

Stores expect 'madhouse'

70 million shoppers expected to hit malls in last-minute sprint

By Sandra Jones
Tribune staff reporter

Jack Kingsed lives just blocks from North Michigan Avenue but has yet to start his Christmas shopping.

"I'm not the greatest planner," said the 24-year-old accountant. "I have no excuse to not have my shopping done yet."

Kingsed plans to hit the mall on Saturday along with an estimated 70 million shoppers—or

about one in four Americans—in the mad dash to wrap up holiday shopping.

Saturday is expected to be the biggest shopping day of the year, based on traffic, and could rank as the largest in U.S. history, said Bill Martin, chief executive of ShopperTrak RCT Corp., a Chicago firm that measures shopping traffic.

"We expect a madhouse," said Martin. "I know I'll be one of them."

Retailers are hoping Martin is correct. After starting out with a bang on Thanksgiving weekend, holiday sales have been slower than many retail prognosticators had expected.

The industry needs a show-stopping Saturday to bring the sea-

son to a merry ending.

"This weekend better be a blockbuster weekend, otherwise retailers won't meet their expectations," said Al Ferraro, partner of BDO Seidman LLP in New York. "It doesn't seem like the retailers have been knocking it out of the park at this point. Everybody's hopeful they'll catch up [this weekend]."

Not surprisingly, experts are counting on men to lead the charge of last-minute shoppers. And retailers, who will open as early as 6 a.m. and stay open till midnight, are ready for them.

Just ask Alex Lord, the director of Cartier, the high-end jewelry store on North Michigan

PLEASE SEE SHOPPING, PAGE 2



Despite a strong Thanksgiving weekend start, holiday sales have been slower than some retail analysts expected. The industry needs a show-stopping Saturday to help meet expectations.

EARNINGS

Walgreens posts 25% increase in profit

Prescription drugs lead 17% sales surge

Associated Press

Walgreen Co., the nation's biggest drugstore chain by revenue, reported better-than-expected fiscal first-quarter profit Friday as sales surged 17 percent on strong results from prescription drugs.

The 25 percent jump in earnings over a year ago helped send its stock to a three-month high. Results also showed that the Deerfield-based chain is off to a good early start in keeping its prescription drug customers in the face of Wal-Mart Stores Inc.'s \$4 offer for some generic drugs, which has been introduced gradually beginning in September.

Demonstrating continuing confidence that it can fend off threats from Wal-Mart or other rivals, Walgreens opened 143 stores in the quarter and said it plans to open 500 new stores in fiscal 2007 as it strives to have 7,000 stores in operation by 2010.

Morningstar analyst Mitchell Coewin called it a very strong quarter in every respect.

"They have a model that works and they're still far from full penetration of the U.S.," he said. "If they keep doing what they're doing, they can grow for many, many years."

Net income for the three months ended Nov. 30 was \$421.7 million, or 43 cents per share, up from \$345.6 million, or 34 cents per share, in the same period a year earlier. That was 2 cents per share better than the consensus estimate of analysts surveyed by Thomson Financial.

Revenue grew to \$12.7 billion from \$10.9 billion as prescription sales, which accounted for about two-thirds of total revenue, grew nearly 19 percent.

Same-store sales, or sales in stores open at least one year—a key measure of retail industry performance—rose 8.7 percent. "This quarter's results show the strength of our core drug-store business," Chairman David Bernauer said.

The company said profit margins were lowered somewhat by Medicare Part D, but Finance Director Rick Hans emphasized that the plan has nonetheless been "very good" for Walgreens.

"Even though low reimbursements under the program mean we earn less money on each Part D prescription, we've attracted more seniors to our pharmacies to make up for the lower payments," he said in recorded comments.

Analysts said Walgreens looks well-positioned to fend off current competitive threats and benefit more from strong demand for generic drugs.

Walgreens shares rose 72 cents, or 1.57 percent, to close at \$46.88 on the New York Stock Exchange.



Mario Gonzalez prepares flatbread at a new location at 910 N. Milwaukee Ave. in Lincolnshire. Cosi, which mostly sells sandwiches, will add more dinner items.

Cosi's freshest idea, bar none

Convenience-dining restaurant chain focuses on food, leaving behind nighttime bar concept and adding more items to its dinner menu

By John Schmelzer
Tribune staff reporter

You're not going to find the bar in the latest iteration of Cosi, the fast-casual Deerfield-based restaurant chain that has struggled to find its footing since its creation on the East Coast more than a dozen years ago.

"The restaurant, which has

gone by the name ZuZu's Coffee Bar Xando Coffee and Bar and Cosi Sandwich Bar, still offers coffee, beer and wine, but has chucked its founders' plans to operate a liquor bar on one side of the dining room while selling sandwiches on the other.

Now the chain, which operates 120 restaurants in 16 states and the District of Columbia,

believes it has finally figured out what it needs to do and is poised for a major expansion during the next two years.

Operating in the premium convenience-dining niche, the company is targeting 18- to 34-year-old adults without children, upscale suburbanites and the thousands of higher-income singles and couples who have returned to the city after many years in the suburbs.

That focus hasn't changed much from its 1994 founding as ZuZu's in Hartford, Conn., by three 22-year-old friends who believed that by day it would be

a coffee bar and would morph into an "upscale sophisticated place at night."

And even though the stock price has fallen by more than 50 percent from a record high of \$11.21 in March, Wall Street, which had questioned just about every aspect of the chain's business since its initial public offering in 2002, has become enchanted with the chain.

Cosi stock lost 12 cents, to \$5.01, on the Nasdaq stock market Friday.

In the past year, the average daily trading volume of the

company's stock has nearly tripled, to an average 404,000 shares per day compared with 145,000 in 2004.

The stock dip speaks to one of the challenges Cosi faces: keeping customers happy enough to pay a premium for a quick meal. Sales at Cosi and other fast-casual restaurants plunged earlier this year, when gasoline prices surged to more than \$3 a gallon. Many analysts suggested that diners downgraded to McDonald's to save money.

PLEASE SEE COSI, PAGE 8

Title may spell trouble for Toyota

Auto giant eyes No. 1, but it's tough at the top

By Robert Manor
Tribune staff reporter

With Toyota Motor Co. expected to displace General Motors Corp. as the world's largest automaker sometime next year, analysts say the advantage of being No. 1 is more symbolic than real.

GM, already closing auto plants and laying off workers, must struggle harder to return to profitability by turning out cars and trucks that people want, industry observers say.

"Symbolically, they have been No. 1 so long," said David

Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich. Now, he said, the company must focus on making money rather than taking market share.

"You can die by being No. 1," Cole said. "You will never die by being profitable."

Toyota, meanwhile, must deal with the penalty of prominence—No. 1 companies often become targets of government or the public. The company must also preserve its reputation for building reliable cars as it expands around the world.

On Friday at a news conference in Japan, Toyota executives said they plan to sell 9.34 million vehicles worldwide next year. GM is expected to sell

9.2 million vehicles this year, and is closing plants to reduce excess production capacity, meaning sales are unlikely to increase next year.

"We believe Toyota is going to be No. 1 sooner rather than later," said Dennis Virag, president of the Automotive Consulting Group Inc. of Ann Arbor, Mich.

That could do GM good, Virag said.

"For a number of years, GM has been indifferent regarding the market share erosion they were experiencing," Virag said. "GM just sat on its hands for a long time—they could not produce vehicles people wanted."

PLEASE SEE TOYOTA, PAGE 8



Toyota President Katsuaki Watanabe says, "There will be no growth without quality."

Ritchie Capital discloses offer to buy biggest fund

By Becky Yerak
Tribune staff reporter

A Geneva-based hedge fund run by a one-time National Football League hopeful plans to sell the assets of its biggest fund, months after facing investor unrest over its performance and changes in investment strategy.

In a three-paragraph e-mail to investors Dec. 12, Ritchie Capital said it had received an offer for the assets of its multi-strategy fund in a transaction that is "most likely to be in the best interest of investors."

A source close to the situa-

tion said London-based private-equity firm Collier Capital is the party in talks to buy the assets of Ritchie's flagship fund.

Chief Executive Thane Ritchie, 41, founded the company in 1997. At age 12 he began working full time at the Chicago Board of Trade with his father, who founded Chicago Research and Trading and later sold it to NationsBank Corp. for \$225 million.

The younger Ritchie was signed as a free-agent tight-end by the Chicago Bears in early 1980 but was cut that summer.

PLEASE SEE HEDGE, PAGE 3

INSIDE

United Airlines joins in fare hikes, cites fuel costs. PAGE 3

Light and retail therapies may offset winter blues. E-SHOPPER, PAGE 3

| DOW INDUSTRIAL | NASDAQ | SP 500 | 10-YEAR T-NOTE |
|----------------|----------|----------|----------------|
| ▼ -78.03 | ▼ -14.67 | ▼ -7.54 | ▲ +0.07 |
| 12,343.22 | 2,401.18 | 1,410.76 | 4.62% |

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MARKET ROUNDUP 5

ON THE RADIO: Hear the Chicago Tribune business report at 6:41 p.m. weekdays on WBBM-AM 780.

COSI: Franchisees sign up to build units

CONTINUED FROM PAGE 1

Despite the fact that the chain, which has not posted an annual net profit since going public in 2002, is unlikely to post a profit this year, Cosi has posted larger operating profits in each of the past three years. That's a sign of better things to come, executives say. Last year, it made \$211 million in operating profits on sales of \$1.73 billion.

Some analysts now are optimistic about Cosi's prospects. "The Cosi concept has evolved into a more proven, premium-convenience chain, and is differentiated given its standards of excellence relative to the food and dining experience as well as the company's ability to adhere to value," said Nicole Miller Regan, a restaurant analyst with Minneapolis-based Piper Jaffrey, in a note this month to investors.

While many fast-casual restaurants are happy to record an average sale of \$45 to \$70 per customer, Regan estimates that a typical Cosi customer spends an average of \$88.

Kevin Armstrong, Cosi's president and chief executive, attributes the chain's budding success to two factors: its near-fanatical focus on food and its

plans for a massive expansion in both company-owned and franchisee-owned stores after nearly three years of virtually no growth.

In addition, Armstrong, who was lured to Cosi more than two years ago from Yum Brands' Long John Silver's, has rounded out his management team with a chief operating officer, a chief financial officer and a chief of California Pizza Kitchen and the Patina Group. The chief development officer he selected had more than 20 years with Best Buy.

However, "the biggest change has been the acceptance of the concept," by potential franchisees, said Armstrong.

He said the chain has signed commitments from 27 franchisees during the past year to build more than 345 franchisee-owned units in the next few years.

In addition, the company will be joining in the building binge by adding the number of company-owned units by 50 percent, from the current 110 restaurants.

More than 200 company-owned and franchisee-owned restaurants are expected to be in operation by the end of 2008, he said. In an effort to diversify more of a diners' selections, Cosi is adding items such as grilled chicken in a three-cheese sauce topped with bacon and bread crumbs and served with a salad and a choice of flat bread.

Currently it offers a range of sandwiches such as a Cosi club, a tuna salad and cheddar cheese, and a roast turkey with brie and honey mustard. In addition, it offers three kinds of individual pizzas at lunchtime

and five different kinds for dinner along with four pasta offerings.

But gone will be the full bars that were at one end of the dining rooms. Stationing an employee there presented staffing complications, franchisees complained. Instead, patrons wanting a drink will ask for a glass of wine or a beer at the time they place their order.

Diners will find the interiors have been redesigned to provide an "urbane and inviting atmosphere," with wood floors, wood furniture and couches.

By adding a new franchisee and former chief operating officer of Au Bon Pain, remembers telling Au Bon Pain associates about Cosi. "As a competitor, we had better be careful if they ever get their leadership right."

Even then, Dourney said there was something about Cosi that made it stand out from the pack.

"There is something cravable about the brand," said Dourney. "That bread is awesome."

Now Dourney, who left Au Bon Pain to run his own restaurant franchising company two years ago, says Cosi has gotten its leadership fixed and has put his faith in the franchise. "Late last year, he agreed to build and operate as many as 25 Cosi restaurants in the Boston area during the next few years; half will be located in the suburbs where dinner traffic will be key to the restaurants' success. Fellow franchisees picked up the chain's fledgling franchise organization.

Armstrong said the next-generation Cosi delivers some of the best economics per square

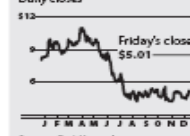
PROFILE

Cosi

The convenience-dining restaurant chain features menu items that use flatbread.

Founded 1994
Headquarters: Dearfield
Locations: 120 restaurants in 16 states and Washington D.C.
Employees: 2,727 (2005)
2005 revenues: \$11.72 million
2006 net loss: \$13.1 million

STOCK PRICE
Daily closes
\$19



Source: Cosi, Hoover's Chicago Tribune

foot in the casual-dining field. A Cosi outlet will produce sales of \$300 per square foot, compared with \$250 per square foot at Panera Bread Co. and \$233 per square foot at Chipotle Mexican Grill Inc., he said.

Dourney says he thinks the Cosi brand is a winner. "I don't want to go head-to-head with Panera. The appeal we have is higher. We have a more comfortable environment. It's sexier."

Most important, he says, "the food is better."
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Goodyear Tire, union reach tentative agreement

Associated Press
CLEVELAND — Goodyear Tire & Rubber Co. and a union representing about 12,600 workers in the U.S. said they tentatively agreed Friday to a new contract that would end an 11-week strike over health-care benefits and Goodyear's plan to close a tire factory in Texas.

The third-largest tire maker and the United Steelworkers union reached the deal after three days of negotiations in Pittsburgh early this week. The strike began Oct. 5.

The union says the deal would require Goodyear to drop plans to close the plant in Tyler, Texas, in return for an offer of a retirement buyout. The plant employs 1,000 workers.

The three-year labor agreement expired July 22. "This agreement validates the solidarity of our members and their families, who would not allow the company to walk away from obligations earned through a lifetime of hard work and loyalty," United Steelworkers President Leo W. Gerard said.

The 12 Goodyear plants covered by the tentative agreement are in Akron, Marysville and St. Marys in Ohio; Tonawanda, N.Y.; Danville, Va.; Fayetteville, N.C.; Gadsden, Ala.; Lincoln, Neb.; San Prairie, Wis.; Topeka, Kan.; Tyler, Texas; and Union City, Tenn.

Goodyear said it has made a proposal to its Canadian workers and is awaiting a response. Goodyear has two plants in Toronto and plants in Collingwood and Owen Sound.

During the strike, Goodyear made tires at some of its North American plants with non-union and temporary workers. That pushed the union to publicly express concerns about the safety of the newly trained workers and the quality of the tires they made. Goodyear said the workers followed the same safety and quality standards as union employees.

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Chrysler plan less dire than '01

Associated Press
DETROIT—DaimlerChrysler AG's Chrysler Group will unveil a restructuring plan that includes job cuts and plant closings in February, a company official said Friday.
The official, who did not want to be identified because he is not

authorized to speak about the plan, said the restructuring won't be as drastic as in 2001, when Chrysler shed 40,000 jobs.
Company spokesman Jason Vines would not comment on the plan, details of which were reported by The Detroit News on Friday.

TOYOTA: Major recall hurt image in Japan

CONTINUED FROM PAGE 1

Once nicknamed "Generous Mother" by its workers, GM has been the world's largest auto-maker for 81 years.

But last year, the company lost \$10 billion in market value for its big, gas-guzzling sport-

utility vehicles declined. The automaker plans to close 12 plants by 2008. The company is buying out 34,000 union workers to cut costs by \$9 billion a year.

Toyota's success lies in building reliable though not terribly exciting cars known for getting good gas mileage. Its Lexus cars mostly the ones Americans love to hate.

Wal-Mart, the world's largest retailer, has run into a barrage of criticism in recent years over half will be located in the suburbs where dinner traffic will be key to the restaurants' success. Fellow franchisees picked up the chain's fledgling franchise organization.

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foot in the casual-dining field. A Cosi outlet will produce sales of \$300 per square foot, compared with \$250 per square foot at Panera Bread Co. and \$233 per square foot at Chipotle Mexican Grill Inc., he said.

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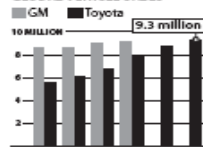
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Toyota's rise

GLOBAL VEHICLE SALES



*Projections
Note: GM projections for 2006 and 2007 not available.
Source: The companies Chicago Tribune

MUTUAL FUNDS

CONTINUED FROM PREVIOUS PAGE

Table with columns: FUND, NAV, 1M, 3M, YTD, 1YR, 5YR, RISK. Lists various mutual funds and their performance metrics.