

Potential RadioShack bankruptcy threatens 27,000 employees

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Electronics retailer RadioShack said in a filing with the Securities and Exchange Commission (SEC) Thursday that it will be forced to declare bankruptcy unless it can arrange a funding lifeline. The potential bankruptcy of RadioShack would threaten many or all of the jobs of its nearly 27,000 employees.

In a quarterly filing with the SEC, the company warned, “If acceptable terms of a sale or partnership or out-of-court restructuring cannot be accomplished, we may not have enough cash and working capital to fund our operations beyond the very near term, which raises substantial doubt about our ability to continue as a going concern.”

The company went on to explain, “There can be no assurance that any of these efforts will be successful. Each of the foregoing alternatives may have materially adverse effects on our business and on the market price of our securities. In the event the restructuring alternatives described above are not achievable, we would likely be required to liquidate under Chapter 7 of the Bankruptcy Code.”

On Thursday, the company announced a dismal second quarter earnings. Compared to the same period in 2013, the company’s net revenue fell 22 percent, to \$673.8 million. The company lost \$137.4 million, up from \$52.2 million a year ago, in its ninth quarter of consecutive losses.

On Friday night the *Wall Street Journal* reported that the company is thinking through a \$585 million rescue package offered by the Swiss banking giant UBS and the hedge fund Standard General LP. The package would be used to replace a \$585 million loan RadioShack has with General Electric (GE) Capital.

Whatever happens, it is clear that the company’s creditors will call the shots. Two days before the filing, analyst Michael Pachter wrote, according to Forbes,

“RadioShack’s operational decisions are now being vetted by creditors and equity investors are no longer relevant to management decisions—the creditors clearly are in control of the ship and, in our view, the ship is sinking.”

After a selloff on Tuesday and Wednesday, the company’s stock rallied after the bankruptcy announcement, when investors were reportedly excited by the prospect of being able to close down more RadioShack stores.

In the past 18 months, RadioShack management had proposed to close 1,100 of its retail stores. But its creditors, chiefly GE Capital, reportedly prohibited the move, and then decided to only close 200 stores. Investors now expect that this week’s events will allow RadioShack to shut down many more stores, laying off thousands of workers in the process.

RadioShack could follow in the footsteps of many other huge retailers that have declared bankruptcy in the past decade: Circuit City, Blockbusters, Borders, and Linens ‘n’ Things, to name a few. In each of these cases, there were mass layoffs and store closures that affected tens of thousands of workers and their families.

Last month, US discount retailer Family Dollar announced it would close 370 stores earlier this year, five percent of its total locations. The company employs over 60,000 people in 46 states. Now, Dollar General, a major competitor, is attempting to buyout the company. Such a merger would likely involve a restructuring of the two companies that would result in massive layoffs and store closures.

In May of this year, a report by Retail Metrics found that retail earnings in the first quarter of 2014 fell below estimates by the largest level in thirteen years. Retail Metrics president, Ken Perkins, wrote in the

report, “The American consumer is not fully back and remains cautious.”

The announcement that RadioShack could enter bankruptcy, likely leading to mass layoffs, comes amid a series of multiple reports warning about the continued stagnation of the economy and widening social inequality.

In a report written for a July G20 labor ministers meeting, the International Labor Organization and World Bank warned that economic growth would “remain below trend with significant downside risks for the foreseeable future.”



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