

Edgar Filing: CIRCUIT CITY STORES INC - Form 10-Q

CIRCUIT CITY STORES INC  
Form 10-Q  
June 30, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended May 31, 2008  
or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 1-5767

CIRCUIT CITY STORES, INC.  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

54-0493875  
(I.R.S. Employer  
Identification No.)

9950 Mayland Drive  
Richmond, Virginia  
(Address of principal executive offices)

23233  
(Zip Code)

(804) 486 - 4000  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
-----

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 31, 2008
Common Stock, par value \$0.50	168,512,147

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#### PART I. FINANCIAL INFORMATION

##### ITEM 1. FINANCIAL STATEMENTS

Circuit City Stores, Inc.  
Consolidated Statements of Operations (Unaudited)  
(Amounts in thousands except per share data)

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	20
Net sales	\$ 2,
Cost of sales, buying and warehousing	1,
Gross profit	
Selling, general and administrative expenses	
Operating loss	(
Interest income	
Interest expense	
Loss from continuing operations before income taxes	(
Income tax expense (benefit)	
Net loss from continuing operations	(
Earnings from discontinued operations, net of tax	
Net loss	\$ (
Weighted average common shares:	
Basic	
Diluted	
Loss per share:	
Basic:	
Continuing operations	\$
Discontinued operations	\$
Basic loss per share	\$
Diluted:	
Continuing operations	\$
Discontinued operations	\$
Diluted loss per share	\$
Cash dividends paid per share	\$

See accompanying notes to consolidated financial statements.

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Circuit City Stores, Inc.  
Consolidated Balance Sheets  
(Amounts in thousands except share data)

	May 31,
	-----
	(Unaudi
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 9
Short-term investments	

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Accounts receivable, net of allowance for doubtful accounts	30
Merchandise inventory	1,68
Deferred income taxes, net of valuation allowance	2
Income tax receivable	16
Prepaid expenses and other current assets	7
	-----
Total current assets	2,34
Property and equipment, net of accumulated depreciation of \$1,481,216 and \$1,448,250	1,03
Goodwill	11
Other intangible assets, net of accumulated amortization of \$7,837 and \$7,224	1
Other assets	12
	-----
TOTAL ASSETS	\$ 3,64
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Merchandise payable	\$ 93
Expenses payable	28
Accrued expenses and other current liabilities	32
Accrued compensation	6
Accrued income taxes	1
Short-term debt	5
Current installments of long-term debt	1
	-----
Total current liabilities	1,69
Long-term debt, excluding current installments	6
Accrued straight-line rent	15
Deferred rent credits	16
Accrued lease termination costs	7
Deferred income taxes, net of valuation allowance	2
Other liabilities	14
	-----
TOTAL LIABILITIES	2,31
	-----
Commitments and contingent liabilities	
Stockholders' equity:	
Common stock, \$0.50 par value; 525,000,000 shares authorized; 168,512,147 shares issued and outstanding at May 31, 2008 (168,859,462 at February 29, 2008)	84
Additional paid-in capital	322
Retained earnings	809
Accumulated other comprehensive income	115
	-----
TOTAL STOCKHOLDERS' EQUITY	1,332
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,649
	=====

See accompanying notes to consolidated financial statements.

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Circuit City Stores, Inc.  
 Consolidated Statements of Cash Flows (Unaudited)  
 (Amounts in thousands)

	200
	-----
Operating Activities:	
Net loss	\$ (164)
Adjustments to reconcile net loss to net cash used in operating activities of continuing operations:	
Net earnings from discontinued operations	45
Depreciation expense	3
Amortization expense	1
Stock-based compensation expense	1
Loss on dispositions of property and equipment	1
Provision for deferred income taxes	1
Other	1
Changes in operating assets and liabilities:	
Accounts receivable, net	10
Merchandise inventory	(114)
Prepaid expenses and other current assets	(28)
Other assets	18
Merchandise payable	6
Expenses payable	(49)
Accrued expenses, other current liabilities and income taxes	(9)
Other long-term liabilities	(9)
	-----
Net cash used in operating activities of continuing operations	(275)
	-----
Investing Activities:	
Purchases of property and equipment	(50)
Proceeds from sales of property and equipment	22
Purchases of investment securities	
Sales and maturities of investment securities	
Other investing activities	
	-----
Net cash (used in) provided by investing activities of continuing operations	(27)
	-----
Financing Activities:	
Proceeds from short-term borrowings	405
Principal payments on short-term borrowings	(350)
Principal payments on long-term debt	(3)
Changes in overdraft balances	53
Excess tax benefit from stock-based compensation	
Repurchases of common stock	
Issuances of common stock	
Dividends paid	(6)
Other financing activities	
	-----
Net cash provided by (used in) financing activities of continuing operations	98
	-----
Discontinued Operations:	
Operating cash flows	
Investing cash flows	

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Financing cash flows

Net cash provided by discontinued operations

Effect of exchange rate changes on cash

Decrease in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of period

(205

296

\$ 90

See accompanying notes to consolidated financial statements.

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CIRCUIT CITY STORES, INC.  
Notes to Consolidated Financial Statements  
(Unaudited)

1. Basis of Presentation

Circuit City Stores, Inc. is a leading specialty retailer of consumer electronics, home office products, entertainment software, and related services. The company has two reportable segments: its domestic segment and its international segment.

The domestic segment is engaged in the business of selling brand-name and private-label consumer electronics, personal computers, entertainment software, and related services in its stores in the United States and via the Web at [www.circuitcity.com](http://www.circuitcity.com) and [www.firedog.com](http://www.firedog.com). At May 31, 2008, the company's domestic segment operated 687 Superstores and 9 outlet stores in 158 U.S. media markets.

The international segment, which is comprised of the operations of InterTAN, Inc., is engaged in the business of selling private-label and brand-name consumer electronics in Canada. The international segment's headquarters are located in Barrie, Ontario, Canada, and it operates through retail stores and dealer outlets in Canada primarily under the trade name The Source By Circuit City<sup>SM</sup>. At May 31, 2008, the international segment conducted business through 775 retail stores and dealer outlets, which consisted of 502 company-owned stores and 273 dealer outlets. The international segment also operates a Web site at [www.thesource.ca](http://www.thesource.ca). In February 2007, the board of directors authorized management to explore strategic alternatives for InterTAN, Inc., which could include the sale of the operation.

Effective January 28, 2007, the company returned the management of 92 Rogers Plus(R) stores to Rogers Wireless Inc. Results from the Rogers Plus(R) stores are presented as results from discontinued operations for the three months ended May 31, 2007.

In May 2008, the company retained Goldman, Sachs & Co. to assist the company in exploring strategic alternatives to enhance shareholder value.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and

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liabilities. Actual results may differ from these estimates. The accompanying unaudited financial statements contain all adjustments of a normal, recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation. Due to the seasonal nature of the company's business, interim results are not necessarily indicative of results for the entire fiscal year. The company's consolidated financial statements included in this report should be read in conjunction with the notes to the audited financial statements in the company's fiscal 2008 annual report on Form 10-K.

Within the financial tables in this quarterly report on Form 10-Q, certain columns and rows may not sum due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts.

### 2. Recent Accounting Pronouncements

As permitted under transition rules by the Financial Accounting Standards Board ("FASB"), the company partially adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," as of March 1, 2008, on a prospective basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. As permitted by FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157,"

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the company delayed the adoption of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until March 1, 2009. The partial adoption of SFAS No. 157 did not have an impact on the company's financial position, results of operations or cash flows. The full adoption of SFAS No. 157 is not expected to have a material effect on the company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain assets and liabilities at fair value. The company adopted SFAS No. 159 as of March 1, 2008. As the company did not elect the fair value option for any of its financial instruments or other assets and liabilities, the adoption of this standard did not have an impact on its financial position, results of operations or cash flows.

On March 1, 2008, the company adopted Emerging Issues Task Force Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards," ("EITF 06-11") on a prospective basis. This Issue requires income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options to be recognized as an increase to additional paid-in capital. During the first quarter of fiscal 2009, the income tax benefit of these dividends could not be recognized because the company has recorded a full valuation allowance against the deferred tax assets of its U.S. operations. Thus, the adoption of EITF 06-11 did not have an impact on the company's financial position, results of operations or cash flows.

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In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards significantly change the accounting for and reporting of business combination transactions and noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. Both standards will be effective for the company beginning with the first quarter of fiscal 2010 and will be applied prospectively to future business combinations.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets," ("FSP No. 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. This FSP is effective for the company as of March 1, 2009, and will be applied prospectively to future business combinations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The company does not expect the adoption of this standard to have an impact on its financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," ("FSP EITF 03-6-1"). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, "Earnings Per Share." This FSP will be effective for the company beginning with the first quarter of fiscal 2010 and will be applied retrospectively. The company is currently evaluating the impact of adopting FSP EITF 03-6-1.

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### 3. Loss Per Share

For the three months ended May 31, 2008, and May 31, 2007, no options or nonvested stock were included in the computation of diluted loss per share because the company reported a net loss from continuing operations. Shares excluded were as follows:

(Shares in millions)	Three Months Ended May 31	
	2008	2007
Options.....	9.8	8.6
Nonvested stock.....	4.1	4.0



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### 4. Income Taxes

Quarterly, the company evaluates its deferred income taxes to determine if valuation allowances are required. During fiscal 2008, the company determined that its U.S. operations had generated a cumulative three-year loss. Based on the cumulative three-year loss and other available objective evidence, management concluded that a full valuation allowance should be recorded against the net deferred tax assets of the U.S. operations. The total valuation allowance was \$192.6 million at May 31, 2008, and \$129.8 million at February 29, 2008. The increase in the valuation allowance is attributable to the loss generated by the company's U.S. operations during the three months ended May 31, 2008.

During the first quarter of fiscal 2009, the company recorded income tax expense of \$3.0 million on a loss from continuing operations of \$161.8 million. Due to the valuation allowance, the company did not record an income tax benefit for the first quarter loss of its U.S. operations. The income tax expense is comprised primarily of discrete items and state income tax expense, partially offset by a benefit recognized related to the pre-tax loss of the company's Canadian operations. The discrete items are comprised primarily of an adjustment to a previously-filed tax position related to leases.

### 5. Exit and Other Activities

At a location's cease-use date, estimated lease termination costs to close a store, distribution center or repair center are recorded in selling, general and administrative expenses on the consolidated statements of operations. Accrued lease termination costs include future minimum lease payments, taxes, insurance and maintenance costs from the date of closure to the end of the remaining lease term less estimated sublease rental income, net of tenant improvement allowances and broker fees. The company evaluates these assumptions each quarter and adjusts the liability accordingly. The liability for lease termination costs is discounted using a credit-adjusted risk-free rate of interest.

The accrual for lease termination costs for the domestic segment includes the following activity:

(Amounts in millions)	Three Months Ended May 31, 2008
Accrued lease termination costs at beginning of period.....	\$115.5
Provisions for closed locations.....	0.6
Changes in assumptions about future sublease income.....	(0.1)
Interest accretion.....	2.4
Cash payments, net of cash received on subleased locations.....	(9.2)
Accrued lease termination costs at end of period.....	109.2
Less current portion of accrued lease termination costs.....	33.6
Non-current portion of accrued lease termination costs.....	\$ 75.6

At May 31, 2008, accrued lease termination costs of \$109.2 million consisted of 94 locations, of which 39 were subleased. The provision for closed locations included in the table above represents the initial

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estimate of lease termination costs for locations at the cease-use date. The current portion of accrued lease termination costs is included in accrued expenses and other current liabilities, and the non-current portion is presented separately, on the consolidated balance sheets.

At February 29, 2008, accrued severance totaled \$10.0 million. During the first quarter of fiscal 2009, the company made cash payments of \$2.5 million and recorded an additional charge of \$0.6 million related to severance arrangements. The additional charge is recorded in cost of sales, buying and warehousing or selling, general and administrative expenses depending on the classification of the related employee's payroll expense. At May 31, 2008, accrued severance totaled \$8.1 million. Accrued severance is included in accrued compensation on the consolidated balance sheets.

6. Stock-Based Compensation

Under the company's stock-based incentive plans, stock options, nonvested stock, nonvested stock units and other equity-based awards may be granted to employees and non-employee directors. At May 31, 2008, 2.0 million shares of common stock were available for future grants. Common shares are issued from authorized and unissued shares upon the exercise of stock options, the grant of nonvested stock or the vesting of or lapse of deferral restrictions on nonvested stock units.

Compensation expense for stock-based incentive plans is summarized in the table below.

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
-----		
Compensation expense recognized:		
Stock options.....	\$1.9	\$2.6
Nonvested stock and nonvested stock units.....	1.3	2.3
Phantom stock units.....	0.9	(0.1)
Employee stock purchase plan.....	0.1	0.2
Other.....	0.1	0.1
	-----	-----
Total compensation expense recognized.....	\$4.3	\$5.1
	=====	=====
Tax benefit recognized, before valuation allowance.....	\$1.6	\$1.8

Stock-based compensation expense is recorded in cost of sales, buying and warehousing or in selling, general and administrative expenses depending on the classification of the related employee's payroll cost. The classification of stock-based compensation expense is summarized in the table below.

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
-----		
Cost of sales, buying and warehousing.....	\$0.6	\$0.6
Selling, general and administrative expenses.....	3.7	4.5
	-----	-----
Total compensation expense recognized.....	\$4.3	\$5.1
	=====	=====

The company recognizes stock-based compensation expense net of an estimated forfeiture rate based on historical forfeiture activity. During the three months ended May 31, 2008, and the three months ended May 31, 2007, the

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company increased the estimated forfeiture rate on certain nonvested stock awards to reflect changes in expectations regarding the number of instruments that will vest. These changes were the result of higher than anticipated actual forfeitures, due in part to restructuring activities.

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### 7. Comprehensive Loss

Comprehensive loss consists of net loss and certain other items that are recorded directly to stockholders' equity, net of deferred income taxes. In addition to net loss, comprehensive loss includes foreign currency translation adjustments, adjustments to reflect the funded status of the company's pension plans on the consolidated balance sheets, and unrealized gains and losses on available-for-sale securities.

The components of comprehensive loss, net of taxes, were as follows:

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
Net loss.....	\$ (164.8)	\$ (54.6)
Foreign currency translation adjustments.....	(1.9)	16.6
Other.....	(0.2)	0.1
Comprehensive loss.....	\$ (167.0)	\$ (37.9)

### 8. Pension Plans

The company's domestic segment has a noncontributory defined benefit pension plan and an unfunded nonqualified benefit restoration plan that restored retirement benefits for domestic segment senior executives who were affected by Internal Revenue Code limitations on benefits provided under the company's defined benefit pension plan. Both plans were amended to freeze benefit accruals effective February 28, 2005, except for select grandfathered participants who were at or near their early or normal retirement date. Both plans were further amended to freeze benefit accruals for the grandfathered participants as of February 29, 2008. As a result, all participants in the plans are no longer eligible to increase their benefits under the plans, but will retain any benefits accrued through the effective date of the plan amendments.

The components of net pension income for the plans were as follows:

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
Service cost.....	\$ -	\$ 0.6
Interest cost.....	4.1	4.0
Expected return on plan assets.....	(5.5)	(5.2)
Recognized prior service cost.....	-	0.1
Recognized actuarial (gain) loss.....	(0.1)	0.4
Net pension income.....	\$ (1.5)	\$ (0.1)

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The company did not make any contributions to the defined benefit pension plan during the three months ended May 31, 2008. No contributions are required during fiscal 2009 under applicable law for this pension plan. The company intends to make any contributions necessary to meet ERISA minimum funding standards and intends to make additional contributions as needed to ensure that the fair value of plan assets at February 28, 2009, is equal to or exceeds the accumulated benefit obligation.

A contribution of \$0.8 million, which is equal to the expected benefit payments for fiscal 2009, is expected to be made to the restoration plan during fiscal 2009. Benefit payments during the three months ended May 31, 2008, were \$0.2 million.

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### 9. Discontinued Operations

For the quarter ended May 31, 2007, earnings from discontinued operations totaled \$0.2 million, which is net of \$0.2 million of income taxes, and primarily related to the operations of the Rogers Plus(R) stores, of which the management was returned to Rogers Wireless Inc. in January 2007.

### 10. Segment Information

The company has two reportable segments: its domestic segment and its international segment. The company identified these segments based on its management reporting structure and the nature of the products and services offered by each segment. The domestic segment is primarily engaged in the business of selling brand-name and private-label consumer electronics, personal computers, entertainment software, and related services in the United States. The international segment is primarily engaged in the business of selling private-label and brand-name consumer electronics in Canada.

Net sales by reportable segment were as follows:

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
Domestic segment.....	\$2,166.8	\$2,376.9
International segment.....	134.3	108.6
Net sales.....	\$2,301.1	\$2,485.5

The (loss) earnings from continuing operations before income taxes by reportable segment were as follows:

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
Domestic segment.....	\$(159.9)	\$(86.4)
International segment.....	(1.9)	3.9
Loss from continuing operations before income taxes.....	\$(161.8)	\$(82.5)

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The international segment's earnings from continuing operations before income taxes for the three months ended May 31, 2007, include a recovery of \$7.5 million related to a former subsidiary.

Total assets by reportable segment were as follows:

(Amounts in millions)	At May 31 2008	At February 2008
Domestic segment.....	\$3,240.9	\$3,335.
International segment.....	408.4	410.
Total assets.....	\$3,649.3	\$3,745.

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The domestic segment net sales by category were as follows:

(Dollar amounts in millions)	Three Months Ended May 31			
	2008		2007	
	\$	% of Sales	\$	% of Sales
Video.....	\$ 889.4	41.0%	\$ 934.0	39.3%
Information technology.....	591.4	27.3	628.6	26.4
Audio.....	262.6	12.1	334.9	14.1
Entertainment.....	262.1	12.1	272.5	11.5
Warranty, services and other(a).....	161.3	7.5	206.9	8.7
Net sales.....	\$2,166.8	100.0%	\$2,376.9	100.0%

(a) Warranty, services and other includes extended warranty net sales; revenues from PC services, mobile installations, home theater installations and product repairs; net financing; and revenues from third parties for services subscriptions.

The international segment net sales by category were as follows:

(Dollar amounts in millions)	Three Months Ended May 31			
	2008		2007	
	\$	% of Sales	\$	% of Sales
Video.....	\$ 25.6	19.0%	\$ 20.0	18.5%
Information technology.....	47.3	35.3	39.8	36.6
Audio.....	44.0	32.8	36.5	33.6
Entertainment.....	9.3	7.0	5.0	4.6
Warranty, services and other(a).....	8.0	5.9	7.3	6.7
Net sales.....	\$134.3	100.0%	\$108.6	100.0%

(a) Warranty, services and other includes extended warranty sales and product repair revenue.

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### 11. Supplemental Consolidated Statements of Cash Flows Information

The following table summarizes supplemental cash flow information.

(Amounts in millions)

-----  
 Supplemental schedule of non-cash investing and financing activities:

Non-cash capital expenditures(a).....	\$20.
Capital lease obligations.....	\$ 7.
Sale-leaseback receivables(a).....	\$ 4.

(a) Amounts disclosed in prior quarters reflected the change in the accrual and receivable balances rather than the balances related to non-cash transactions arising during the quarter. Prior year amounts have been corrected to reflect the non-cash transactions for the quarter. The correction did not impact the statements of cash flows in any period.

### 12. Risks and Uncertainties

The company experienced a net loss in the first quarter of fiscal 2009 of \$164.8 million, and its cash, cash equivalents and short-term investments position declined from \$297.4 million at February 29, 2008, to \$92.2 million at May 31, 2008. The company has projected only a modest improvement in its loss for fiscal 2009 compared with its loss of \$319.9 million for fiscal 2008. This outlook is based on the following:

- o A continuation of current operating trends through the first half of fiscal 2009 and an improvement in second half trends

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- o A continuation of weak macroeconomic trends, particularly in the first half of the fiscal year
- o Improved retail execution, leading to higher close rates and improved basket, offsetting a decline in store traffic
- o Sales growth in key product areas including LCD televisions, notebook computers and video gaming products, offset by sales declines in projection and tube televisions, desktop computers and portable audio products
- o Improvements in merchandise margins, shrink and markdowns
- o Low-single-digit percentage growth in SG&A dollars compared with fiscal 2008 driven by incremental and relocated store openings and increased compensation costs

The company has taken steps to enhance its liquidity by amending and increasing its asset-based credit facility in January 2008 to \$1.3 billion from \$500 million. The company's plans to manage its liquidity position in fiscal 2009 include improving close rates and attachment rates, which would have a positive impact on both sales and margin; improving working capital through targeted improvements in net-owned inventory; reducing projected capital expenditures by \$85 million to \$105 million below prior year levels; suspending repurchases of common stock; maintaining an intense focus on controlling expenses; and maintaining strong relationships with

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its vendors to ensure continued availability of vendor credit. Additionally, in June 2008, the board of directors suspended the declaration and payment of quarterly cash dividends on the company's common stock as part of its focus on conserving capital.

The company has considered the impact of the financial outlook on its liquidity and has performed an analysis of the key assumptions in its forecast such as sales, gross margin and SG&A expenses; an evaluation of its relationships with vendors, including availability of vendor credit; and an analysis of cash requirements, including its net-owned inventory position, other working capital changes, capital expenditures and borrowing availability under the credit facility. Based on these analyses and evaluations, the company expects that its anticipated sources of liquidity will be sufficient to meet its obligations without disposition of assets outside of the ordinary course of business or significant revisions of its planned operations through fiscal 2009.

### 13. Subsequent Event

On June 19, 2008, the company announced that its board of directors has suspended the declaration and payment of quarterly cash dividends on the company's common stock, effective immediately.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are a leading specialty retailer of consumer electronics, home office products, entertainment software, and related services. We have two reportable segments: our domestic segment and our international segment.

Our domestic segment is engaged in the business of selling brand-name and private-label consumer electronics, personal computers, entertainment software, and related services in our stores in the United States and via the Web at [www.circuitcity.com](http://www.circuitcity.com) and [www.firedog.com](http://www.firedog.com). At May 31, 2008, the domestic segment operated 687 Superstores and 9 outlet stores in 158 U.S. media markets.

Our international segment, which is comprised of the operations of InterTAN, Inc., is engaged in the business of selling private-label and brand-name consumer electronics in Canada. The international segment's headquarters are located in Barrie, Ontario, Canada, and it operates through retail stores and dealer outlets in Canada primarily under the trade name The Source By Circuit CitySM. At May 31, 2008, the international segment conducted business through 775 retail stores and dealer outlets, which consisted of 502 company-owned stores and 273 dealer outlets. The international segment also operates a Web site at [www.thesource.ca](http://www.thesource.ca). In February 2007, the board of directors authorized management to explore strategic alternatives for InterTAN, Inc., which could include the sale of the operation.

Effective January 28, 2007, we returned the management of 92 Rogers Plus(R) stores to Rogers Wireless Inc. Results from the Rogers Plus(R) stores are presented as results from discontinued operations for the three months ended May 31, 2007.

In May 2008, we retained Goldman, Sachs & Co. to assist us in exploring strategic alternatives to enhance shareholder value.

Management's Discussion and Analysis (MD&A) is designed to provide the reader of financial statements with a narrative discussion of our results of operations;

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financial position, liquidity and capital resources; critical accounting policies and significant estimates; and the impact of recently issued accounting standards. Our MD&A is presented in seven sections:

- o Executive Summary
- o Critical Accounting Policies
- o Results of Operations
- o Recent Accounting Pronouncements
- o Financial Condition
- o Financial Outlook
- o Forward-Looking Statements

This discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in this report and in the fiscal 2008 annual report on Form 10-K, as well as our reports on Form 8-K and other SEC filings.

Within the financial tables in this quarterly report on Form 10-Q, certain columns and rows may not sum due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts. All per share amounts are presented on a fully diluted basis.

### EXECUTIVE SUMMARY

#### Fiscal 2009 First Quarter Performance

- o Net sales declined 7.4 percent to \$2.30 billion from \$2.49 billion in the same period last fiscal year, driven by a comparable store sales decline of 11.3 percent.
- o In the domestic segment, direct channel sales, which include Web- and call center-originated sales, grew 3 percent, and firedogSM PC services and home theater installation revenues decreased 16 percent from the

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same period last fiscal year. In the first quarter of last fiscal year, we posted direct channel sales growth of 21 percent, and firedogSM PC services and home theater installation revenues increased 70 percent.

- o Gross profit margin declined 174 basis points to 20.8 percent due to lower merchandise margins as well as a decrease in extended warranty net sales in the domestic segment.
- o SG&A expenses as a percentage of net sales increased 173 basis points from the same period last fiscal year, which primarily reflects the overall de-leveraging impact of lower sales in the domestic segment.
- o The loss from continuing operations before income taxes was 7.0 percent of net sales compared with a loss from continuing operations before income taxes of 3.3 percent of net sales in the same period last year.
- o We reported a net loss from continuing operations of \$164.8 million, or \$1.00 per share, for the first quarter of fiscal 2009, compared with a net loss from continuing operations of \$54.8 million, or \$0.33 per share, in the same period last fiscal year.

### CRITICAL ACCOUNTING POLICIES

See the discussion of critical accounting policies in Management's Discussion



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and Analysis of Financial Condition and Results of Operations in our fiscal 2008 annual report on Form 10-K. These policies relate to inventory valuation, goodwill, income taxes, accrued lease termination costs, stock-based compensation and pension plans.

### RESULTS OF OPERATIONS

Our operations, consistent with other retailers in general, are subject to seasonal influences. Historically, we have realized more of our net sales and net earnings in the fourth quarter, which includes the majority of the holiday selling season, than in any other fiscal quarter. The net (loss) earnings of any quarter are seasonally disproportionate to net sales since administrative and certain operating expenses remain relatively constant during the year. Therefore, quarterly results should not be relied upon as necessarily indicative of results for the entire fiscal year.

#### Summary of Segment Performance

Where relevant, we have included separate discussions of our domestic and international segments. The following tables summarize performance by segment.

#### SEGMENT PERFORMANCE SUMMARY

(Dollar amounts in millions)	Three Months Ended May 31, 2008			
	Domestic		International	
	\$	% of Sales	\$	% of Sales
Net sales.....	\$2,166.8	100.0%	\$134.3	100.0%
Gross profit.....	\$ 434.1	20.0%	\$ 44.6	33.2%
Selling, general and administrative expenses.....	\$ 593.4	27.4%	\$ 46.6	34.7%
Loss from continuing operations before income taxes.....	\$ (159.9)	(7.4)%	\$ (1.9)	(1.5)%

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(Dollar amounts in millions)	Three Months Ended May 31, 2007			
	Domestic		International	
	\$	% of Sales	\$	% of Sales
Net sales.....	\$2,376.9	100.0%	\$108.6	100.0%
Gross profit.....	\$ 520.5	21.9%	\$ 39.7	36.6%
Selling, general and administrative expenses.....	\$ 612.5	25.8%	\$ 35.9	33.0%
(Loss) earnings from continuing operations before income taxes.....	\$ (86.4)	(3.6)%	\$ 3.9	3.6%

Net Sales

Consolidated

For the first quarter of fiscal 2009, our net sales decreased 7.4 percent to \$2.30 billion, and comparable store sales decreased 11.3 percent from the same period last fiscal year. A store's sales are included in comparable store sales

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after the store has been open for a full 12 months. Comparable store sales include Web- and call center-originated sales and sales from relocated and remodeled stores. Sales from closed stores are included in comparable store sales until the month in which the stores are closed. The calculation of comparable store sales excludes the impact of fluctuations in foreign currency exchange rates.

Our major sales categories are

- o video, which includes televisions, imaging products, DVD hardware, camcorders, furniture, and related accessories;
- o information technology, which includes PC hardware, telecommunications products and related accessories;
- o audio, which includes home audio, mobile audio, portable audio and navigation products, and related accessories;
- o entertainment, which includes movie software, music software, game software, game hardware and PC software; and
- o warranty, services and other, which includes extended warranty net sales; revenues from PC services, mobile installations, home theater installations and product repairs; net financing; and revenues received from third parties for services subscriptions.

### Domestic Segment

For the first quarter of fiscal 2009, the domestic segment's net sales were \$2.17 billion, a decrease of 8.8 percent from the same period last fiscal year. Comparable store sales decreased 12.2 percent driven by a decline in traffic and close rates as compared to the same period last fiscal year. During the first quarter of fiscal 2009, comparable store average ticket was approximately flat to the same period last fiscal year. The sub-category with the largest comparable store sales growth was large LCD televisions. Video gaming products and digital-to-analog converter boxes also showed strong sales growth. We had broad-based weakness across most other categories, including other television sub-categories, information technology products, audio products and music and movie software. We saw continued weakness across all regions of the country, though the strongest comparable store sales declines were in Florida, California and the Rocky Mountain region. Similar to the prior quarter, the northeast region performed relatively better than other regions. For the quarter, direct channel sales grew 3 percent. The direct channel sales growth was lower than

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historical year-over-year growth due primarily to a less aggressive promotional stance in categories such as PC hardware and televisions.

The domestic segment's net sales represented by each major sales category for the three months ended May 31, 2008 and 2007, are shown below.

### NET SALES BY CATEGORY

	Three Months Ended May 31	
	2008	2007
	\$	\$
(Dollar amounts in millions)	%	%
	of	of
	Sales	Sales
	\$	\$

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Video.....	\$ 889.4	41.0%	\$ 934.0	39.3%
Information technology.....	591.4	27.3	628.6	26.4
Audio.....	262.6	12.1	334.9	14.1
Entertainment.....	262.1	12.1	272.5	11.5
Warranty, services and other.....	161.3	7.5	206.9	8.7
Net sales.....	\$2,166.8	100.0%	\$2,376.9	100.0%

In the video category, we generated a slight double-digit comparable store sales decrease in the first quarter. Comparable store sales of flat panel televisions increased by a high-single digit. Total television comparable store sales experienced a single digit decrease, as significant comparable store sales decreases in projection and tube televisions more than offset the flat panel television increase. Comparable store sales of digital imaging products and accessories and camcorders decreased by double digits.

In the information technology category, we generated a high-single-digit comparable store sales decrease in the first quarter. Comparable store sales of desktop computers declined by double digits, and comparable store sales of notebook computers increased by a low-single digit.

In the audio category, we generated a double-digit comparable store sales decrease in the first quarter. Comparable store sales of navigation products increased by a low-single digit. Comparable store sales of portable digital audio, mobile and home audio products declined by strong double digits.

In the entertainment category, we generated a high-single-digit comparable store sales decrease in the first quarter. Comparable store sales of video gaming products increased by double digits. Comparable store sales of video software and music software declined by double digits.

Domestic segment extended warranty net sales were \$53.8 million, or 2.5 percent of domestic segment net sales, in the first quarter, compared with \$73.7 million, or 3.1 percent of domestic segment net sales, in the same period last year. FiredogSM PC services and home theater installation revenues decreased 16 percent to \$54.3 million in the first quarter from \$64.4 million last year. FiredogSM PC services and home theater installation revenue performance in the prior year period was the second highest year-over-year dollar increase in our history due primarily to an effective home theater installation bundle offer and the benefits of the launch of Microsoft Windows Vista.

The following table provides the number of our domestic segment stores:

DOMESTIC SEGMENT STORE MIX

	May 31, 2008	Feb. 29, 2008
Superstores.....	687	682
Other stores.....	9	11
Total domestic segment stores.....	696	693

International Segment

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The international segment's net sales increased 23.6 percent to \$134.3 million for the first quarter of fiscal 2008, compared with \$108.6 million for the first quarter of last fiscal year. The increase was driven by the favorable impact of fluctuations in foreign currency exchanges rates of 14 percent and the comparable store sales increase of 10.5 percent in local currency. These increases were partially offset by the impact of the year-over-year net decrease of 25 retail stores and dealer outlets.

### NET SALES BY CATEGORY

(Dollar amounts in millions)	Three Months Ended May 31			
	2008	% of Sales	2007	% of Sales
Video.....	\$ 25.6	19.0%	\$ 20.0	18.5%
Information technology.....	47.3	35.3	39.8	36.6
Audio.....	44.0	32.8	36.5	33.6
Entertainment.....	9.3	7.0	5.0	4.6
Warranty, services and other.....	8.0	5.9	7.3	6.7
Net sales.....	\$134.3	100.0%	\$108.6	100.0%

### INTERNATIONAL SEGMENT STORE MIX

	May 31, 2008	Feb. 29, 2008
Company-owned stores.....	502	502
Dealer outlets.....	273	277
Battery Plus(R) stores.....	-	-
Total international segment stores.....	775	779

### Gross Profit Margin

#### Consolidated

The gross profit margin was 20.8 percent of net sales in the first quarter of fiscal 2009, compared with 22.5 percent for the same period last fiscal year, a decline of 174 basis points. The domestic segment contributed 207 basis points to the 174 basis point decrease in the consolidated gross profit margin. The international segment favorably impacted the consolidated gross profit margin by 34 basis points.

#### Domestic Segment

The domestic segment's gross profit margin was 20.0 percent of domestic segment net sales in the first quarter of fiscal 2009, compared with 21.9 percent for the same period last fiscal year, a decline of 186 basis points. The decline was driven primarily by a decrease of 62 basis points in extended warranty net sales as a percent of domestic segment net sales as well as a decrease of 114 basis points in merchandise margins as a percent of domestic segment net sales. The lower merchandise margins were driven primarily by negative mix shifts within imaging and notebook computers as well as clearance activities and an increase in the mix of sales of notebook computers. The year-over-year change in the gross margin rate was the smallest decline in five quarters as we saw improved performance in the television category, primarily driven by assortment and

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promotional mix shifts within the category.

An increase in shrink also contributed to the gross margin decline. In the first quarter, we continued to record our shrink estimate at the same rate that we realized for fiscal 2008. We will do so until we conduct physical inventory counts which are expected to occur in the third quarter.

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International Segment

The international segment's gross profit margin was 33.2 percent of international segment net sales in the first quarter of fiscal 2009, compared with 36.6 percent for the same period last fiscal year, a decline of 337 basis points. The decrease resulted primarily from an increased mix of sales from clearance product across many categories as well as a mix shift from higher-margin categories.

Selling, General and Administrative Expenses

Consolidated

(Dollar amounts in millions)	Three Months Ended May 31 2008		2007	
	\$	% of Sales	\$	% of Sales
Store expenses.....	\$529.7	23.0%	\$556.7	22.4%
General and administrative expenses.....	99.1	4.3	85.5	3.4
Stock-based compensation expense.....	3.7	0.2	4.5	0.2
Remodel expenses.....	0.0	0.0	(0.0)	(0.0)
Relocation expenses.....	1.0	0.0	1.1	0.0
Pre-opening expenses.....	6.4	0.3	0.5	0.0
<b>Total</b> .....	<b>\$640.0</b>	<b>27.8%</b>	<b>\$648.4</b>	<b>26.1%</b>

Selling, general and administrative expenses were 27.8 percent of consolidated net sales in the first quarter of fiscal 2009, compared with 26.1 percent for the same period last fiscal year, an increase of 173 basis points. The domestic segment and international segment contributed 115 basis points and 58 basis points, respectively, to the increase in the consolidated expense-to-sales ratio.

Domestic Segment

(Dollar amounts in millions)	Three Months Ended May 31 2008		2007	
	\$	% of Sales	\$	% of Sales
Store expenses.....	\$492.1	22.7%	\$524.2	22.1%
General and administrative expenses.....	90.3	4.2	82.4	3.5
Stock-based compensation expense.....	3.5	0.2	4.3	0.2
Remodel expenses.....	0.0	0.0	(0.0)	(0.0)

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Relocation expenses.....	1.0	0.0	1.1	0.0
Pre-opening expenses.....	6.4	0.3	0.5	0.0
Total .....	\$593.4	27.4%	\$612.5	25.8%

For the three months ended May 31, 2008, the domestic segment's expense-to-sales ratio increased 162 basis points from the same period last fiscal year. The increase primarily reflects the overall de-leveraging impact of lower sales. Also contributing to the increase was a 124 basis point increase in expenses related to the 65 domestic segment Superstores that have opened during the past 12 months. Partially offsetting these increases was an 81 basis point decrease in compensation costs that resulted primarily from our expense reduction initiatives.

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### International Segment

(Dollar amounts in millions)	Three Months Ended May 31			
	2008	% of	2007	% of
	\$	Sales	\$	Sales
Store expenses.....	\$37.6	28.0%	\$32.6	30.0%
General and administrative expenses.....	8.8	6.6	3.1	2.9
Stock-based compensation expense.....	0.2	0.1	0.2	0.1
Total .....	\$46.6	34.7%	\$35.9	33.0%

For the first quarter of fiscal 2009, the international segment's expense-to-sales ratio increased 171 basis points from the same period last year primarily due to a \$7.5 million recovery related to a former subsidiary, reducing fiscal 2008 general and administrative expenses. The recovery, which was not repeated in fiscal 2009, negatively impacted the expense-to-sales ratio increase by 691 basis points.

### Income Tax Expense (Benefit)

During the first quarter of fiscal 2009, we recorded income tax expense of \$3.0 million on a loss from continuing operations of \$161.8 million. Due to the valuation allowance, we did not record an income tax benefit for the first quarter loss of our U.S. operations. The income tax expense is comprised primarily of discrete items and state income tax expense, partially offset by a benefit recognized related to the pre-tax loss of our Canadian operations. The discrete items are comprised primarily of an adjustment to a previously-filed tax position related to leases.

### Net Loss from Continuing Operations

The net loss from continuing operations was \$164.8 million, or \$1.00 per share, in the three months ended May 31, 2008, compared with a net loss from continuing operations of \$54.8 million, or \$0.33 cents per share, in the same period last fiscal year.

### Earnings from Discontinued Operations

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For the three months ended May 31, 2007, the net earnings from discontinued operations totaled \$0.2 million, which is net of \$0.2 million of income taxes, and primarily related to the operations of the Rogers Plus(R) stores, of which the management was returned to Rogers Wireless Inc. in January 2007.

### RECENT ACCOUNTING PRONOUNCEMENTS

As permitted under transition rules by the Financial Accounting Standards Board ("FASB"), we partially adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," as of March 1, 2008, on a prospective basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. As permitted by FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," we delayed the adoption of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until March 1, 2009. The partial adoption of SFAS No. 157 did not have an impact on our financial position, results of operations or cash flows. The full adoption of SFAS No. 157 is not expected to have a material effect on our financial position, results of operations or cash flows.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain assets and liabilities at fair value. We adopted SFAS No. 159 as of March 1, 2008. As we did not elect the fair value option for any of our financial instruments or other assets and liabilities, the adoption of this standard did not have an impact on our financial position, results of operations or cash flows.

On March 1, 2008, we adopted Emerging Issues Task Force Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards," ("EITF 06-11") on a prospective basis. This Issue requires income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options to be recognized as an increase to additional paid-in capital. During the first quarter of fiscal 2009, the income tax benefit of these dividends could not be recognized because we have recorded a full valuation allowance against the deferred tax assets of our U.S. operations. Thus, the adoption of EITF 06-11 did not have an impact on our financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards significantly change the accounting for and reporting of business combination transactions and noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. Both standards will be effective for us beginning with the first quarter of fiscal 2010 and will be applied prospectively to future business combinations.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets," ("FSP No. 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to

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improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. This FSP is effective for us as of March 1, 2009, and will be applied prospectively to future business combinations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect the adoption of this standard to have an impact on our financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," ("FSP EITF 03-6-1"). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, "Earnings Per Share." This FSP will be effective for us beginning with the first quarter of fiscal 2010 and will be applied retrospectively. We are currently evaluating the impact of adopting FSP EITF 03-6-1.

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### FINANCIAL CONDITION

#### Liquidity and Capital Resources

##### Cash Flows

##### Cash Flows Summary

The following table summarizes our cash flows for the three months ended May 31, 2008 and 2007:

(Amounts in millions)	Three Months Ended May 31	
	2008	2007
<b>Net cash (used in) provided by:</b>		
Operating activities.....	\$ (275.5)	\$ (254.6)
Investing activities.....	(27.7)	290.1
Financing activities.....	98.2	(76.1)
Discontinued operations.....	-	11.2
Effect of exchange rate changes on cash.....	(0.1)	0.6
	-----	
Decrease in cash and cash equivalents.....	\$ (205.2)	\$ (28.8)
	=====	

##### Operating Activities

For the three months ended May 31, 2008, net cash used in operating activities was \$275.5 million, compared with net cash used in operating activities of \$254.6 million in the three months ended May 31, 2007. The change was due primarily to a net loss of \$164.8 million for the three months ended May 31, 2008, compared with net loss of \$54.6 million for the three months ended May 31, 2007. Partially offsetting the impact of the increase in the net loss were



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changes in operating assets and liabilities, primarily the increase in the income tax receivable during the first quarter of fiscal 2008 that was not repeated during the first quarter of fiscal 2009 due to our inability to carry the net operating loss of the U.S. operations back to prior periods.

### Investing Activities

Net cash used in investing activities was \$27.7 million for the three months ended May 31, 2008, compared with net cash provided by investing activities of \$290.1 million for the three months ended May 31, 2007. The change was due primarily to a decrease in net sales and maturities of investment securities, partially offset by a decrease in purchases of property and equipment.

### Financing Activities

For the three months ended May 31, 2008, net cash provided by financing activities was \$98.2 million, compared with net cash used in financing activities of \$76.1 million in the three months ended May 31, 2007. The change was due primarily to cash provided by book overdrafts and an increase in the net cash provided by proceeds from short-term borrowings during the first quarter of fiscal 2009.

We have a revolving credit facility secured by inventory and credit card receivables. This facility is used to support letters of credit and to meet borrowing needs. Loans primarily bear interest at a spread over either LIBOR or prime. The facility has a stated commitment of \$1.3 billion, which includes a \$1.25 billion commitment for the domestic segment and a \$50 million commitment for the international segment, and is scheduled to expire in January 2013. In general, the maximum amount of borrowings, including loans and outstanding letters of credit, outstanding on any date may not exceed the lesser of a borrowing base calculated as a percentage of our eligible inventory and credit card receivables or 90 percent of \$1.3 billion. We are required to maintain a minimum level of available borrowings under the facility.

At May 31, 2008, we had outstanding letters of credit of \$48.8 million and \$55.0 million of short-term borrowings related to the domestic segment, leaving \$963.0 million available for borrowing under the credit facility. We were in compliance with all covenants at May 31, 2008. While the level of borrowings may vary

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during the quarters, we expect double-digit borrowings by the end of the second quarter and no borrowings by the end of the third quarter for the domestic segment.

The board of directors has previously authorized the repurchase of up to \$1.2 billion of common stock, of which \$233.7 million remained available at May 31, 2008. We did not repurchase common stock during the three months ended May 31, 2008. During the three months ended May 31, 2007, we used cash to repurchase 2.5 million shares of common stock at an average price of \$18.68 per share, for a total price of \$46.7 million, excluding commission fees. As of May 31, 2008, we had repurchased 60.4 million shares of common stock at an average price of \$16.01 per share, for a total price of \$966.3 million, excluding commission fees, cumulatively since inception of the stock repurchase program.

On June 19, 2008, we announced that our board of directors has suspended the declaration and payment of quarterly cash dividends on our common stock, effective immediately.

### Net-owned Inventory

Merchandise inventory increased to \$1.69 billion at May 31, 2008, from \$1.57 billion at February 28, 2008. Net-owned inventory increased by \$91.7 million

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from February 29, 2008, to May 31, 2008. Domestic segment net-owned inventory increased by \$99.9 million from February 29, 2008, to May 31, 2008, primarily due to seasonal inventory build.

### Capital Expenditures

Capital expenditures, net of landlord reimbursements, were \$38.1 million in the three months ended May 31, 2008, compared with \$63.3 million in the same period last fiscal year. The decrease in capital expenditures was driven primarily by a decrease in non-store investments.

### Sources of Liquidity

Our primary sources of liquidity include borrowings under the credit facility, available cash and cash equivalents, expected reductions in net-owned inventory and landlord reimbursements for store construction. The facility contains representations and warranties, conditions, covenants and events of default that are customary for this type of credit facility; however, it contains no financial covenants. It places limitations on specific uses of borrowings, including for dividends, stock repurchases and acquisitions. We do not believe the limitations contained in the credit facility will, in the foreseeable future, adversely affect our ability to use the credit facility and execute our business plan.

Potential additional sources of cash in fiscal 2009 include proceeds from the sale of a subsidiary and an income tax refund due to the carryback of a portion of our net operating loss for the 2008 fiscal year. We will evaluate funding alternatives as necessary to support future needs.

Expected uses of cash in fiscal 2009 include contractual obligations and funds required to support our operating activities, including an increase in inventory levels in advance of the holiday season. Potential uses of cash that are subject to our discretion include capital expenditures, primarily for new store construction, store relocations, information technology systems and existing store updates.

We experienced a net loss in the first quarter of fiscal 2009 of \$164.8 million, and our cash, cash equivalents and short-term investments position declined from \$297.4 million at February 29, 2008, to \$92.2 million at May 31, 2008. We have projected only a modest improvement in our loss for fiscal 2009 compared with our loss of \$319.9 million for fiscal 2008. This outlook is based on the following:

- o A continuation of current operating trends through the first half of fiscal 2009 and an improvement in second half trends
- o A continuation of weak macroeconomic trends, particularly in the first half of the fiscal year
- o Improved retail execution, leading to higher close rates and improved basket, offsetting a decline in store traffic

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- o Sales growth in key product areas including LCD televisions, notebook computers and video gaming products, offset by sales declines in projection and tube televisions, desktop computers and portable audio products
- o Improvements in merchandise margins, shrink and markdowns
- o Low-single-digit percentage growth in SG&A dollars compared with fiscal 2008 driven by incremental and relocated store openings and increased

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### compensation costs

We have taken steps to enhance our liquidity by amending and increasing our asset-based credit facility in January 2008 to \$1.3 billion from \$500 million. Our plans to manage our liquidity position in fiscal 2009 include improving our close rates and attachment rates, which would have a positive impact on both sales and margin; improving working capital through targeted improvements in net-owned inventory; reducing projected capital expenditures by \$85 million to \$105 million below prior year levels; suspending repurchases of common stock; maintaining an intense focus on controlling expenses; and maintaining strong relationships with our vendors to ensure continued availability of vendor credit. Additionally, in June 2008, the board of directors suspended the declaration and payment of quarterly cash dividends on our common stock as part of our focus on conserving capital.

We have considered the impact of the financial outlook on our liquidity and have performed an analysis of the key assumptions in our forecast such as sales, gross margin and SG&A expenses; an evaluation of our relationships with vendors, including availability of vendor credit; and an analysis of cash requirements, including our net-owned inventory position, other working capital changes, capital expenditures and borrowing availability under our credit facility. Based on these analyses and evaluations, we expect that our anticipated sources of liquidity will be sufficient to meet our obligations without disposition of assets outside of the ordinary course of business or significant revisions of our planned operations through fiscal 2009.

### FINANCIAL OUTLOOK

We reaffirm the following expectations for fiscal 2009 as of the date of this filing:

- o Consolidated net sales relatively unchanged from the prior year
- o A mid-single digit domestic segment comparable store sales decline
- o Improvement in earnings from continuing operations before income taxes as a percentage of consolidated net sales of 50 basis points to 100 basis points
- o No income tax expense or benefit, excluding discrete items, associated with the domestic segment
- o Depreciation and amortization expense of approximately \$185 million
- o A reduction in domestic segment net-owned inventory from February 29, 2008, to February 28, 2009, of \$50 million to \$100 million

Our forecast for capital expenditures, net of landlord reimbursements, is \$120 million to \$140 million for fiscal 2009.

For the second quarter, we expect to record a loss from continuing operations before income taxes of \$170 million to \$185 million, compared with a loss of \$128.2 million in the prior year second quarter. While the expected loss is larger than the prior year period, the year-over-year increase in the loss is significantly smaller than the increase in the first quarter loss. The primary driver of the difference in expected second quarter results from actual first quarter results is higher expenses associated with more store openings.

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Due to operating improvements, traction against current sales- and gross margin-driving initiatives, and more favorable year-over-year comparisons, we expect a gradual recovery in the second half of fiscal 2009. We expect to see year-over-year improvements in operating results beginning in the third quarter and improved pre-tax profit from continuing operations in the fourth quarter as compared to fiscal 2008 results. We believe that we have adequate cash and borrowing capacity to complete the next phase of the turnaround plan.

We continue to expect to open 45 to 55 new and relocated domestic segment Superstores in fiscal 2009. Domestic segment Superstore openings estimates are shown in the following table. The timing of store openings depends upon a number of factors and can change during the year. All of our remaining openings for fiscal 2009 will be in the city(TM) format.

### Domestic Segment Superstore Openings Estimates(a)

	Q1 (a)	Q2	Q3	Q4	FY09
Incremental Superstores.....	5	13-17	21-23	0-2	39-47
Relocated Superstores.....	-	6-7	0-1	-	6-8
<b>Total Superstore openings.....</b>	<b>5</b>	<b>19-24</b>	<b>21-24</b>	<b>0-2</b>	<b>45-55</b>

(a) First quarter openings are actual. In February 2008, we closed one store in advance of opening a replacement store in the second quarter of fiscal 2009. The replacement store is included in relocations for the second quarter of fiscal 2009.

### FORWARD-LOOKING STATEMENTS

The provisions of the Private Securities Litigation Reform Act of 1995 provide companies with a "safe harbor" when making forward-looking statements. This "safe harbor" encourages companies to provide prospective information about their companies without fear of litigation. We wish to take advantage of the "safe harbor" provisions of the Act. Our statements that are not historical facts, including statements about management's expectations for fiscal 2009 and beyond, are forward-looking statements and involve various risks and uncertainties. In most cases, you can identify our forward-looking statements by words such as "expect," "anticipate," "believe," "should," "may," "plan," "will" or similar words.

Forward-looking statements are estimates and projections reflecting our judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect. The retail industry and the specialty retail industry, in particular, are dynamic by nature and have undergone significant changes in recent years. Our ability to anticipate and successfully respond to the continuing challenges of our industry is key to achieving our expectations. Important factors that could cause actual results to differ materially from estimates or projections contained in our forward-looking statements include the following:

- o changes in the amount and degree of competition, pricing and promotional pressure exerted by current competitors and potential new competition from competitors using either similar or alternative methods or channels of distribution such as the Internet, telephone shopping services and mail order;
- o our response to pricing and promotional activities of our competitors;

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- o the successful implementation of our initiatives to accelerate sales growth, gross margin improvement and expense reductions;
- o our ability to reduce our overall cost and expense structure and to maintain cost reductions while continuing to grow sales;
- o our ability to control and leverage expenses as a percentage of sales;
- o changes in general economic conditions including, but not limited to, financial market performance, consumer credit availability, interest rates, inflation, energy prices, personal discretionary spending

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- levels, trends in consumer retail spending (both in general and in our product categories), unemployment and consumer sentiment about the economy in general;
- o the level of consumer response to new products or product features in the merchandise categories we sell and changes in our merchandise sales mix;
- o the pace of commoditization of digital products;
- o the impact of inventory and supply chain management initiatives on inventory levels and profitability;
- o our ability to generate sales and margin growth through expanded services offerings;
- o the impact of new products and product features on the demand for existing products and the pricing and profit margins associated with the products we sell;
- o significant changes in retail prices for products and services we sell;
- o changes in availability or cost of financing for working capital and capital expenditures, including financing to support development of our business;
- o the lack of availability or access to sources of inventory or the loss or disruption in supply from one of our major suppliers;
- o the impact of a significant change in the relationships with key vendors;
- o our inability to liquidate excess inventory should excess inventory develop;
- o our inability to maintain sales and profitability improvement programs for our Circuit City Superstores, including our store revitalization plan;
- o our ability to continue to generate strong sales growth through our direct sales channel;
- o the availability of appropriate real estate locations for relocations and new stores;
- o the cost and timeliness of new store openings and relocations;
- o consumer reaction to new store locations and changes in our store design

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and merchandise;

- o our ability and the ability of Chase Card Services to successfully market and promote the third party credit card program being offered by Chase Card Services;
- o the extent to which customers respond to promotional financing offers and the types of promotional terms we offer;
- o our ability to attract and retain an effective management team or changes in the costs or availability of a suitable work force to manage and support our service-driven operating strategies;
- o the impact of our wage management initiative on associate morale and our reputation with customers;
- o the impact of initiatives related to upgrading merchandising, marketing and information systems on revenue and operating margin and the costs associated with these investments;
- o changes in production or distribution costs or costs of materials for our advertising;
- o effectiveness of our advertising and marketing programs for increasing consumer traffic and sales;
- o the imposition of new restrictions or regulations regarding the sale of products and/or services we sell, changes in tax rules and regulations applicable to the imposition of new environmental restrictions, regulations or laws or the discovery of environmental conditions at current or future locations, or any failure to comply with such laws or any adverse change in such laws;
- o the impact of any strategic alternatives that we may pursue;
- o the outcome of our review of strategic alternatives for our international segment;
- o deterioration of the expected future performance of our international segment, resulting in an additional goodwill impairment charge;

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- o the timely production and delivery of private-label merchandise and level of consumer demand for those products;
- o reduced investment returns or other changes relative to the assumptions for our pension plans that impact our pension expense;
- o the availability of sources of liquidity to fund capital expenditures and working capital;
- o changes in our anticipated cash flow and liquidity;
- o whether, when and in what amounts share repurchases may be made under our stock buyback program;
- o adverse results in litigation matters;

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- o currency exchange rate fluctuations between Canadian and U.S. dollars and other currencies;
- o the global regulatory and trade environment;
- o the disruption of global, national or regional transportation systems;
- o the occurrence of severe weather events or natural disasters that could significantly damage or destroy stores or prohibit consumers from traveling to our retail locations, especially during peak selling periods; and
- o the successful execution of the initiatives to achieve revenue growth and increase gross profit margin underlying our projected 2009 results as discussed under "Financial Outlook" in MD&A.

We believe our forward-looking statements are reasonable. However, undue reliance should not be placed on forward-looking statements, which are based on current expectations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from potential changes in the U.S./Canadian currency exchange rates as they relate to inventory purchases and the translation of our international segment's financial results.

#### Inventory Purchases

A portion of InterTAN's purchases are from vendors requiring payment in U.S. dollars. Accordingly, there is risk that the value of the Canadian dollar could fluctuate relative to the U.S. dollar from the time the goods are ordered until payment is made. InterTAN's management monitors the foreign exchange risk associated with its U.S. dollar open orders on a regular basis by reviewing the amount of such open orders; exchange rates, including forecasts from major financial institutions; local news; and other economic factors. At May 31, 2008, U.S. dollar open purchase orders totaled approximately \$12.5 million. A 10 percent decline in the value of the Canadian dollar would result in an increase in product cost of approximately \$1.3 million for those orders. The incremental cost of such a decline in currency values, if incurred, would be reflected in higher cost of sales in future periods. In these circumstances, management would take product pricing action, to the degree commercially feasible.

#### Translation of Financial Results

Because we translate a portion of our international segment's financial results from Canadian dollars to U.S. dollars, fluctuations in the value of the Canadian dollar have a direct effect on reported consolidated results. We do not hedge against the possible impact of this risk. A 10 percent adverse change in the foreign currency exchange rate would not have a significant impact on our consolidated results of operations or financial position.

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### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the chief executive officer and chief financial officer, the company has evaluated the effectiveness of its "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934,

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as amended, as of the end of the period covered by this quarterly report on Form 10-Q. Based upon the evaluation, the chief executive officer and chief financial officer concluded that the company's disclosure controls and procedures were effective as of May 31, 2008.

### Changes in Internal Control over Financial Reporting

There were no changes in the company's internal control over financial reporting that occurred during the quarter ended May 31, 2008, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Except as described in our annual report on Form 10-K for the year ended February 29, 2008, there are no material pending legal proceedings to which we, including our subsidiaries, are a party or of which our property is the subject.

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended February 29, 2008, which could materially affect our business, financial condition or future results. There have been no material changes to those risk factors since we filed our fiscal 2008 annual report on Form 10-K. The risks described in our annual report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about common stock repurchases by or on behalf of the company during the quarter ended May 31, 2008:

	Total Number of Shares Purchased(a) (in thousands)	Average Price Paid per Share(a)
March 1 - March 31, 2008.....	2.6	\$4.42
April 1 - April 30, 2008.....	1.6	\$4.45
May 1 - May 31, 2008.....	3.4	\$5.04
Total fiscal 2009 first quarter.....	7.6	\$4.70

(a) These columns reflect shares of common stock withheld to pay tax withholding obligations for employees in connection with the vesting of stock awards. These shares are not considered part of the share repurchase program described in (b) below.



(b) In January 2003, the company announced that the board of directors had authorized the repurchase of up to \$200 million of common stock. In June 2004, the company announced a \$200 million increase in its stock repurchase authorization, raising the repurchase capacity to \$400 million. In March 2005, the company announced a \$400 million increase in its stock repurchase authorization, raising the repurchase capacity to \$800 million. In June 2006, the company announced a \$400 million increase in its stock repurchase authorization, raising the repurchase capacity to \$1.2 billion. There is no expiration date under the authorization. At May 31, 2008, \$233.7 million remained available for stock repurchases under the \$1.2 billion stock repurchase authorization.

ITEM 6. EXHIBITS

Articles of Incorporation and Bylaws

3.1 Circuit City Stores, Inc. Amended and Restated Articles of Incorporation, effective February 3, 1997, as amended through August 16, 2005, filed as Exhibit 3.1 to the company's Form 8-A/A filed September 13, 2005 (File No. 1-5767), are expressly incorporated herein by this reference.

3.2 Circuit City Stores, Inc. Bylaws, as amended June 24, 2008.

Material Contracts

10.1 Settlement Agreement dated May 8, 2008 by and among Wattles Capital Management, LLC, Mark J. Wattles, James A. Marcum, Elliott Wahle, Don R. Kornstein, Anthony Bergamo and Alexander M. Bond and Circuit City Stores, Inc., filed as Exhibit 10.1 to the company's Current Report on Form 8-K filed May 9, 2008 (File No. 1-5767), is expressly incorporated herein by this reference.

Rule 13a-14(a)/15d-14(a) Certifications

31.1 Certification of CEO under Rule 13a-14(a) of the Securities Exchange Act of 1934

31.2 Certification of CFO under Rule 13a-14(a) of the Securities Exchange Act of 1934

Section 1350 Certifications

32.1 Certification of CEO under Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of CFO under Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the

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undersigned thereunto duly authorized.

CIRCUIT CITY STORES, INC.  
(Registrant)

Date: June 30, 2008

By: /s/ Philip J. Schoonover

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Philip J. Schoonover  
Chairman, President and Chief Executive Officer  
and Director

Date: June 30, 2008

By: /s/ Bruce H. Besanko

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Bruce H. Besanko  
Executive Vice President and  
Chief Financial Officer

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