, BKS is maintaining its comp store sales guidance of a 3% to 5% decline.

Major appliance manufacturers are hoping that \$300 million in federal rebates will play the same role as "cash for clunkers" and revive sales in the segment, the *Wall Street Journal*

reported. Rebates on high-efficiency household appliances, furnaces and air-conditioners could receive rebates of up to \$200.

**GameStop** is forecasting third quarter earnings of \$0.27 to \$0.33 per share with comp store sales of -11.0% to -6.0%. Fourth quarter earnings are expected to be \$1.47 to \$1.65 per share assuming comp store sales of -7.0% to -1.0%. GME lowered its full year earnings guidance to \$2.40 to \$2.64 a share from the previously guidance of \$2.83 to \$2.93. Full year comp store sales are now projected to range from -8.0% to -4.0%.

**RadioShack Corp.** added \$200 million to its existing share repurchase program, which had \$90 million remaining.

[RETURN TO FIRST PAGE](#)

## The Global World of Sports and Footwear

**Hibbett Sports** slashed its full year earnings guidance to \$0.85 to \$0.95 per share from previous guidance of \$1.03 to \$1.17 per share. Comp store sales for the second half of the year are expected to be between -4.0% and flat.

**Foot Locker's** priorities for the second half of the fiscal year are to focus on managing inventories aggressively and continuing to take advantage of better rent deals as they become available. Inventories, down 8.4% at the end of the second quarter, were described as current.

**Dick's Sporting Goods** raised income guidance for the full year to \$0.97 to \$1.02 per share, up from a \$0.85 to \$0.97 range prior with a 4% to 5% comp store decline. For Q3, DKS is expecting income of \$0.04 to \$0.07 per share, excluding M&A costs of \$0.05 per share or roughly breakeven on a GAAP basis. Comps are anticipated to decline 4% to 6%. It sees gross margins down in Q3 and Q4 against the prior year, but added that it expected sequential improvement in gross margins by Q4.

The new **Sportsman's Warehouse** that has emerged from bankruptcy will operate with 26 doors in about a dozen western U.S. states. GE

Capital has provided the reorganized retailer with a \$50 million credit facility to refinance the D-I-P loan. Additionally, Seidler Equity Partners has provided TSW with a \$12 million infusion via a five-year promissory note whose first two principal payments of \$1 million apiece will be due Dec. 31, 2010 and March 21, 2011. Thereafter, TSW will make semi-annual payments on the loan equal to 40% of its excess cash flow.

**Zumiez** forecast third quarter earnings of \$0.05 to \$0.07 per share based on a comp decline in the mid- to low-teens. ZUMZ still plans to open 36 stores this year, roughly the same number opened in 2008, with 26 already opened this FY. It expects product margins to be roughly flat and get some leverage on SG&A.

Privately held **Fleet Feet**, the 90-door chain of franchised specialty running shops, reported sales for the six months ended June 30 were up 14.1% to \$47.3 million. Comp store sales rose 8.4% in H1.

**Cabela's** gross charge-offs in its credit card business rose to 4.62% in July versus 2.90% in July 2008.

## Mass Merchant Musings

**Wal-Mart Stores, Inc.** will pay another \$5.0 million to settle claims it failed to make contributions to employee retirement plans in connection with the wage litigation that WMT recently settled.

Also, **Wal-Mart** is expanding its prescription delivery program to 22 states after a successful pilot in Michigan.

**Meijer** will open a 192,000 sq. ft. store in Detroit in 2011, the *Detroit Free Press* reported. The store will be part of a \$90 million development near the State Fairgrounds there.

**BJ's Wholesale Club, Inc.** lowered sales guidance and raised earnings guidance for FY 2010. The company expects sales will be up 0.5% to 1.5%, while comp club sales fall 1% to 3%, including a negative impact from gasoline sales of 6% to 8%. Net income is now expected

to be \$134 to \$140 million (diluted EPS of \$2.46 to \$2.56), up from previous guidance of net income of \$132.7 to \$138.2 million (diluted EPS of \$2.44 to \$2.54).

**Target Corp.** will add its "P-Fresh" concept—more space for grocery items—in 30 of its Philadelphia region stores in the next two months.

Also, **AdAge** reported that **Target** will increase its advertising spend in the second half of 2009, especially Holiday, after pulling back and saving money in H1.

**Dollar General Corp.** filed plans to sell up to \$750 million of stock in an initial public offering. Lead underwriters are Citi and Goldman Sachs. Dollar General is currently owned by Kohlberg Kravis Roberts & Co., which paid \$7.2 billion for it two years ago. An IPO date has not been set.

## Health & Beauty Aids

**Cardinal Health** revenues grew 10.0% to \$25.199 billion in the fiscal fourth quarter ended June 30. Net income fell 14.1% to \$273.2 million. For the full fiscal year, revenues expanded 9.4% to \$99.512 billion, and net income fell 11.8% to

\$1.143 billion. CareFusion related costs decreased after-tax earnings by \$44 million. Guidance for fiscal 2010—excluding CareFusion—is for low single-digit revenue growth and non-GAAP earnings of \$1.90 to \$2.00 per share.

[RETURN TO FIRST PAGE](#)

**Did You Know...?**

*The Conference Board said the economy has bottomed out and the economic recovery may begin soon. The index of leading economic indicators rose for the fourth straight month, up 0.6% in July, following an increase of 0.8% in June..*

**FYI for the DIY**

**Home Depot** maintained its fiscal 2009 expectations for sales down approximately 9%, but raised its earnings guidance and now expects earnings per share from continuing operations to be flat to up 7%. Adjusted (non-GAAP) earnings from continuing operations are expected to decline by 15% to 20%.

**Lowe's Companies, Inc.** updated guidance for the third quarter and full year 2009. In Q3, sales are expected to decline 2% to 5%, with comp store sales falling 6% to 10%. Diluted earnings per share of \$0.21 to \$0.25 are expected. Lowe's expects to open approximately 11 new stores in the third quarter. Full year guidance is for a total sales decline of 3%, a comp store sales decline of 7% to 9%, and earnings of \$1.13 to \$1.21 per

share. **LOW** expects to open a total of 62 to 66 stores in 2009.

**Marvin's Building Materials and Home Centers** will open a new 41,000 sq. ft. location in Thomasville, Alabama, according to the *Birmingham Business Journal*. Marvin's has opened four stores so far this year, and operates 26 stores in Alabama, Mississippi, Georgia and Florida.

**MSC Industrial Direct Co., Inc.** will pay \$800,000 in legal fees and expenses to settle a shareholder derivative action. The company has agreed to make certain corporate governance changes, including adopting additional equity grant policies and procedures, as part of the settlement.

**General Retail News**

**Private label product sales** were up 7.4% to \$85.9 billion at food, drug and mass-merchandise retailers in the 52 weeks ended July 11, according to Nielsen Co.'s *U.S. Store Brand Development* study. Store brands's share of total sales was 16.9%, compared to 16.2% in the prior year. Unit sales increased 5% to 39.5 billion units and unit shares were up 1.3% to 17.5%.

**Back-to-school** and back-to-college spending will total \$47.50 billion this year, according to the NRF's *Back-to-School/College Consumer Intentions and Actions* survey. Families of students in grades K-12 will spend \$548.72 on school merchandise, down 7.7%, while families of college students will spend \$618.12, up 3.2% from last year. The average family had completed only 41.6% of their back-to-school shopping as of August 11.

**Increased consumer spending** is largely being relegated to certain U.S. consumer groups, according to a mid-July online survey by AdweekMedia/The Harris Poll. The report finds that 79% of Americans have cut their personal spending over the last 12 months.

Almost one-third (32%) have made lots of cuts while 47% have eliminated some spending from their respective budget. Meanwhile, 21% of those surveyed said they had made no spending cuts due to the U.S. economy. The same survey suggests 76% of consumers still haven't increased their spending level despite recent pronouncements by economists that the U.S. recession is drawing to a close. It should be noted that the survey did find certain groups that more likely to have increased their personal spending already—those in the 18- to 34-year old age bracket (29%), those in the 45- to 54-year old range (28%) and those with household incomes of \$75,000 or more.

Federal prosecutors charged Albert Gonzalez and two unnamed Russian co-conspirators with stealing 130 million customer accounts and credit card information from several large retailers. Gonzalez targeted 7-Eleven Inc., Hannaford Brothers Co., and credit card processor Heartland Payment Systems. Gonzalez was purportedly helping the FBI after he was caught in 2008 for hacking TJX Cos. systems.

**Rating Changes & Outlooks**

Company	S&P Credit Rating		S&P Credit Outlook		GCS Credit Rating
	Current	Prior	Current	Prior	Current
DOLLAR GENERAL CORP	B+	B+	NM	STABLE	D+
STAR GAS PARTNERS L P	B	B-	STABLE	POSITIVE	D
DEL MONTE CORP	BB-	BB-	POSITIVE	STABLE	NR
AMERICAN RAILCAR INDUSTRIES	BB-	BB-	NEGATIVE	STABLE	NR
SHERWIN-WILLIAMS COMPANY	A-	A-	STABLE	NEGATIVE	C

[RETURN TO FIRST PAGE](#)

## Retailer of the Week: Whole Foods Market

(continued from page 1)

As of early-July 2009, the natural and organic foods grocer was operating 281 stores. While the vast majority of these stores (270 to be exact) are spread across 38 U.S. states, the firm also operates six Canadian locations and five others based in the United Kingdom.

### OPERATING PERFORMANCE: 9 MONTHS ENDED JULY 5, 2009

\$ in millions	40 Weeks 7/5/2009	YOY Var.	40 Weeks 7/6/2008
Revenue	\$6,202.4	0.6%	\$6,165.0
Comparable Store Sales	(-3.8%)		6.4%
Operating Profit	\$215.6	0.9%	\$213.7
Net Profit	\$110.4	(-2.3%)	\$113.0
Gross Margin	34.3%	7 bps	34.2%
SG&A Burden*	30.2%	(46 bps)	30.6%
Operating Margin	3.5%	1 bp	3.5%
Return on Sales	1.8%	(27 bps)	1.8%
EBITDA / Interest Expense	14.52x	1.3%	14.34x

\*- direct store expenses, G&A expenses, and pre-opening expenses.

For the forty weeks ended July 5, 2009, Whole Foods eked out 0.6% growth on its revenue line to \$6.2 billion. Over this period, comparable store sales have fallen 3.8%; however, we would be quick to point out that the recent third quarter results marked the first sequential quarterly improvement in Whole Foods' comps in six quarters (see Comparable Store Sales). Third quarter comps declined 2.5%. Management specifically noted foot traffic rebounded in Q3 2009 as the number of transactions at Whole Foods' registers ticked up. Furthermore, average ticket showed some signs of stabilization as the firm began its fiscal fourth quarter. To this point, the firm's same store sales were only down 1.1% during the first four weeks of Q4 2009.

During the recent third quarter ended, Whole Foods used gross margin gains to recoup lost ground and bring its operating margin back to even with last year's on a nine-month basis. Even looking past a LIFO adjustment (a \$5.8 million credit in Q3 2009 versus a \$2.7 million charge in Q3 2008), Whole Foods benefitted from better purchasing disciplines and elevated levels of store-level execution with respect to shrink control and inventory management. Specific private label penetration figures were not given, though during Q2 2009, they stood at 22% thanks to a 5% boost in off-brand SKU count. Selling, general, & administrative expenses of \$1.9 billion were down 1.0% on a year-to-date basis, resulting in a 46 basis point drop in the grocer's SG&A burden. Three quarters through its fiscal 2009 year, Whole Foods had booked \$215.6 million in operating profit, reflecting minimal growth but a 3.5% operating margin.

During Q3 2009, Whole Foods opened four stores (1 new and 3 relocated) in Annapolis, Maryland; Denver, Colorado; Vancouver, British Columbia; and Chicago, Illinois, bringing the year-to-date totals to six new stores and six relocated stores. At this time last year, Whole Foods had opened 12 new stores (no relocations). Remember that the firm's newer stores exhibit a simpler decor, are smaller in nature, and require less labor-intensive perishable departments. EBITDA improved modestly to 14.5 times Whole Foods' interest expense, providing sufficient interest coverage.

On June 1, 2009, Whole Foods received final approval of its settlement agreement reached with the FTC resolving its antitrust challenge to Whole Foods' acquisition of Wild Oats. A 3rd party divestiture trustee has been appointed to market 1) the leases and assets of 19 nonoperating former Wild Oats locations (10 of which were closed by Wild Oats prior to the acquisition and 9 of which were closed by Whole Foods) and 2) leases and related assets (excluding inventory) for 13 operating stores (12 of which are Wild Oats stores, 1 of which is Whole Foods), and Wild Oats trademarks and other intellectual property. Upon securing final approval of this arrangement, Whole Foods intends to book a non-cash charge of \$5.5 million related to the potential sale of the 13 stores.

(continued on page 9)

[RETURN TO FIRST PAGE](#)

**Retailer of the Week: Whole Foods Market***(continued from page 8)***LIQUIDITY AND FINANCIAL STRUCTURE**

As of July 5, 2009, Whole Foods had \$377.0 million of cash and equivalents on its balance sheet. Cash balances were up significantly from the year-ago level of \$24.9 million due to the infusion from Leonard Green & Partners, L.P. This \$425 million preferred stock offering raised \$413.1 million in proceeds for the retailer in early-December 2008. The company's \$350 million bank agreement had \$334.8 million of availability as of the most recent statement date (see Bank Reference).

Availability was up nicely as outstanding L/Cs totaled only \$15.2 million; just three months earlier, L/Cs of \$89.1 million were outstanding. The drop in letters of credit occurred because Whole Foods deposited \$70.4 million of cash as collateral to support a portion of its workers' compensation obligation that was previously held as an L/C. This cash item makes up the bulk of Whole Foods' restricted cash on its balance sheet. The company also maintains a fully drawn \$700 million term loan that comes due in 2012; this bank debt was used to fund the purchase of Wild Oats.

Cash flow from operations improved 75% to \$474.7 million. The organic grocer's operating cash flow successfully covered capital expenditures of \$252.1 million. The company's \$741.7 million of long-term debt is comprised primarily of bank borrowings. The company's current debt still tallies to a negligible \$0.4 million. A majority of Whole Food's principal obligations come due during 2012. The grocer's tangible net worth expanded 16% to \$860.5 million. The company has chosen to eliminate its dividend to common shareholders in an effort to conserve capital. However, the preferred shares sold to the private equity group do offer an 8% dividend. The cash infusion has left the grocer with positive GAAP working capital of \$367.0 million; one year earlier, the firm was operating with a working capital deficit of \$134.7 million.

**Upcoming Reporting Dates**

Company	Event	Date
American Eagle Outfitters	Financial Results	Aug 27, 2009
Bebe Stores	Financial Results	Aug 27, 2009
Big Lots	Financial Results	Aug 25, 2009
Borders Group	Financial Results	Aug 25, 2009
Brown Shoe	Financial Results	Aug 26, 2009
Chico's FAS	Financial Results	Aug 25, 2009
Coldwater Creek	Financial Results	Aug 26, 2009
Collective Brands	Financial Results	Sep 2, 2009
Conn's	Financial Results	Aug 27, 2009
Cost Plus	Financial Results	Aug 27, 2009
dELiA*s	Financial Results	Aug 27, 2009
Fred's	Financial Results	Aug 27, 2009
Gap	Financial Results	Sep 3, 2009
Hancock Fabrics	Financial Results	Aug 27, 2009
J. Crew Group	Financial Results	Aug 27, 2009
Jo-Ann Stores	Financial Results	Aug 26, 2009
Kirkland's	Financial Results	Aug 26, 2009
Men's Wearhouse	Financial Results	Sep 9, 2009
New York & Company	Financial Results	Aug 26, 2009
Shoe Carnival	Financial Results	Aug 27, 2009
Staples	Financial Results	Aug 25, 2009
United Natural Foods	Financial Results	Sep 9, 2009
Williams-Sonoma	Financial Results	Aug 26, 2009
Winn-Dixie Stores	Financial Results	Aug 25, 2009

[RETURN TO FIRST PAGE](#)

## Second Quarter Scorecard

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
<b>Apparel</b>							
Abercrombie & Fitch	\$648.5	\$845.8	-23.3%	-30.0%	(\$26.7)	\$77.8	-134.3%
Aeropostale, Inc.	\$453.0	\$377.1	20.1%	12.0%	\$38.6	\$21.1	83.4%
American Apparel	\$136.1	\$133.0	2.3%	-10.0%	\$4.5	\$6.8	-34.3%
American Eagle Outfitters	\$657.6	\$688.8	-4.5%	-10.0%	tba	\$59.8	tba
American Tire Distributors	\$557.3	\$504.3	10.5%	NA	\$0.3	\$2.3	-87.0%
AnnTaylor Stores Corp.	\$470.2	\$592.3	-20.6%	-22.5%	(\$18.0)	\$29.3	-161.4%
Bon Ton Stores, Inc.	\$609.2	\$673.4	-9.5%	-9.8%	(\$34.8)	(\$33.8)	-2.9%
Buckle, Inc.	\$192.9	\$169.8	13.6%	8.6%	\$25.0	\$22.3	12.1%
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%	\$16.7	\$12.1	38.1%
Chico's FAS, Inc.	\$419.9	\$405.2	3.6%	1.3%	tba	\$6.7	tba
Citi Trends, Inc.	\$111.6	\$115.7	-3.5%	-12.4%	(\$0.1)	\$2.9	-102.4%
Dillard's, Inc.	\$1,366.3	\$1,606.7	-15.0%	-13.0%	(\$26.7)	(\$38.3)	30.4%
Gap Inc.	\$3,245.0	\$3,499.0	-7.3%	-8.0%	\$228.0	\$229.0	-0.4%
Gymboree Corporation	\$212.3	\$202.8	4.7%	-1.0%	\$12.2	\$8.0	51.8%
Hot Topic, Inc.	\$157.8	\$166.8	-5.4%	-7.7%	(\$3.2)	(\$0.5)	-611.1%
J.C. Penney Company	\$3,943.0	\$4,282.0	-7.9%	-9.5%	(\$1.0)	\$117.0	-100.9%
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%	\$229.0	\$236.0	-3.0%
Limited Brands	\$2,067.0	\$2,284.0	-9.5%	-9.0%	\$60.3	\$93.9	-35.8%
Macy's, Inc.	\$5,164.0	\$5,718.0	-9.7%	-9.5%	\$7.0	\$73.0	-90.4%
Nordstrom, Inc.	\$2,145.0	\$2,287.0	-6.2%	-9.8%	\$105.0	\$143.0	-26.6%
Ross Stores, Inc.	\$1,769.0	\$1,640.0	7.9%	3.0%	\$103.4	\$71.3	45.0%
Saks Incorporated	\$561.7	\$657.0	-14.5%	-15.5%	(\$54.5)	(\$32.7)	-66.7%
Stage Stores, Inc.	\$341.7	\$372.7	-8.3%	-10.7%	\$9.1	\$9.7	-5.8%
Stein Mart, Inc.	\$287.5	\$311.6	-7.7%	-4.5%	\$1.5	(\$8.0)	118.8%
Tandy Leather Factory	\$13.2	\$13.8	-4.3%	4.3%	\$0.8	\$0.7	16.2%
TJX Companies	\$4,747.5	\$4,554.4	4.2%	4.0%	\$261.6	\$200.2	30.7%
Tween Brands, Inc.	\$205.1	\$223.1	-8.1%	-12.0%	(\$2.8)	(\$6.7)	58.2%
Urban Outfitters, Inc.	\$458.6	\$454.3	0.9%	-6.0%	\$49.0	\$57.0	-14.0%
Wet Seal, Inc.	\$136.4	\$149.1	-8.5%	-10.6%	\$3.1	\$10.2	-69.5%
<b>Drug</b>							
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%
<b>Food</b>							
Arden Group	\$107.9	\$116.6	-7.5%	-7.5%	\$4.7	\$6.6	-28.8%
Delhaize Group Le Lion	\$7,173.4	\$7,063.2	1.6%		\$175.6	\$183.3	-4.2%
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	\$5,900.0	1.7%	-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%
<b>High-Tech &amp; Electronics</b>							
Amazon.com, Inc.	\$4,651.0	\$4,063.0	14.5%	NA	\$142.0	\$158.0	-10.1%
BMTC Group Inc. (C\$)	\$168.8	\$181.7	-7.1%	NA	\$3.1	\$11.6	-73.3%
Conn's, Inc.	\$190.3	\$190.6	-0.2%	-5.2%	tba	\$10.2	tba
GameStop Corp.	\$1,740.0	\$1,750.0	-0.6%	-14.1%	\$38.6	\$57.1	-32.4%
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%
Systemax Inc.	\$721.6	\$756.0	-4.6%	NA	\$6.5	\$13.5	-51.9%
Tech Data Corporation	\$5,183.7	\$6,166.0	-15.9%	NA	\$35.2	\$22.1	59.3%
Trans World Entertainment	\$165.7	\$215.2	-23.0%	-15.0%	(\$17.8)	(\$19.2)	7.3%

(continued on page 11)

[RETURN TO FIRST PAGE](#)

# RETAIL SECTOR WEEKLY

## Second Quarter Scorecard

(continued from page 10)

\$ in Millions. Quarter ended closest to 7/31/09	Sales			Comps	Net Income		
	2009	2008	Change		2009	2008	Change
<b>Home Centers</b>							
Builders FirstSource, Inc.	\$175.5	\$282.3	-37.8%	NA	(\$22.6)	(\$45.9)	50.8%
Calloway's Nursery, Inc.	\$16.5	\$20.3	-18.7%	-9.9%	\$0.9	\$1.9	-52.6%
Fastenal Company	\$474.9	\$604.2	-21.4%	-24.2%	\$43.5	\$76.2	-42.9%
Greybar Electric	\$1,121.6	\$1,420.9	-21.1%	NA	\$8.3	\$28.4	-70.8%
Griffin Land & Nurseries	\$19.7	\$21.1	-6.6%	NA	(\$1.0)	(\$0.4)	-158.1%
Home Depot, Inc.	\$19,071	\$20,990	-9.1%	-8.5%	\$1,116.0	\$1,202.0	-7.2%
Huttig Building Products	\$119.9	\$195.4	-38.6%	NA	(\$6.0)	(\$2.5)	-140.0%
Interline Brands, Inc.	\$269.9	\$311.4	-13.3%	NA	\$6.4	\$11.2	-42.9%
Lowe's Companies	\$13,844	\$14,509	-4.6%	-9.5%	\$759.0	\$938.0	-19.1%
Lumber Liquidators	\$143.1	\$128.0	11.8%	NA	\$6.9	\$5.9	18.0%
Rona, Inc. (C\$)	\$1,370.0	\$1,473.3	-7.0%	-6.2%	\$60.8	\$76.6	-20.6%
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%
<b>Mass Merchants</b>							
Big Lots, Inc.	\$1,071.2	\$1,105.2	-3.1%	-2.4%	tba	\$26.0	tba
BJ's Wholesale Club, Inc.	\$2,566.1	\$2,702.7	-5.1%	-7.7%	\$35.1	\$36.5	-3.8%
Canadian Tire (C\$)	\$2,324.8	\$2,450.7	-5.1%	-2.7%	\$103.7	\$97.7	6.1%
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%
Sears Canada Inc.	\$1,250.0	\$1,420.3	-12.0%	-10.0%	\$49.1	\$61.5	-20.2%
Sears Holdings Corp.	\$10,551	\$11,762	-10.3%	-8.6%	(\$94.0)	\$65.0	-244.6%
Target Corporation	\$14,567	\$15,472	-5.8%	-6.2%	\$594.0	\$634.0	-6.3%
Wal-Mart Stores, Inc.	\$100,082	\$101,546	-1.4%	-1.9%	\$3,442	\$3,449	-0.2%
<b>Specialty</b>							
A.C. Moore Arts & Crafts	\$104.4	\$126.4	-17.4%	-13.8%	(\$8.1)	(\$4.3)	-91.1%
Aarons, Inc.	\$417.3	\$387.0	7.8%	8.4%	\$27.8	\$23.3	19.3%
Advance Auto Parts, Inc.	\$1,322.8	\$1,235.8	7.0%	4.8%	\$80.3	\$75.4	6.5%
Amscan Holdings, Inc.	\$342.1	\$371.5	-7.9%	-2.4%	\$11.0	\$14.7	-25.4%
Barnes & Noble, Inc.	\$1,155.7	\$1,221.0	-5.3%	-6.9%	\$12.2	\$15.3	-20.3%
Blue Nile, Inc.	\$69.9	\$73.7	-5.2%	NA	\$2.8	\$3.2	-12.5%
Books-A-Million, Inc.	\$122.4	\$123.3	-0.7%	-4.9%	\$1.5	\$0.6	132.6%
Brookstone, Inc.	\$73.0	\$97.4	-25.1%	-18.6%	(\$16.7)	(\$8.7)	-92.0%
DGSE Companies, Inc.	\$21.6	\$25.1	-13.9%	NA	\$0.7	\$0.5	40.8%
Haverty Furniture	\$129.7	\$168.4	-23.0%	-22.6%	(\$6.6)	(\$2.3)	-187.0%
Leon's Furniture Limited	\$209.9	\$224.7	-6.6%	-6.5%	\$8.6	\$11.6	-25.9%
Michaels Stores, Inc.	\$807.0	\$796.0	1.4%	-0.8%	tba	(\$25.0)	tba
Pet Valu Inc.	\$52.3	\$54.6	-4.2%	6.0%	\$2.8	\$3.6	-22.2%
PetSmart, Inc.	\$1,308.8	\$1,241.9	5.4%	0.8%	\$39.0	\$37.2	4.8%
Rent-A-Center, Inc.	\$679.6	\$719.0	-5.5%	-6.2%	\$41.9	\$37.7	11.1%
<b>Sports &amp; Footwear</b>							
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%
Broder Bros., Co.	\$177.7	\$257.6	-31.0%	NA	\$15.2	(\$0.7)	2271.4%
Cabela's	\$549.2	\$526.0	4.4%	6.1%	\$9.1	\$7.3	24.7%
Dick's Sporting Goods, Inc.	\$1,126.8	\$1,086.3	3.7%	-4.1%	\$38.9	\$39.9	-2.5%
Foot Locker	\$1,099.0	\$1,302.0	-15.6%	-12.1%	\$0.0	\$18.0	-100.0%
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%
Hibbett Sporting Goods, Inc.	\$123.1	\$130.3	-5.5%	-10.5%	\$1.1	\$4.8	-77.1%
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%
Zumiez Inc.	\$85.2	\$92.3	-7.7%	-18.8%	(\$3.1)	\$2.7	-214.8%

Numbers in italics are implied or company estimates.

[RETURN TO FIRST PAGE](#)