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Circuit City going out of business

Consumer electronics firm closing all outlets

Advertiser Staff and News Services

Bankrupt Circuit City Stores Inc., unable to work out a sale of the company, said yesterday it will go out of business — cutting 34,000 jobs and closing its 567 U.S. stores, including the one at Pearlridge Center in Hawai'i.

The nation's second-biggest consumer electronics retailer is the latest casualty of an unprecedented pullback in consumer spending that has driven other brands such as KB Toys, Mervyns LLC and Linens 'N Things into bankruptcy. Experts believe there will be more to come.

"This is the only possible path for our company," Circuit City's acting Chief Executive James A. Marcum said in a statement. "We are extremely disappointed by this outcome."

The Virginia-based company had been seeking a buyer or a deal to refinance its debt, but the hobbled credit market and consumer worries proved insurmountable. Negotiations for an acquisition went past midnight on Thursday, Circuit City lawyer Gregg Galardi said in court.

Two buyers — Mexican billionaire Ricardo Salinas Pliego, who controls a chain of electronics stores in Latin America, and the Golden Gate Capital private equity firm — had been looking to buy the company in a shrunken form, with either 350 stores or as few as 180 stores. But the company couldn't secure the necessary financing or support from vendors.

U.S. Bankruptcy Judge Kevin Huennekens gave final approval to the liquidation plan.

"This is a very sad day for management, the employees, customers and the community," the judge said.

Circuit City wasn't disclosing the number of employees at individual stores. Employees who lose their jobs within 60 days will continue to receive pay and benefits for 60 days, according to the company.

Circuit City said close-out sales will start at some stores as early as today. Closing sales will run as long as it takes to sell existing inventory, but are expected to wrap up by the end of March. Stores will close after liquidation sales are completed.

Consumers with Circuit City gift cards may redeem them at full value at stores, the company said, but once stores are closed gift cards will have no value. The retailer's Web site will shut down Monday morning.

Customers with Circuit City merchandise bought before yesterday have 14 days to return the items for exchange or refunds.

Extended warranties on merchandise bought at Circuit City are backed by third-party vendors, and won't be affected.

Shareholders are likely to receive nothing, as is typical in bankruptcy cases. Circuit City said in court papers it has appointed Great American Group LLC, Hudson Capital Partners LLC, SB Capital Group LLC and Tiger Capital Group LLC as liquidators. They will pay a 70.5 percent return on merchandise.

"Very, very sad," said Alan L. Wurtzel, the son of company founder Samuel S. Wurtzel, and the chief executive from 1972 to 1986, board chairman from 1986 to 1994 and vice chairman until 2001. "I feel particularly badly for the people are employed or until recently were employed."

Wurtzel has previously said Circuit City didn't take the threat of rival Best Buy Co. seriously enough and, at some points, were too focused on making a profit in the short term instead of building long-term value.

Credit Suisse analyst Gary Balter told investors that Circuit City's demise will help Best Buy cement its position as the market leader.

"Losing Circuit (City) and what had previously been an □ \$11 billion business, in addition to share gains from other smaller outlets, should help to partially offset weaker consumer spending as well as further secure Best Buy's position as the leader in the space," he said.

Shares of Best Buy Co. rose \$2.44, or nearly 9 percent, to \$29.58 in afternoon trading.

The liquidation of Circuit City, which was established in 1949, follows the worst holiday shopping season in four decades. People have slashed their spending since the financial meltdown in September as they worry about their job security and declining retirement funds.

The Circuit City move will also hurt the nation's malls, which have suffered from the rise in vacancies as other chains have liquidated. But analysts say that the demise of Circuit City, whose stores range in size from 20,000 to 25,000 square feet, will hurt the fortunes of mall operators even more.

"It will bring to market a glut of big box spaces across the country," said John Bemis, head of Jones Lang LaSalle Inc.'s retail leasing team. "It will have one of the largest impacts on big box real estate across the country."

The Pearlridge store should be filled without too much trouble, according to Mark Bratton, a broker with local commercial real estate firm Colliers Monroe Friedlander.

"It's a great space," he said. "Someone will come along and take it."

Circuit City filed for Chapter 11 in November as vendors started to restrict the flow of merchandise ahead of the busy holiday shopping season.

Circuit City, which said it had \$3.4 billion in assets and \$2.32 billion in liabilities as of Aug. 31, said in its initial filings that it planned to emerge from court protection in the first half of this year.

Under court protection, it broke 150 leases at locations where it no longer operates stores and closed 155 stores in the U.S. in November and December.

Circuit City's 765 retail stores and dealer outlets in Canada are not part of the liquidation, though their future is unclear. Galardi told a judge there are still bids for the Canadian business.

Additional Facts

Number of stores closing

567

Number of jobs lost

34,000
