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## Circuit City swings to loss

By [Angela Moore](#) & [Jennifer Waters](#), MarketWatch  
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**NEW YORK (MarketWatch) -- Circuit City Stores Inc. on Wednesday said it swung to a fiscal fourth-quarter loss, as deep discounting on popular merchandise, such as flat panel television sets, ate into margins.**

For the quarter, Circuit City (CC : **18.24, -0.04, -0.2%**) said it lost \$12.2 million, or 7 cents a share. In the year-ago period it earned \$141.4 million, or 81 cents a share. Results for the latest quarter include \$144.6 million related to the impairment of goodwill, store and facility closures and other restructuring activities.

Sales rose to \$3.93 billion from \$3.89 billion. Same-store sales fell 0.5%.

Analysts, on average, expected it to post a profit of 63 cents a share on revenue of about \$4.04 billion, according to Thomson Financial.

The company said it was disappointed in the results, and said the shortfall stemmed from falling prices in television sets, as well as "permanent changes in the television category and transitory changes in the PC category."

Results were also pinched by economic concerns such as higher energy prices, a lackluster housing market and weakening consumer confidence.

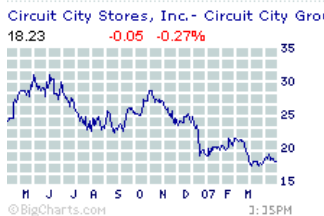
Shares were down 1% at \$18.10 in afternoon trading.

UBS analyst Brian Nagel said the results reflect a "company in transition."

"Circuit City is underperforming its primary competitor. Management however, is taking aggressive steps to right-size Circuit City's expense structure and reallocate resources to better categories," Nagel wrote in a note to clients. "We continue to view Circuit City as a very compelling turnaround story."

Last week, Circuit City said -- for the second time in as many months -- that it was making sweeping changes as it struggles to cut costs and improve earnings.

On March 28, the retailer said it would eliminate 3,400 jobs and that it will turn over its information-technology division to International Business Machines (IBM : **96.19, +0.09, +0.1%**), a move that will leave 80 of the 130 people working at that unit without jobs while trimming 16% in costs over the seven-year term of the contract. [See full story.](#)



Consumer electronics retailers were locked in a bitter price war over the holiday season, slashing prices to lure shoppers and cutting into profits in the meantime. Best Buy Co. (BBY : **47.99, -1.14, -2.3%**), Wal-Mart Stores Inc. (WMT : **47.98, -0.12, -0.2%**) and even Home Depot Inc. (HD : **38.15, +0.52, +1.4%**) were looking to capitalize on consumer appetites for large TV sets.

Also Wednesday, Circuit City's rival Best Buy posted a nearly 19% jump in quarterly profit and 21% increase in sales. [See full story.](#)

### Macroeconomic headwinds

On a conference call with analysts, Circuit City's Chairman, President, and Chief Executive Philip Schoonover blamed some of the company's problems on economic concerns.

"Frankly, we've seen macroeconomic headwinds, including higher energy prices, slower housing sales, impact of the volatility in subprime lending rates, and declining consumer confidence that we believe in combination with our internal changes will contribute to a significant loss in the first half," he said on the Webcast conference call.

But he reminded analysts that Circuit City rings up the majority of its profits in the second half of the year, so the company will use the first half to stabilize its business in order to be prepared for the holiday shopping season.

"Accordingly, we will front-load the physical and operational changes to our stores and their associates and we will expense these in the first half," he said.

The company's consolidated gross profit margin was 23.7% in the fourth quarter compared with 24.6% in the year-ago period, hurt by a decrease in extended warranty sales.

The international segment's fourth quarter gross profit margin decline pushed the consolidated gross profit margin down by 49 basis points. Results include \$3.3 million, or 195 basis points, for inventory write-offs, clearance sales, and other actions. The margin rate also was also hurt by the continued shift from higher-margin categories, such as toys and batteries, to lower-margin categories, such as personal electronics and GPS, as well as clearance activities.

For the current fiscal year, the company sees consolidated net sales growth of 5% to 8% and domestic segment same-store sales growth of 3% to 5%.

It expects earnings from continuing operations before income taxes as a percentage of consolidated net sales of 1.4% to 1.8%, and capital expenditures, net of landlord reimbursements, of about \$255 million.



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**CFO search**

In April, Circuit City Chief Financial Officer Michael Foss left his post to join Petco Animal Supplies. On the earnings conference call, Schoonover said the company had boutique executive search firm Crist Associates, and said the search is going well.

"We have several candidates that have already been identified and we expect to begin the interview process shortly," he said. "I'm looking for a CFO who will complement the strengths of our existing management team and help me drive the transformation that we are undertaking. I want to find the right person and I will take whatever time necessary to find the right fit." ■

Angela Moore is MarketWatch's consumer editor based in New York.  
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