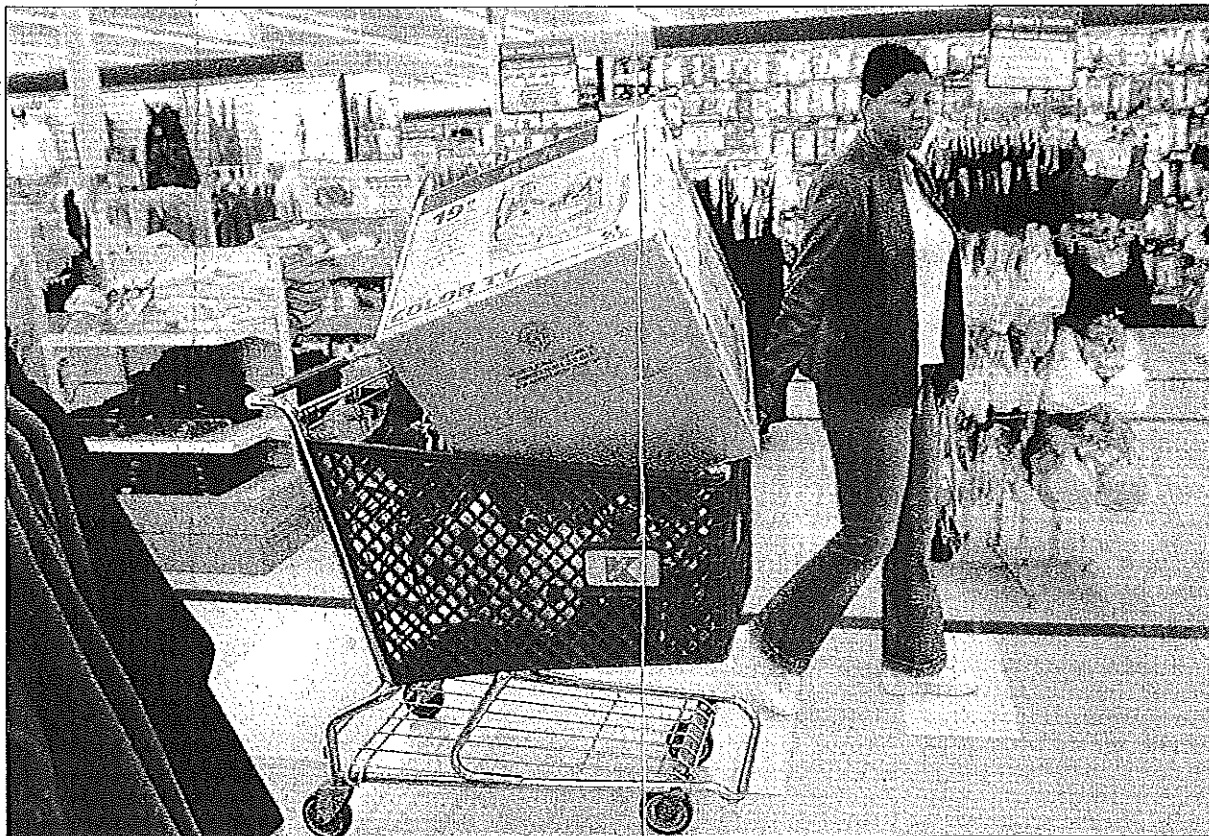


Solid holiday run caps Kmart's 2004 rebound



Photos by Max Ortiz / The Detroit News

Billie Edwards of Detroit shops at a Kmart store in Warren. Chief Executive Officer Aylwin Lewis said Kmart is "implementing numerous initiatives to grow sales and increase profits in 2005."

■ But analysts say the store may have permanently lost customers to rivals.

By Tenisha Mercer
The Detroit News

Kmart Holding Corp. capped its remarkable 2004 turnaround by posting healthy profits and narrowing its same-store sales declines in the final two months of the year.

The Troy-based retailer said it expects net income to be about \$250 million for November and December — the critical holiday selling season — an increase of about \$23 million or 10 percent from the same period in 2003.

Same-store sales, or sales at stores opened at least a year, for November and December declined by 4.6 percent. But Kmart said this represents an improvement on double-digit sales declines from earlier in the year.

"We are pleased with the significant improvement in the rate of our same-store sales decline," said Kmart CEO Aylwin Lewis. "Kmart has taken action on many fronts to reset baseline sales at a level that forms the basis for profitable growth."

"It is our intention to maintain a substantial base of sales and be significantly profitable at the same time, and we are pleased with our progress to date."

Lewis added that Kmart is "implementing numerous initiatives to grow sales and increase profits in 2005."

Kmart's fiscal fourth quarter of 2004 ends Jan. 26. The company has posted four straight quarterly profits.

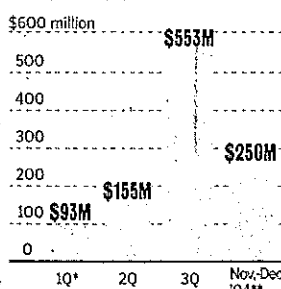


Carol Hammond of Warren hunts for Martha Stewart towels. Kmart posted healthy profits in November and December.

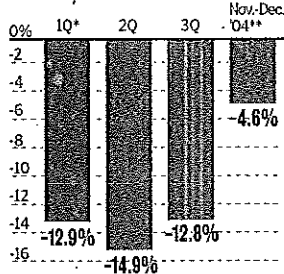
Kmart profit rises

Earnings surged in 2004, but same-store sales continued to decline

2004 NET INCOME



COMPARED TO SAME PERIOD A YEAR EARLIER



*Quarter ended April 28
**Anticipated income

Please see *KMART*, Page 2D

ng a sell-
to reach
of \$7 mil-
ears, the
d nearly
children's
Detroit.
ach and
388) 838-
1.

**leaves
urd**
La-Z-Boy
hat Mel
ed from
rs effec-
Norton,
1, said, "It
re are ac-
nation in
ful elec-
or repre-
is of the
Although
oard only
nowledge
were ex-
our com-

**dent,
etire**
K — The
executive
; Founda-
that he
e end of
ade lead-
ic organi-
Richard-
oundation
he served
hns Hop-
altimore.

**f kids'
OK'd**
Ash Ste-
proved to
bulk drug
bine, the
in Gen-
cabine for
children
shoblastic
bine will
in ASI's
ufacturing
.....
wire and
eports.

as Magnum Helicopters.
Morton, who owned Mor-
ton's Helicopters, died July
28 when the helicopter he
was piloting crashed at-
tempting an emergency
landing at Selfridge Air Na-
tional Guard Base in Mount
Clemens.

"He was one of our best
friends," said Fulcher, who
serves as director of oper-
ations and president of Mag-
num Helicopters. "You can't
replace him. We can take his
dream, which was also our
dream, and try to grow it."

Fulcher and Engl took
over the business and plan to
grow the operation in several
ways, including increasing
the number of students
learning how to fly. Magnum
offers private, commercial
and flight instructor training
for two types of copters, a
two-seater and a four-seater,
with rates starting at \$240 an
hour for the smaller craft.

"Wintertime is actually
the best time to fly," said
Engl, general manager and
owner of Magnum. Engl
earned his pilot, commercial
and flight instructor licenses



Elizabeth Conley / The Detroit News

Sean Fulcher, left, and Kurt Engl continue to train pilots, offer flights for aerial photographs and handle special event trips as Magnum Helicopters after the death of the former owner.

Magnum Helicopters

- **Where:** Oakland County International Airport, Waterford Township
- **Services:** pilot training, aerial photography, flights, service, sales
- **Costs:** \$240/hour to \$580/hour
- **Information:** (248) 666-2600 or www.magnumheli.com

should have more."
One of the returning stu-
dents is David Berris of West
Bloomfield, who was reluc-
tant to resume his flight
training after the accident,
but decided to finish the
course. "I had gotten that far
and put the hours in," Berris
said. "I have always been in-
trigued and interested in heli-
copters. I do it as a hobby
and recreation and for the

pure pleasure of it."

Fulcher remains confi-
dent more students will re-
turn and the flight instruc-
tion portion of the business
will rebound.

"Some of the students
needed time off," Fulcher
said. "Most are coming
back." In addition to training,
Magnum courts professional
photographers who want to
get aerial photos, or con-
struction companies seeking
a bird's-eye view of a build-
ing site.

"We haven't started tap-
ping into it, but it's some-
thing that may eventually
compete with flight train-
ing," Fulcher said. "It's grow-
ing."

Tom Salter of Al Salter
Photography in St. Clair
Shores used Magnum in De-
cember to shoot cityscapes
from the air. "They were rec-
ommended and I was abso-

lutely pleased," Salter said.
"They were very profession-
al and accommodating. They
made the flight comfortable.
The only thing he didn't do
was control the weather."

Magnum offers special
events rides, including a
wedding package for \$1,200
to \$1,500. "We can pick them
up from the reception and
take them to the hotel and
from the hotel to the airport
the next day," Fulcher said.
"We can do something no
one will forget."

Servicing and selling cop-
ters also remain in the mix as
Magnum works with the
Morton family to transfer
that portion of the business
to the new operation. A two-
seat helicopter sells for
\$180,000 and a four-seater
for \$300,000 to \$340,000.

.....
*Neal Haldane is a Metro
Detroit freelance writer.*

KMART

Continued from Page 1D

Some analysts, however, ex-
pressed concern that Kmart
may have permanently lost cus-
tomers to rivals Wal-Mart
Stores Inc. and Target Corp. —
bad news for the nation's third-
largest discount retailer, which
expects to finalize an \$11 billion
merger with Sears, Roebuck &
Co. in March.

"They may have taken over
Sears, but clearly Kmart has not
fixed their own problems," said
C. Britt Beemer, chairman of
America's Research Group in
Charleston, S.C. "They have a
long ways to go before they are
out of the woods. Kmart has not
gotten customers back, and they
are still in a retreat."

Stephen Hoch, a marketing
professor at the Wharton
School at the University of
Pennsylvania, pointed out that
Kmart shuttered many of its
worst stores during the bank-
ruptcy process.

"There are several ways in

which firms can influence
same-store sales, and one of the
ways to do that is to close bad
performing stores, which Kmart
has been doing a whole heck of a
lot of," Hoch said. "This is just
continued evidence that Kmart
continues to slowly slide in the
abyss. There is no evidence that
Kmart or Sears is going to be
able to increase their sales."

But Farmington Hills turn-
around expert Kenneth Dalto
said the higher profits are a
good sign.

"The key to Kmart's success
is steady progress," Dalto said,
"so anything that shows progres-
sion of the core business is
good."

Also Monday, Wal-Mart, the
nation's No. 1 retailer, said a
surge in after-Christmas shop-
ping spurred December same-
store sales gains of about 3 per-
cent, at the high end of its fore-
cast. The company's perform-
ance was aided by gift card sales
and post-Christmas shopping.

The company boosted sales
by discounting merchandise and
beefing up advertising after a

slow start to the holiday selling
season.

No. 2 discounter Target fore-
cast December sales gains of as
much as 5 percent.

Despite its profits, Kmart is
still struggling to regain custom-
ers it lost after closing 600 stores
and eliminating more than
57,000 jobs during its 15-month
Chapter 11 reorganization. The
company emerged from Chap-
ter 11 bankruptcy protection in
May 2003 as a new entity.

After promising a rebound in
2004, the discounter launched a
redesigned back-to-school line,
tweaked exclusive clothing lines
from Thalia Sodi, Jaclyn Smith
and Joe Boxer, and launched a
new, more customer-friendly
Web site last year. It upgraded its
electronics department.

It also spruced up stores,
making them cleaner and bright-
er, and widened aisles by remov-
ing slow-selling merchandise.
Under the leadership of major-
ity investor and chairman Ed-
ward S. Lampert, the company
also went on a cost-cutting
binge, eliminating inventory,

cutting hours for thousands of
employees and trimming jobs
from its payroll and selling
stores to Home Depot and Sears.

Kmart increased more than
315 percent in 2004 as Wall Street
cheered Lampert's cost cutting
and willingness to cut real estate
deals.

On the Nasdaq Stock Market,
shares of Kmart rose \$1.15, or 1.2
percent, to close Monday at
\$100.10.

"They have a lot of positives
working for them, but they still
have to drive additional traffic,"
said Gary Ruffing, a retail ana-
lyst with BBK Ltd. in Southfield.
"Things are starting to come to
fruition, and they've made a lot
of improvements, but sales are
still decreasing."

The retailer continues to
build cash. It had amassed \$3.9
billion as of December 2004, up
from \$2.1 billion in January.

.....
*The Associated Press contrib-
uted to this report. You can
reach Tenisha Mercer at (313)
222-2401 or tmercer@detnews-
.com.*