

# Three local corporations listed on 'Bottom Rung'

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Rite Aid in South Middleton Township. Rite Aid Corp. was one of three local companies listed on Moody's Bottom Rung list

Three local corporations have made it to a list nobody wants to be on.

Last week, Moody's Investors Service put out a new list it called the Bottom Rung. It contains 283 firms that Moody's analysts believe are most likely to default on their debts. The report estimates that nearly half of those on the list will be in default in the next year.

The three big local employers who found themselves on the list are Rite Aid, based in East Pennsboro Township; The Bon-Ton Stores Inc., based in York; and Ames True Temper, which manufactures yard and garden tools and is based in Camp Hill.

Karen Rugen, senior vice president for corporate communications at Rite Aid, said the report does not capture the entire picture.

Rugen said Rite Aid has sufficient funds to cover its debts and has no debts due until September 2010, by which time the company expects it can refinance.

In the meantime, Rugen said Rite Aid has cut costs and taken other steps to improve business this year. The firm's strategies have included making changes in executive staff, reducing inventory and cutting costs.

"We've made good progress in these areas and expect ... to improve our business this year," she said.

Mary Kerr, vice president of investor and public relations for Bon-Ton, said in an e-mail that the company's debt structure requires minimal repayments and has credit that extends to March 2011.

The company plans to reduce costs by \$70 million and capital expenditures by \$20 million to \$30 million, which should boost its cash flow by \$90 million to \$100 million this year, Kerr said.

"We have value programs in place, a strong e-commerce business and a key-item initiative that allows us to keep inventory lean and focused while also delivering great prices," Kerr said.

Calls to Ames True Temper were not returned.

Joel Naroff, chief economist with TD Bank, said getting onto the Bottom Rung report means Moody's is putting you on a watch list.

"They're saying that putting money in those firms would be a high-risk investment," Naroff said. "For those companies, the ability to raise capital becomes almost impossible. Banks in normal circumstances wouldn't be likely to loan them money if they're on that list. In today's climate, it would be even harder."

Still, Naroff said getting on Moody's Bottom Rung is not the end of the world.

"The fact that they are still paying and have not yet defaulted is critical," he said. "It's a warning to investors, but that doesn't mean they have to go bankrupt or that they are going to default. It is also a warning to the company to be sure they get through this crisis."

"Just because Moody's put them on that list doesn't mean they're going to go under."

Rite Aid and Bon-Ton are in the same boat as a lot of companies, said retail investment expert Bob Gorland, vice president of Matthew P. Casey and Associates in Lower Paxton Township.

"There has been a lot of comment in the press and in the trade journals about Rite Aid and Bon-Ton sales slipping, about debt accrued because of acquisitions over time, with their stocks in poor territory," he said. "Unless they can reduce and maintain or increase sales or be acquired by another company or sell off some of their stores, their futures are uncertain."

In fact, Rite Aid has moved to shed some of its outlying stores. On Feb. 5, the company announced it agreed to sell seven Rite Aid locations in downtown San Francisco and five in eastern Idaho to Walgreens.

In 2007, Rite Aid acquired about 1,850 Eckerd and Brooks drugstores, and the integration of those stores has been challenging.

"They took on a lot of debt, and that's probably what this is about," Gorland said. "Bon-Ton has made a couple of acquisitions in different areas, and I think the debt load makes a lot of people in the industry nervous. And with the inflation, sales are really declining."