

## Blockbuster Bids for Circuit City

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To reinvent its outdated video-rental business, Blockbuster has offered up to \$1.35 billion in cash for struggling electronics retailer Circuit City.

But Circuit City, with nearly \$12 billion from more than 1500 (680 large format) stores in USA, questioned the financing of the deal because the \$5.5 billion Blockbuster had only \$184m in cash and cash equivalent at the end of Q1.

Now activist shareholder Carl Icahn, fresh from his victory in getting Motorola to split up, steps in to offer his support to the Blockbuster offer.

Blockbuster operates 4800 small format rental stores in USA (and 2000+ in the rest of the world) and wants to save a business dinosaured by Netflix and other new online movie delivery companies. Blockbuster thinks it can transform itself into the one-stop entertainment center that Circuit City should have been. Combining with Circuit City would significantly increase Blockbuster's retail footprint and give it a wider customer base to sell a range of video and electronics products.

But most analysts don't see any synergy as Blockbuster would take on a troubled company in a different business with a greater market value than its own.

The alternative?: the former CEO of Hollywood Entertainment video rental chain, Mark Wattles, who disclosed a 6.5% stake in Circuit City and forced his own people onto the board. Yet what other direction can Wattles go besides widening the video rental giant to consumer hardware? That question stares at every video rental chain and suggests traditional PC and CE storefronts can have another wave of new competitors.

Can the Minnow Eat the Whale?

	<b>CIRCUIT</b>	<b>CITY</b>	<b>BLOCKBUSTER</b>
2007 Annual Sales	\$11.74 billion	\$5.54 billion	
2007 Net Loss	\$321.4 million	\$74.2 million	
No. of Outlets	1,500	7,800	
Sells in EMEA?	NO	YES	
Approx. Market Value	\$750 million	\$630 million	
Headquarters	Virginia	USA	Texas