

Issue of April 7, 2009

Seeking Share... As detailed in our [Snapshot Report](#) issued April 1, [Toys “R” Us](#) (Wayne, NJ) posted EBITDA and liquidity within the range projected in our Future Outlook Analysis published in July 2008.



Management subsequently said, “We believe the operational improvements we have made over the last several years are clearly paying off in our solid performance and our improving market share.” Looking ahead, chairman and CEO Gerald L. Storch said, “We will continue to advance our toy and baby products authority positions and aggressively pursue market share growth, including online with our recent acquisitions of eToys.com, babyuniverse.com, ePregnancy.com, and Toys.com. At the same time, we are mindful of the uncertain business environment, and are being very prudent by aggressively controlling operating expenses and significantly reducing our capital spending.”

Meanwhile, Toys “R” Us is reportedly testing “R Market” departments at three locations in the Chicago, IL area. The departments feature beverages, snacks, cereals, confectionary and household goods. Management declined to comment.

In other news, the Company won its nearly five-year old legal battle with [Amazon.com](#) (Seattle, WA). As detailed in previous issues of this publication, Toys “R” Us filed a suit in 2004, accusing Amazon of violating the terms of their 2000 partnership by allowing other retailers to sell similar merchandise on its site. Last week an appeals court in New Jersey upheld a lower court ruling that found Amazon in breach of contract. Consequently, the lower court will now consider Toys “R” Us’ claim that it paid for but did not receive exclusivity rights exceeding \$65.0 million.



Let’s Talk... Last week [Creditntell.com](#) analysts confirmed in a conversation with senior management at [Gander Mountain Company](#) (St. Paul, MN), that the Company has extended the maturity of the



\$10.0 million term loan that was set to mature on March 31, 2009. Management did not provide a new maturity date, but noted that it was a short-term extension. [Click here for](#)

[full details.](#)

For analytical support on Gander Mountain, please call Dennis Cantalupo at 1-800-789-0123 ext. 110 or [click here to email him.](#)



In Like a Lion, Out Like a Lion... Countering the old adage, March was ferocious from start to finish in terms of job cuts. According to the Department of Labor, job losses during the month totaled 663,000 (compared to 651,000 in February), pushing the nation’s unemployment rate to 8.5%, the highest level in over 25 years. The Labor Department also revised the number of January job losses from 655,000 to a whopping 741,000.

The breakdown of March cuts is as follows:

- **Factories – 161,000**
- **Professional & business services – 133,000**
- **Construction companies – 126,000**
- **Retailers – 50,000**
- **Leisure and hospitality – 40,000**
- **Government – 5,000**

In other economic news, consumer spending increased 0.2% during February, according to the Commerce Department. This marks the second consecutive month of gains (spending was up 1.0% in January), following six months of declines. The Commerce Department also indicated that the personal savings rate was 4.2% in February. Although down slightly from 4.4% in January, it is the first time in more than 10 years that the rate has been above 4% for two months in a row.

Despite the two-month rise in consumer spending, certain segments of the economy continue to struggle and show no sign of recovery. According to a recent study by market research firm Harris Interactive, 74% of Americans plan to reduce spending on restaurants and entertainment over the next six months, up from 64% and 65%, respectively, when the study was last conducted in November. The anticipated shift in spending is more bad news for a sector that already experienced significant declines last year. According to research firm NPD Group, restaurant visits by parties including children decreased 3% during 2008, while visits by those aged 18 to 24 (the most lucrative demographic) dropped 8%.



A Collection of Closings... As detailed in our [Snapshot Report](#) issued last Friday, [Rite Aid](#) (Camp Hill, PA)



posted massively wider net losses for the fourth quarter and fiscal year ended February 28, reflecting a \$1.81 billion non-cash goodwill impairment charge, including \$1.20 billion related to the Brooks Eckerd acquisition. At the same time, the Company announced plans to close as many as 117 stores and its distribution center in Newnan, GA during the current fiscal year. The store closings will occur throughout the year, while the former Brooks Eckerd warehouse is scheduled to close in late September, affecting nearly 300 employees. Rite Aid previously announced plans to close another former Brooks Eckerd distribution facility in Bohemia, NY.

Although the Company did not disclose how many workers would be affected by the store closings, management reported that 6,500 jobs, representing 6% of its staff, have been cut since August.

Looking to the current fiscal year ending February 28, 2010, Rite Aid said liquidity remains its top priority, as it plans to focus on reducing debt.



Cause for "Concern"... [Blockbuster](#) (Dallas, TX) successfully agreed on an amendment to extend its \$250.0 million revolving and term loan facilities with the backing of a group of lenders that includes Monarch Alternative Capital and Silver Point Capital. Management expects to close on the amended credit facility by May 11, extending the maturity date to September 30, 2010. As detailed in the March 31 issue of this publication, the Company was looking to replace its \$350.0 million revolver due in August 2009.

Despite the agreement, Blockbuster's independent auditor said, "the risk the Company may not successfully complete a refinancing of its credit facility scheduled to mature in August 2009 and obtain related amendments of financial covenants included therein, and/or the risk the Company may not have adequate liquidity to fund their operations raise substantial doubt about the Company's ability to continue as a going concern."

On the news, [Creditintell.com](#) downgraded Blockbuster to E1.



Rx for Success... Now that [Wal-Mart](#) (Bentonville, AR) is firmly entrenched in the retail food sector (groceries accounted for 49% of the Wal-Mart Stores segment's sales in 2008), the chain is turning its attention to the retail drug sector. With the "health & wellness" category representing just 10% of the Wal-Mart Stores segment's 2008 sales, the Company now intends to expand prescription drug sales by continuing to bypass third-party providers and to partner directly with U.S. companies. According to one Wal-Mart executive, "We hope this is our next big thing."



The Company previously reported that its \$4 generic program helped boost U.S. comps by 3.3%.

In other news, Wal-Mart, which recently initiated an effort to revamp and relaunch its Great Value brand, reassured a nervous manufacturing community that the initiative "will by no means overshadow or replace any national brands. Our customers prefer national brands." As mentioned two weeks ago, the relaunch includes "consumer friendly" packaging, improved quality and more than 80 new food products, most of which are scheduled to appear on store shelves by the end of May.

Outside the U.S., the Company's recently acquired Distribucion y Servicio (D&S), Chile's largest food retailer, appears to be backing off previous plans to open its first stores in Peru this year. Commenting on the matter, chairman Felipe Ibanez said, "Our arrival in Peru is not certain." According to Ibanez, "This...is something that will be determined in the following 12 to 24 months."



Apparently Home is NOT Where the Heart Is... [Costco](#) (Issaquah, WA) plans to close its two Costco Home stores on July 3. The experimental units are located in Kirkland, WA and Tempe, AZ. According to CEO James Sinegal, "The current economic slowdown and resulting weakness in the home furnishings business in particular have led us to conclude that the single-format Costco Home concept does not fit into our long-term expansion plans." He further indicated that no additional closures (except for relocation of warehouse facilities) are planned. There was no mention of charges related to the decision, but Costco said the closings would have no significant impact on operations or financials.



Ratings Roundup...

Moody's lowered [Macy's](#) (Cincinnati, OH) senior unsecured notes rating to Ba2 from Baa3. It also assigned corporate family and probability of default ratings of Ba2. The outlook is "stable." The downgrade reflects deterioration in the Company's credit metrics and the expectation that operating performance will continue to be pressured during the current economic environment.



In other news, Macy's recorded a goodwill impairment charge of about \$5.40 billion in fiscal 2008, which is within range of the \$4.50 billion – \$5.50 billion it previously reported.

Creditintell.com has downgraded [Building Materials Holding Corp.'s](#) (Atlanta, GA) credit rating one notch from E2 (Poor) to F1 (Critical) due to significant uncertainty as to the Company's ability to meet the financial covenants of its current credit agreement during 2009. For full details, please see our [Special Update](#) issued April 3.

After analyzing [Borders Group's](#) (Ann Arbor, MI) fourth quarter and fiscal 2008 operating results, Creditintell.com has downgraded the Company's credit score to E1 (poor) from D2 (below satisfactory) as a result of deteriorating operational metrics. For full details, see our [Special Update](#) issued April 3.



For analytical support on Borders, please call Frank DiDonato at 1-800-789-0123 ext. 180 or [click here to email him](#).



Ready For Round Two?... Three years after [Sears Holdings'](#) (Hoffman Estates, IL) attempt to acquire the 26% of [Sears Canada](#) (Toronto, ON, Canada) it did not already own was thwarted by activist investor William Ackman and his Pershing Square Capital Management hedge fund, Edward Lampert might be making another go at the Company's Canadian arm. While Pershing Square is busy fighting an ongoing proxy battle with [Target](#) (Minneapolis, MN), Mr. Lampert, chairman of Sears and head of hedge fund ESL Investments, bought another 400,000 shares of Sears Canada last week, following the purchase of 60,000 shares during December and March. Although the transactions represent just 0.4% of Sears Canada's outstanding stock, there's no doubt Pershing Square, which controls 17.2% of the chain, is closely monitoring the situation.

For analytical support on Sears, call Michael Blackburn at 1-800-789-0123 ext. 131 or [click here to email him](#).



New Notes... Last week [The TJX Companies](#) (Framingham, MA) sold \$375.0 million aggregate principal amount of 6.95% notes due 2019 and discounted to 99.812%. Proceeds from the sale will be used to redeem TJX's zero coupon convertible subordinated notes due February 2021, or, to the extent any such notes are converted to common shares, to repurchase stock. Any remaining proceeds will be used for working capital and other general corporate purposes.



For analytical support on TJX, please call Jim Rice at 1-800-789-0123 ext. 127 or [click here to email him](#).



Calculation Complete... As detailed in our [Special Update](#) issued April 2, [Lord & Taylor Holdings](#) indicated that Great American completed its inventory liquidation calculation of January 31, 2009 and has guaranteed the net orderly liquidation valuation (NOLV) rates from March 2009 to August 2009. The result of this valuation was an increase in the NOLV rate of approximately 2%, which will result in increased availability on its \$300.0 million asset backed loan (ABL).

In addition, the Company announced that \$25.0 million in restricted cash was released and was used to pay down the ABL, increasing availability by \$25.0 million. The Company expects availability as of April 4 to be in excess of \$70.0 million. This compares to the \$52.0 million in availability the Company reported in April 2008.



Facility Reduced... As detailed in our [Special Update](#) issued April 2, [BlueLinx Holdings](#) (Atlanta, GA) reduced its \$800.0 million credit facility to \$500.0 million. The reduction allows the Company to save \$750,000 per year in interest expenses. Management expects to write off \$1.4 million of deferred financing costs in the first quarter of fiscal 2009. As of April 1, the Company has \$96.0 million outstanding under the facility. It repaid \$60.0 million of outstanding borrowings in fiscal 2008.



Howard S. Cohen is no longer an executive officer of BlueLinx. Previously the Company's chairman, he will continue to serve as chairman in a non-executive capacity. Duane G. Goodwin left the Company and no longer serves as chief supply chain officer.



Pumping Up... Wolseley PLC, the parent company of [Stock Building Supply](#) (Raleigh, NC) posted a comprehensive package of measures to strengthen its balance sheet and position it for the future. For full details, please see our [Special Update](#) issued April 1.

For analytical support on Stock Building Supply, please call Jeff Corpiel at 1-800-789-0123 ext. 129 or [click here to email him](#).



Workforce Reduction... [Insight Enterprise](#) (Tempe, AZ) is reducing its expense structure based on expectations of softness in the market's technology sector. The Company is cutting its North American workforce by 8%, or 270 employees. In November 2008, the workforce was reduced by 240 employees. The Company also merged its corporate and North America executive and back-office organizations in an attempt to streamline its organizational design. Additionally, it cut certain benefits costs, non-client travel and discretionary marketing activities. Insight Enterprise expects to reduce its North American operating expenses by \$65.0 million annually as a result of these actions.



Backing Off... [Pacific Sunwear of California](#) (Anaheim, CA) reported that Adrenalina (Miami, FL), a sporting goods chain with three stores in Florida and one in Texas, withdrew its nominations for Pacific Sunwear's board, ending its proxy contest. Back in October, Adrenalina first offered to purchase the Company for \$4.50 per share, or \$295.0 million. When that fell through, Adrenalina nominated four candidates for election to Pacific Sunwear's board at its 2009 Annual Meeting. According to management, the Company is "pleased that Adrenalina has determined not to pursue a proxy contest, so that the Company can devote all of its resources and attention to the important task of operating its business."

In other news, [Alliance Data](#) (Dallas, TX) signed a multi-year contract extension with Pacific Sunwear to continue providing private label credit card services. Under terms of the agreement, the Company will be provided with account acquisition and activation, receivables funding, card authorization, private label credit card insurance, statement generation, remittance processing, customer service functions and marketing services.

For analytical support on Pacific Sunwear, please call David Silverman at 1-800-789-0123 ext. 119 or [click here to email him](#).



Bring on the Savings... [Charming Shoppes](#) (Bensalem, PA) expects to save \$125.0 million in fiscal 2010 by cutting 225 jobs, reducing operating expenses and maintaining strong inventory management. In fiscal 2009, the Company decreased its inventory by 19%. The Company expects to generate positive cash flow or at least be cash flow neutral in its current fiscal year, despite likely comps declines in the low- to mid- double digit range.



In other news, James P. Fogarty will replace the interim CEO Alan Rosskamm as president and CEO of Charming Shoppes. The Company had been searching for a full-time replacement after the resignation of Dorrit Bern in 2008. Previously, Mr. Fogarty served as president and COO of Lehman Brothers Holdings.



Done Deal... [PFSweb](#) (Plano, TX) signed a five-year agreement with Army & Air Force Exchange Service (AAFES) to provide a custom logistics solution that supports AAFES' catalog and online store. The deal will be supported by PFSweb's facility in Memphis, TN, which will be used to receive inventory, fulfill orders and manage returns. Based on expected activities, PFSweb anticipates it will generate \$15.3 million in service fees





Redeeming Notes... [Rent-a-Center](#) (Plano, TX) is redeeming \$150.0 million of its 7½% senior subordinated notes due 2010. The Company expects to redeem the notes on or around May 19. Following that date, about \$75.4 million of the Company's notes due 2010 will remain outstanding. It will fund the transaction with cash flow generated from operations and with amounts available under its senior credit facilities.



Personnel-ly Speaking...

[Advance Auto Parts](#) (Roanoke, VA) named Tami Kozlowski as chief development officer. Ms. Kozlowski will assume responsibility in May 2009 and be based in Minneapolis, MN. Prior to this position Ms. Kozlowski served as a SVP, merchandising at [Best Buy](#) (Richfield, MN).



Acquisitions...

[GSI Commerce](#) (King of Prussia, PA) acquired Silverlign Group (San Francisco, CA), a marketing strategy and design agency, through its subsidiary, gsi interactive. The acquisition establishes a west coast presence for gsi interactive and adds several new clients. Terms of the deal were not disclosed, however Silverlign will operate as a stand-alone subsidiary and its executive creative director will continue to lead its operations. Silverlign employs 25 professionals and serves 23 clients.



Chapter 11...

[Gottschalks, Inc., DIP](#) (Fresno, CA) indicated that a successful liquidation bid was entered by a consortium of investors that included Great American Group LLC, Tiger Capital Group LLC, SB Capital Group LLC, and Hudson Capital Group LLC. The winning bidders agreed to guarantee 98% of the Company's inventory and approximately \$3.0 million in the value of fixtures and other miscellaneous equipment. The funds could eventually be used to repay the Company's creditors. For full details, please see our [Special Update](#) issued March 31.

For analytical support on Gottschalks, call Harold Citron at 1-800-789-0123 ext. 132 or [click here to email him](#).

The Creditors Committee in the [Drug Fair Group, DIP](#) (Somerset, NJ) Chapter 11 case filed an objection to the debtors' bid procedures involving the sale of certain assets to [Walgreen](#) (Deerfield, IL). According to the objection, the Company provides no disclosure to support the proposed value of the transaction of approximately \$54.0 million, with a cap of \$65.1 million, which is also the value of secured debt and implies no recovery for unsecured creditors. A hearing on the matter is scheduled for April 7. Drug Fair did receive Bankruptcy Court approval to conduct going out of business sales at the remaining stores not included in the Walgreen sale agreement.



The Creditors Committee also filed a motion to allow a transfer of venue from the U.S. Bankruptcy Court for the District of Delaware to the U.S. Bankruptcy Court for the District of New Jersey, arguing that despite the Company's incorporation in Delaware, a New Jersey location would be better suited and more convenient as all of its operations and a significant number of its creditors are in New Jersey.

As indicated in our [Special Update](#) issued April 3, the Bankruptcy Court overseeing [Ritz Camera Centers, Inc., DIP's](#) (Beltsville, MD) Chapter 11 proceedings authorized the sale of over 300 of the Company's stores. Retail inventory valued at more than \$50.0 million will be liquidated at the stores that are being closed. Store closing sales began on Saturday, April 4 and are expected to continue until everything is sold. A joint venture group comprised of Great American Group, Tiger Capital Group, SB Capital Group and Hudson Capital Partners will be conducting the sales. Following the sales, the Company will operate approximately 400 stores.



**This week's EARNINGS (LOSS) SUMMARIES:
scroll down to view.**

[MSC Industrial Direct Co., Inc. \(Melville, NY\)](#)

[PFSweb, Inc. \(Plano, TX\)](#)

[Broder Bros., Co. \(Trevose, PA\)](#)

[Pier 1 Imports, Inc. \(Fort Worth, TX\)](#)

**The following credit facilities have been updated and are
available for your review at our [Credit Facility Database](#).**

**BlueLinx Holdings Inc.
Borders Group, Inc.
PetSmart, Inc.
Stage Stores
Dollar Tree Stores
Canadian Tire Corporation, Limited
Nordstrom, Inc.
Cabela's Incorporated
Saks Incorporated
Jensen Distribution Services**

With Regards from *Creditintell.com's* Executive and Research Staff.

If you have any questions regarding the information contained in this publication, contact us at **1-800-789-0123**

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Jim Wells – Chief Editor	ext. 138	Mary Beth Mullarkey – Research Analyst	ext. 188
Jessica Shusterman – Director, Research	ext. 109		

ISSUED LAST WEEK:

4/3/09 Big Lots, Inc. - Credit Analysis
4/3/09 CKE Restaurants, Inc. FYE Report
4/3/09 Weekly Bond Watch
4/3/09 Canadian Tire Corporation, Limited FYE Report
4/3/09 Weis Markets, Inc. FYE Report
4/3/09 Ritz Camera Centers, Inc., DIP - Chapter 11 Case Summary
4/3/09 Rite Aid Corporation - Crystal Insights Update
4/3/09 Borders Group, Inc. - Credit Rating Change Alert
4/3/09 Building Materials Holding Corporation - Credit Rating Change Alert
4/3/09 Canadian Tire Corporation, Limited - Credit Analysis
4/3/09 Stage Stores, Inc. - Credit Analysis
4/3/09 Borders Group, Inc. - Credit Analysis
4/3/09 Ritz Camera Centers, Inc., DIP - Court Authorization to Close 300 Stores
4/3/09 The Gap Inc. - Credit Analysis
4/3/09 Bebe Stores, Inc. - Company Brief
4/3/09 Foot Locker, Inc. - Credit Analysis
4/2/09 Ahold FYE Report
4/2/09 Events Calendar
4/2/09 Foodservice Sector Newsletter
4/2/09 United Natural Foods, Inc. 2Q Report
4/2/09 BlueLinx Holdings Inc. - Reduced Revolver Size
4/2/09 Orgill, Inc. - Private Company Overview
4/2/09 Dollar Tree Stores, Inc. - Credit Analysis
4/2/09 Lord & Taylor Holdings LLC - Announces Liquidity Enhancements
4/2/09 Rite Aid Corporation - Fourth Quarter Snapshot
4/1/09 Foodservice Sector - Van Eerden Foodservice Company
4/1/09 Loblaw Companies Limited FYE Report
4/1/09 Arden Group, Inc. FYE Report
4/1/09 Sobeys Inc. 3Q Report
4/1/09 Stock Building Supply - Wolseley to Exit Stock Building Supply by 8/1/09
4/1/09 Gander Mountain Company - Extension of Term Loan Maturity
4/1/09 Building Materials Holding Corp. - Negotiating To Obtain A Waiver
4/1/09 Jensen Distribution Services - Private Company Report
4/1/09 PetSmart, Inc. - Credit Analysis
4/1/09 Toys R Us, Inc. - Fourth Quarter Snapshot
3/31/09 PCG - Laurel Grocery Company - Extends Credit Facility
3/31/09 Safeway Inc. FYE Report
3/31/09 Five Star Products, Inc. - Fourth Quarter Snapshot
3/31/09 Retail News & Views
3/31/09 Nordstrom, Inc. - Credit Analysis
3/31/09 Gottschalks, Inc., DIP - Announces A Successful Liquidation Bid
3/31/09 Lewis Drug Inc. - Retailer RxTRA
3/30/09 Scrambled Eggs
3/30/09 BI-LO, DIP - Critical Vendor/DIP Financing
3/30/09 Alimentation Couche-Tard, Inc. 3Q Report
3/30/09 Anixter International Inc. - Company Brief
3/30/09 A.C. Moore Arts & Crafts, Inc. - Credit Rating Change Alert
3/30/09 Saks Incorporated - Credit Analysis
3/30/09 Cabela's Incorporated - Credit Analysis

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Earnings (Loss) Summaries

(dollars in millions)

MSC Industrial Direct Co., Inc. (Melville, NY)... Sales and Profit Levels Deteriorate

	2Q			YTD		
	2/28/2009	3/1/2008	% Change	2/28/2009	3/1/2008	% Change
Net Sales	\$351.9	\$436.5	(19.4%)	\$784.9	\$874.0	(10.2%)
Cash & Cash Equivalents	\$137.9	\$7.4				
Gross Margin	46.5%	46.5%	0.0%	46.9%	46.4%	0.5%
Net Income (Loss)	\$26.3	\$47.5	(44.6%)	\$71.4	\$94.3	(24.3%)

PFSweb, Inc. (Plano, TX)... Loss Climbs in Fiscal Year

	4Q			FYE		
	12/31/2008	12/31/2007	% Change	12/31/2008	12/31/2007	% Change
Net Sales	\$112.8	\$122.0	(7.6%)	\$451.8	\$446.8	1.1%
Cash & Cash Equivalents	\$16.1	\$14.3				
Gross Margin	11.9%	10.7%	1.2%	11.7%	10.5%	1.2%
Net Income (Loss) ⁽¹⁾	(\$16.2)	\$0.7	N.M.	(\$15.7)	(\$1.4)	>1,000%

⁽¹⁾ 4Q08 results include charges totaling \$16.3 million related to impairment of intangibles and goodwill.

Broder Bros., Co. (Trevose, PA)... Preliminary Fourth Quarter Results Show Decreased Loss

	4Q			FYE		
	12/27/2008	12/29/2007	% Change	12/27/2008	12/29/2007	% Change
Net Sales	\$219.5	\$232.7	(5.7%)	\$926.1	\$929.1	(0.3%)
Cash & Cash Equivalents	N.A.	\$4.6				
Gross Margin	18.7%	19.9%	(1.2%)	17.7%	17.9%	(0.2%)
Net Income (Loss)	(\$60.3)	(\$97.0)	37.8%	(\$75.2)	(\$124.1)	39.4%

Pier 1 Imports, Inc. (Fort Worth, TX)... Loss in the Fourth Quarter

	4Q			FYE		
	2/28/2009	3/1/2008	% Change	2/28/2009	3/1/2008	% Change
Net Sales	\$389.3	\$436.7	(10.9%)	\$1,320.7	\$1,511.8	(12.6%)
Comp Store Sales	(9.7%)	2.5%		(9.2%)	N.A.	
Gross Margin	26.2%	31.8%	(5.6%)	27.5%	29.1%	(1.6%)
Net Income (Loss)	(\$29.4)	\$13.7	N.M.	(\$129.25)	(\$96.01)	(34.6%)
Store Count	1,092	1,199	(8.9%)			