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## **Circuit City Wins Permission to Borrow \$1.1 Billion (Update3)**

By Dawn McCarty and Cary O'Reilly

Nov. 10 (Bloomberg) -- Circuit City Stores Inc., the seller of televisions and computers that filed for bankruptcy today, won court approval to borrow as much as \$1.1 billion to finance operations on an interim basis while it restructures.

U.S. Bankruptcy Judge Kevin Huennekens approved the so-called debtor-in-possession loan at a hearing in Richmond, Virginia. Bank of America Corp. is the agent for the lenders. The electronics retailer said the loan was needed to stock merchandise and pay employees.

The company owes \$119 million to Hewlett-Packard Co., the world's largest maker of personal computers, and \$116 million to Samsung Electronics Co., the top maker of flat-panel displays, according to the company's bankruptcy filing. In its Chapter 11 petition, Circuit City listed assets of \$3.4 billion and debt of \$2.32 billion.

Gregg Galardi, Circuit City's attorney, agreed to change the loan request to eliminate opposition from suppliers, including Panasonic Corp. and Verizon Wireless. The suppliers asked Huennekens to ensure that Circuit City didn't take their goods, some of which are in stores on consignment, and use them as collateral.

The retailer has "\$1.2 billion to \$1.3 billion in inventory, therefore, as a result we believe our lenders are over-secured on inventory alone," Galardi told the court.

**"The DIP financing being offered to Circuit City is one of the first serious large extensions of credit by a bank since the government bailout of the banks took effect," said attorney Jerry Reisman, a partner of Reisman, Peirez and Reisman, in an e-mail. "Bank of America's substantial financing is evidence of its faith and belief that Circuit City can successfully reorganize."**

Market Share

Circuit City, founded in 1949 when Samuel Wurtzel opened Richmond's first retail television store, has lost more than \$5 billion in stock-market value in the past two years. The company plans to stay in business while it devises a plan to restructure.

The biggest electronics retailer in the U.S. until the mid- 1990s filed for bankruptcy before it had a chance to take in cash from the holiday selling season, when it gets more sales than at any other time of the year. The chain is losing market share to Best Buy Co. and Wal-Mart Stores Inc. while Amazon.com Inc. and other online retailers undercut it with lower prices.

On Nov. 3, the retailer said it would close a fifth of its U.S. stores and renegotiate leases for some locations to conserve cash. The closings will leave it with about 566 U.S. stores and 80 percent of its 43,000 employees.

#### \$40 Million in Leases

Circuit City will save \$40 million a year by the bankruptcy court voiding 155 dead store leases, Galardi told the court. The retailer terminated 700 employees at their headquarters late last week, which will save the company about \$1.1 million to \$1.2 million a week, Galardi added. Huennekens gave the company permission to continue paying the terminated employees on an interim basis. The company wants to continue to pay them for eight weeks to boost morale.

Management tried to sell the company in May after Blockbuster Inc. made a preliminary offer that was later withdrawn. The retailer fired higher-paid workers and opened smaller stores to cut costs. Until the shift, the company's strategy had been to sell in locations as large as 44,000 square feet.

Huennekens also gave the company permission to honor gift cards and warranty programs.

Circuit City fell 16 cents, or 62 percent, to 9.5 cents in over-the-counter trading at 4 p.m.

The case is In Re Circuit City Stores Inc., 08-35653, U.S. Bankruptcy Court, Eastern District of Virginia (Richmond).

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