

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

CIRCUIT CITY STORES INC
Form 10-Q
January 12, 2001

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 30, 2000

Commission File Number 1-5767

CIRCUIT CITY STORES, INC.
(Exact Name of Registrant as Specified in its Charter)

VIRGINIA

(State of Incorporation)

54-0493875

(I.R.S. Employer
Identification No.)

9950 MAYLAND DRIVE, RICHMOND, VIRGINIA 23233
(Address of Principal Executive Offices and Zip Code)

(804) 527-4000
(Registrant's Telephone Number, Including Area Code)

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 X

No

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

| Class | Outstanding a |
|---|---------------|
| ----- | ----- |
| Circuit City Stores, Inc. - Circuit City Group Common Stock, par value \$0.50 | 20 |
| Circuit City Stores, Inc. - CarMax Group Common Stock, par value \$0.50 | 2 |

An Index is included on Page 2 and a separate Index for Exhibits is included on Page 38.

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES

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

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Financial Statements:

Consolidated Balance Sheets -
November 30, 2000, and February 29, 2000

Consolidated Statements of Operations-
Three Months and Nine Months Ended November 30, 2000, and 1999

Consolidated Statements of Cash Flows -
Nine Months Ended November 30, 2000, and 1999

Notes to Consolidated Financial Statements

Circuit City Group Financial Statements:

Circuit City Group Balance Sheets -
November 30, 2000, and February 29, 2000

Circuit City Group Statements of Operations-
Three Months and Nine Months Ended November 30, 2000, and 1999

Circuit City Group Statements of Cash Flows -
Nine Months Ended November 30, 2000, and 1999

Notes to Circuit City Group Financial Statements

CarMax Group Financial Statements:

CarMax Group Balance Sheets -
November 30, 2000, and February 29, 2000

CarMax Group Statements of Operations -
Three Months and Nine Months Ended November 30, 2000, and 1999

CarMax Group Statements of Cash Flows -
Nine Months Ended November 30, 2000, and 1999

Notes to CarMax Group Financial Statements

Item 2. Management's Discussion and Analysis:

Circuit City Stores, Inc. Management's Discussion and Analysis
of Financial Condition and Results of Operations

Circuit City Group Management's Discussion and Analysis
of Financial Condition and Results of Operations

CarMax Group Management's Discussion and Analysis
of Financial Condition and Results of Operations

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk:

Circuit City Stores, Inc. Quantitative and Qualitative Disclosures
About Market Risk

Circuit City Group Quantitative and Qualitative Disclosures
About Market Risk

CarMax Group Quantitative and Qualitative Disclosures
About Market Risk

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Page 3 of 39

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Amounts in thousands except share data)

| | Nov. 30, 2000 (Unaudited) | Feb. 29, |
|--|------------------------------|-----------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 121,868 | \$ 643 |
| Net accounts receivable | 564,832 | 593 |
| Inventory | 2,653,440 | 1,689 |
| Prepaid expenses and other current assets | 102,493 | 16 |
| | ----- | ----- |
| Total current assets | 3,442,633 | 2,942 |
| Property and equipment, net | 1,021,973 | 965 |
| Other assets | 44,510 | 47 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 4,509,116 | \$ 3,955 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 132,354 | \$ 177 |
| Accounts payable | 1,504,541 | 960 |
| Short-term debt | 151,386 | 3 |
| Accrued expenses and other current liabilities | 157,333 | 204 |
| Deferred income taxes | 65,468 | 61 |
| | ----- | ----- |
| Total current liabilities | 2,011,082 | 1,406 |

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

| | | |
|---|--------------|----------|
| Long-term debt, excluding current installments | 118,105 | 249 |
| Deferred revenue and other liabilities | 106,336 | 130 |
| Deferred income taxes | 23,586 | 27 |
| | ----- | ----- |
| TOTAL LIABILITIES | 2,259,109 | 1,813 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Circuit City Group common stock, \$0.50 par value; 350,000,000 shares authorized; 205,638,000 shares issued and outstanding as of November 30, 2000 | 102,819 | 101 |
| CarMax Group common stock, \$0.50 par value; 175,000,000 shares authorized; 25,646,000 shares issued and outstanding as of November 30, 2000 | 12,823 | 12 |
| Capital in excess of par value | 636,618 | 576 |
| Retained earnings | 1,497,747 | 1,450 |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 2,250,007 | 2,142 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 4,509,116 | \$ 3,955 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

Page 4 of 39

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(Amounts in thousands except per share data)

| | Three Months Ended | | |
|---|--------------------|----------------------|-------|
| | 2000 | November 30, 1999 | |
| | ----- | ----- | ----- |
| Net sales and operating revenues | \$ 2,887,269 | \$ 2,984,607 | \$ |
| Cost of sales, buying and warehousing | 2,305,141 | 2,313,697 | |
| Appliance exit costs | - | - | |
| | ----- | ----- | ----- |
| Gross profit | 582,128 | 670,910 | |
| | ----- | ----- | ----- |
| Selling, general and administrative expenses | 677,853 | 581,216 | |
| Appliance exit costs | - | - | |
| Interest expense | 5,061 | 6,504 | |
| | ----- | ----- | ----- |
| Total expenses | 682,914 | 587,720 | |
| | ----- | ----- | ----- |
| (Loss) earnings from continuing operations before income taxes | (100,786) | 83,190 | |
| Income tax (benefit) provision | (38,299) | 31,612 | |
| | ----- | ----- | ----- |
| (Loss) earnings from continuing operations | (62,487) | 51,578 | |
| | ----- | ----- | ----- |
| Discontinued operations: | | | |
| Loss from discontinued operations of | | | |

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

| | | | |
|--|-------------|-----------|----|
| Divx, less income tax benefit | - | - | - |
| Loss on disposal of Divx, less income tax benefit | - | - | - |
| Loss from discontinued operations | - | - | - |
| Net (loss) earnings | \$ (62,487) | \$ 51,578 | \$ |
| Net (loss) earnings attributed to: | | | |
| Circuit City Group common stock: | | | |
| Continuing operations | \$ (64,407) | \$ 52,335 | \$ |
| Discontinued operations | - | - | |
| CarMax Group common stock | 1,920 | (757) | |
| | \$ (62,487) | \$ 51,578 | \$ |
| Weighted average common shares: | | | |
| Circuit City Group basic | 204,079 | 201,610 | |
| Circuit City Group diluted | 204,079 | 204,525 | |
| CarMax Group basic | 25,570 | 23,836 | |
| CarMax Group diluted | 27,020 | 23,836 | |
| Net (loss) earnings per share: | | | |
| Circuit City Group basic: | | | |
| Continuing operations | \$ (0.32) | \$ 0.26 | \$ |
| Discontinued operations | \$ - | \$ - | \$ |
| Net (loss) earnings | \$ (0.32) | \$ 0.26 | \$ |
| Circuit City Group diluted: | | | |
| Continuing operations | \$ (0.32) | \$ 0.26 | \$ |
| Discontinued operations | \$ - | \$ - | \$ |
| Net (loss) earnings | \$ (0.32) | \$ 0.26 | \$ |
| CarMax Group basic | \$ 0.08 | \$ (0.03) | \$ |
| CarMax Group diluted | \$ 0.07 | \$ (0.03) | \$ |
| Dividends paid per common share: | | | |
| Circuit City Group common stock | \$ 0.0175 | \$ 0.0175 | \$ |
| CarMax Group common stock | \$ - | \$ - | \$ |

See accompanying notes to consolidated financial statements.

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

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows (Unaudited)
 (Amounts in thousands)

| | Nine Nov 2000 |
|---|---------------------|
| | ----- |
| Operating Activities: | |
| Net earnings | \$ 57,638 |
| Adjustments to reconcile net earnings to net cash used in operating activities of continuing operations: | |
| Loss from discontinued operations | - |
| Loss on disposal of discontinued operations | - |
| Depreciation and amortization | 105,648 |
| Gain on sales of property and equipment | (2,630) |
| Provision for deferred income taxes | 182 |
| Changes in operating assets and liabilities, net of effects from business acquisitions: | |
| Decrease in deferred revenue and other liabilities | (3,684) |
| Decrease (increase) in net accounts receivable | 28,464 |
| Increase in inventory | (963,431) |
| (Increase) decrease in prepaid expenses and other current assets | (86,293) |
| Decrease in other assets | 1,286 |
| Increase in accounts payable, accrued expenses and other current liabilities | 529,290 |
| | ----- |
| Net cash used in operating activities of continuing operations | (333,530) |
| | ----- |
| Investing Activities: | |
| Cash used in business acquisitions | (1,325) |
| Purchases of property and equipment | (244,027) |
| Proceeds from sales of property and equipment | 86,327 |
| | ----- |
| Net cash used in investing activities of continuing operations | (159,025) |
| | ----- |
| Financing Activities: | |
| Proceeds from issuances of short-term debt, net | 148,381 |
| Principal payments on long-term debt | (176,126) |
| Issuances of Circuit City Group common stock, net | 32,497 |
| Issuances of CarMax Group common stock, net | 129 |
| Dividends paid on Circuit City Group common stock | (10,750) |
| | ----- |
| Net cash (used in) provided by financing activities of continuing operations | (5,869) |
| | ----- |
| Cash used in discontinued operations | (23,641) |
| | ----- |
| Decrease in cash and cash equivalents | (522,065) |
| Cash and cash equivalents at beginning of year | 643,933 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 121,868 |
| | ===== |

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

See accompanying notes to consolidated financial statements.

Page 6 of 39

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

1. Basis of Presentation -----

The common stock of Circuit City Stores, Inc. consists of two series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Circuit City Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued (see Note 8). The CarMax Group Common Stock is intended to track the performance of the CarMax Group's operations. The Circuit City Group held a 74.6 percent interest in the CarMax Group at November 30, 2000, a 74.7 percent interest at February 29, 2000, and a 75.8 percent interest at November 30, 1999.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing each Group's financial statements, holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the Company's consolidated financial statements included herein should be read in conjunction with the financial statements of each Group and with the notes to the consolidated and Group financial statements included herein and in the Company's SEC filings, including its annual report on Form 10-K and its registration statement on Form 8-A.

2. Accounting Policies -----

The consolidated financial statements of the Company conform to generally accepted accounting principles. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the interim consolidated financial statements have been included. The fiscal year-end balance sheet data was derived from audited financial statements.

Page 7 of 39

3. (Loss) Earnings per Share -----

Reconciliations of the numerator and denominator of basic and diluted (loss) earnings per share are presented below:

| | |
|---|------------------------------------|
| (Amounts in thousands except per share data) | Three Months Ended November 30, |
| | 2000 1999 |

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

| | | |
|---|-------------|-----------|
| ----- | | |
| Circuit City Group: | | |
| Weighted average common shares..... | 204,079 | 201,610 |
| Dilutive potential common shares: | | |
| Options..... | - | 2,092 |
| Restricted stock..... | - | 823 |
| ----- | | |
| Weighted average common shares and dilutive potential common shares..... | 204,079 | 204,525 |
| ===== | | |
| (Loss) earnings from continuing operations available to common shareholders..... | \$ (64,407) | \$ 52,335 |
| Basic (loss) earnings per share from continuing operations..... | \$ (0.32) | \$ 0.26 |
| Diluted (loss) earnings per share from continuing operations..... | \$ (0.32) | \$ 0.26 |
| CarMax Group: | | |
| Weighted average common shares..... | 25,570 | 23,836 |
| Dilutive potential common shares: | | |
| Options..... | 1,386 | - |
| Restricted stock..... | 64 | - |
| ----- | | |
| Weighted average common shares and dilutive potential common shares..... | 27,020 | 23,836 |
| ===== | | |
| Net earnings (loss) available to common shareholders..... | \$ 1,920 | \$ (757) |
| Basic net earnings (loss) per share..... | \$ 0.08 | \$ (0.03) |
| Diluted net earnings (loss) per share..... | \$ 0.07 | \$ (0.03) |

For the three-month period ended November 30, 2000, options to purchase 9,922,445 shares of Circuit City Group Common Stock at prices ranging from \$9.09 to \$47.53 per share were outstanding and not included in the calculation of diluted loss per share because they would have had an antidilutive effect as a result of a loss from continuing operations. For the three-month period ended November 30, 1999, options to purchase 2,000 shares of Circuit City Group Common Stock at \$43.03 per share were outstanding and not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

For the three-month period ended November 30, 2000, options to purchase 1,365,025 shares of CarMax Group Common Stock at prices ranging from \$6.06 to \$16.31 per share were outstanding and not included in the calculation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. For the three-month period ended November 30, 1999, options to purchase 4,824,235 shares of CarMax Group Common Stock at prices ranging from \$0.22 to \$16.31 per share were outstanding and not included in the calculation of diluted net loss per share because they would have had an antidilutive effect as a result of a net loss.

Page 8 of 39

4. Gain or Loss on Securitizations

For transfers of receivables that qualify as sales, the Company recognizes

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

gains or losses as a component of the Company's finance operations. For the three-month period ended November 30, 2000, the change in the Circuit City Group's retained interests of credit card securitizations consisted of originated interests of \$11.2 million, less amortization of \$11.2 million. For the same period last fiscal year, the change in the retained interests consisted of originated interests of \$9.7 million, less amortization of \$9.8 million. For the nine-month period ended November 30, 2000, the change in the retained interests consisted of originated interests of \$34.3 million, less amortization of \$36.5 million. For the same period last fiscal year, the change in retained interests consisted of originated interests of \$27.5 million, less amortization of \$29.5 million.

For the three-month period ended November 30, 2000, the change in retained interests of automobile loan securitizations for the CarMax Group consisted of originated interests of \$6.9 million, less amortization of \$4.6 million. For the same period last fiscal year, the change in the retained interests consisted of originated interests of \$0.6 million, less amortization of \$3.3 million. For the nine-month period ended November 30, 2000, the change in retained interests consisted of originated interests of \$19.9 million, less amortization of \$11.9 million. For the same period last fiscal year, the change consisted of originated interests of \$9.4 million, less amortization of \$9.3 million.

5. Interest Rate Swaps

On behalf of the CarMax Group, during the quarter the Company entered into two 40-month amortizing swaps with a total notional amount of approximately \$171 million related to automobile loan receivable securitizations. The total notional amount of the CarMax swaps was \$773 million at November 30, 2000, and \$327 million at February 29, 2000. These swaps were entered into as part of the sales of receivables and are, therefore, included in the gain or loss on sales of receivables.

6. Appliance Exit Costs

On July 25, 2000, the Company announced plans to exit the major appliance category in all Circuit City stores. This decision reflects significant sales weakness and increased competition in the major appliance category and management's sales and earnings expectations for its new store design. To exit the appliance business, the Company will close six distribution centers by December 31, 2000, and expects to close two more by July 31, 2001. The Company also expects to close seven service operations by the end of the fiscal year, and one more by June 30, 2001. The majority of these properties are leased. The Company is in the process of marketing these properties to be subleased. Circuit City will maintain control over its in-home major appliance repair business, although repairs will be subcontracted to an unrelated third party. In the second quarter of fiscal 2001, the Company recorded appliance exit costs of \$30 million. The majority of these expenses are included in cost of sales, buying and warehousing on the statements of operations.

Of the total exit costs, \$4.4 million relates to employee termination benefits. As of November 30, 2000, approximately 350 employees had been terminated and approximately 650 additional employees will be terminated as locations close or consolidate. These reductions will take place mainly in the service, distribution and merchandising functions. Because severance is being paid to employees on a bi-weekly schedule subsequent to their termination, cash payments lag job eliminations. The exit costs also include \$17.8 million for lease termination costs and \$5.0 million, net of salvage value, for the write-down of fixed assets.

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

| (Amounts in millions) | Original Estimate | Adjustments to Estimate | Expense Paid or Written |
|------------------------------------|-------------------|-------------------------|-------------------------|
| Lease Termination Costs..... | \$ 17.8 | \$ - | \$ |
| Fixed Asset Write-Downs..... | 5.0 | - | |
| Employee Termination Benefits..... | 4.4 | - | |
| Other..... | 2.8 | - | |
| Appliance Exit Costs..... | \$ 30.0 | \$ - | \$ |

Page 9 of 39

7. Operating Segment Information

The Company conducts business in two operating segments: Circuit City and CarMax. These segments are identified and managed by the Company based on the different products and services offered by each. Circuit City refers to the retail operations bearing the Circuit City name and to all related operations, such as the Circuit City Group's finance operation. This segment is engaged in the business of selling brand-name consumer electronics, personal computers and entertainment software. CarMax refers to the used- and new-car retail locations bearing the CarMax name and to all related operations such as the CarMax Group's finance operation. Financial information for these segments for the three- and nine-month periods ended November 30, 2000, and 1999, is presented below.

Earnings from continuing operations and total assets for Circuit City presented below exclude the Inter-Group Interest in the CarMax Group and the discontinued Divx operations discussed in Note 8.

Three Months Ended November 30, 2000

| (Amounts in thousands) | Circuit City | CarMax |
|---|--------------|-----------|
| Revenues from external customers..... | \$2,325,576 | \$561,000 |
| Interest expense..... | 2,397 | 2,000 |
| Depreciation and amortization..... | 33,787 | 4,000 |
| (Loss) earnings from continuing operations before income taxes..... | (112,992) | 12,000 |
| Income tax (benefit) provision..... | (42,937) | 4,000 |
| (Loss) earnings from continuing operations..... | (70,055) | 7,000 |
| Total assets..... | \$3,839,627 | \$668,000 |

Three Months Ended November 30, 1999

| (Amounts in thousands) | Circuit City | CarMax |
|---|--------------|-----------|
| Revenues from external customers..... | \$2,495,649 | \$488,000 |
| Interest expense..... | 3,696 | 2,000 |
| Depreciation and amortization..... | 34,530 | 4,000 |
| Earnings (loss) from continuing operations..... | | |

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

| | | |
|---|-------------|--------|
| before income taxes..... | 88,249 | (5, |
| Income tax provision (benefit)..... | 33,535 | (1, |
| Earnings (loss) from continuing operations..... | 54,714 | (3, |
| Total assets..... | \$3,562,213 | \$684, |

Nine Months Ended November 30, 2000

| (Amounts in thousands) | Circuit City | CarM |
|---|--------------|----------|
| Revenues from external customers..... | \$7,280,906 | \$1,860, |
| Interest expense..... | 5,715 | 9, |
| Depreciation and amortization..... | 91,598 | 14, |
| Earnings from continuing operations before income taxes..... | 32,024 | 60, |
| Provision for income taxes..... | 12,169 | 23, |
| Earnings from continuing operations..... | 19,855 | 37, |
| Total assets..... | \$3,839,627 | \$ 668, |

Page 10 of 39

Nine Months Ended November 30, 1999

| (Amounts in thousands) | Circuit City | CarMax |
|---|--------------|----------|
| Revenues from external customers..... | \$7,123,235 | \$1,510, |
| Interest expense..... | 9,960 | 7, |
| Depreciation and amortization..... | 95,429 | 11, |
| Earnings from continuing operations before income taxes..... | 266,547 | 4, |
| Provision for income taxes..... | 101,288 | 1, |
| Earnings from continuing operations..... | 165,259 | 2, |
| Total assets..... | \$3,562,213 | \$ 684, |

8. Discontinued Operations

On June 16, 1999, Digital Video Express announced that it would cease marketing the Divx home video system and discontinue operations, but that existing, registered customers would be able to view discs during a two-year phase-out period. The operating results of Divx and the loss on disposal of the Divx business have been segregated from continuing operations and reported as separate line items, after taxes, on the consolidated statements of operations. Discontinued operations also have been segregated on the consolidated statements of cash flows. However, Divx is not segregated on the consolidated balance sheets.

The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments. For the quarters ended November 30, 2000, and 1999, and nine-month period ended November 30, 2000, the discontinued Divx operations had no impact on the earnings of Circuit City Stores, Inc. For the nine months ended November 30, 1999, the loss from the discontinued Divx operations totaled \$16.2 million after an income tax benefit of \$9.9 million. The loss on the disposal of the Divx business totaled \$114.0 million after an income tax benefit of \$69.9 million in that same period.

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

The net liabilities of the discontinued Divx operations, reflected in the accompanying consolidated balance sheets as of November 30, 2000, and February 29, 2000, are comprised of the following:

| (Amounts in thousands) | Nov. 30, 2000 | Feb. 29, |
|---|---------------|----------|
| Current assets..... | \$ 154 | \$ |
| Property and equipment, net..... | - | |
| Other assets..... | 342 | |
| Current liabilities..... | (28,861) | (32 |
| Noncurrent liabilities..... | (15,291) | (35 |
| Net liabilities of discontinued operations..... | \$ (43,656) | \$ (66 |

9. Reclassifications

Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal year 2001.

Page 11 of 39

ITEM 2.

CIRCUIT CITY STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Sales and Operating Revenues and General Comments

For the quarter ended November 30, 2000, Circuit City Stores, Inc. total sales declined 3 percent to \$2.89 billion from \$2.98 billion in the same period last year. For the nine months ended November 30, 2000, total sales rose 6 percent to \$9.14 billion from \$8.63 billion in the first nine months of last year. Sales for the Circuit City business declined 7 percent for the quarter because of an overall softening of sales in virtually all product categories, including those not affected by the partial or full remodeling of virtually all stores, promotional pricing over the Thanksgiving holiday weekend and continued declines in average retail prices for traditional analog products. Although sales for the Circuit City business were soft for the quarter, sales of better-featured products, new technologies and the new and expanded categories that were added to stores during the quarter grew rapidly. CarMax continued its strong sales trend in the third quarter, with a 15 percent increase over the prior year. Management believes the strong CarMax sales reflect improved execution in the stores, increased consumer traffic generated by an enhanced Web site, strong used-car sales and effective inventory management during this year's fall model-year changeover.

Comparable store sales changes for the third quarter and first nine months of fiscal years 2001 and 2000 were as follows:

=====

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

| | 3rd Quarter | | Nine Months | |
|--------------------|-------------|-------|-------------|-------|
| | FY 01 | FY 00 | FY 01 | FY 00 |
| Circuit City Group | (10%) | 5% | (1%) | 8% |
| CarMax Group | 11% | 3% | 15% | (2%) |

The comparable store sales performance shown above for the Circuit City Group includes all merchandise sales categories in all comparable stores. Excluding stores in central and south Florida, where full remodels were completed late in the third quarter, comparable store sales declined 9 percent for the quarter and remained unchanged for the nine-month period ended November 30, 2000. Comparable store sales in the major appliance category declined 84 percent for the third quarter of this year and 36 percent for the nine-month period ended November 30, 2000. Excluding the appliance category, from which the company completed its exit in the third quarter, comparable store sales rose 3 percent for the quarter and 6 percent for the nine months ended November 30, 2000.

During the first quarter of fiscal 2001, Circuit City removed the major appliance category from stores primarily in central and south Florida in advance of a full remodel of those stores to focus solely on the consumer electronics and home office categories. Circuit City completed full remodels of these 26 stores the weekend prior to Thanksgiving and has now grand-opened 18 new stores that follow the new consumer electronics and home office-only design. This design includes a more contemporary look, expanded merchandise selections and more flexible ways for the consumer to shop.

In late July 2000, the Company announced a plan to strategically reposition itself exclusively as a retailer of consumer electronics and home office products. The Company discontinued the sale of major appliances in all stores and undertook partial remodels to expand the selection of computer software, peripherals and accessories; video game hardware and software; movie titles; and digital cameras, and to add 35mm cameras and accessories. During the third quarter, Circuit City completed the exit from the appliance category and the partial remodel of 547 stores.

Management believes that it has achieved key consumer objectives in the store design introduced in the new and fully remodeled stores and expects to continue to follow this design for all new Circuit City store construction in the coming fiscal year. Circuit City expects to open 15 to 20 new stores and to relocate 10 to 15 stores in the upcoming fiscal year. However, the success of the new categories in the partial remodels suggests that the Company can strengthen Circuit City's brand identity and return on investment with a full remodel that is less costly and less disruptive than the full remodels completed this fiscal year. Therefore, in the coming fiscal year, Circuit City expects to test a remodel with an average cost of approximately \$1.5 million per store. This remodel will achieve similar product adjacencies, product availability, lighting and signage benefits as in this year's full remodels, while eliminating costly changes that management believes have little short-term impact on sales volumes. Management expects completion time for these remodels to be approximately 60 days. Circuit City expects to remodel 20 to 25 stores to reflect this new design in the upcoming fiscal year.

For the Circuit City Group, gross dollar sales from all extended warranty programs were 5.1 percent of sales in the third quarter of fiscal 2001 compared with 5.5 percent of sales in the third quarter of fiscal 2000. Third-party

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

warranty revenue decreased to 3.9 percent of sales in this year's third quarter from 4.3 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 4.0 percent of sales in this year's third quarter versus 4.5 percent in the third quarter of last fiscal year. The decline reflects the impact of lower average retail prices on consumer demand for the related warranties in many categories, increased sales of products on which the Company does not offer extended warranty programs and the shift in extended warranty sales from Circuit City extended warranties to third-party extended warranties over the past five years. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties.

CarMax has restarted its expansion plans and expects to open two superstores in late fiscal 2002. In addition, CarMax continues to seek prototype satellite stores for its existing multi-store markets.

For the CarMax Group, gross dollar sales from all extended warranty programs were 4.1 percent of sales in the third quarter of fiscal 2001 compared with 3.5 percent in the same period last year. Third-party warranty revenue increased to 1.8 percent of sales in this year's third quarter from 1.5 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 1.8 percent of sales in this year's third quarter versus 1.5 percent in last year's third quarter. The increase is a result of enhanced manufacturers' programs and improved warranty penetration.

The Company's operations, in common with other retailers in general, are subject to seasonal influences. Historically, the Circuit City Group has realized more of its net sales and net earnings in the final fiscal quarter, which includes the December holiday selling season, than in any other fiscal quarter. CarMax stores, however, have experienced more of their net sales in the first two quarters of the fiscal year. The net earnings of any interim quarter are seasonally disproportionate to net sales since administrative and certain operating expenses remain relatively constant during the year. Therefore, interim results should not be relied upon as necessarily indicative of results for the entire fiscal year.

Cost of Sales, Buying and Warehousing

For Circuit City Stores, Inc., the gross profit margin was 20.2 percent of sales in the third quarter of fiscal 2001 compared with 22.5 percent in the same period last year. For the nine months ended November 30, 2000, the gross profit margin was 21.2 percent compared with 22.5 percent for the same period last year.

For the Circuit City Group, the gross profit margin was 22.0 percent of sales in the third quarter compared with 24.8 percent in the same period last year. For the nine months ended November 30, 2000, the gross profit margin was 23.2 percent of sales compared with 24.8 percent for the same period last year. Excluding the appliance category, Circuit City's gross profit margin was 24.1 percent in this year's third quarter compared with 25.9 percent in the same period last year and 24.8 percent for the nine-month period ended November 30, 2000, compared with 25.4 percent for the same period last year. Thanksgiving weekend was highly promotional and sales of traditional products with lower year-over-year average retail prices remained high. As a result, the third quarter gross profit margin, excluding appliances, was significantly lower than anticipated.

In addition, appliance merchandise markdowns associated with the exit from the appliance business reduced the gross margin by \$21.0 million in this year's

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

third quarter and \$28.0 million for the nine months ended November 30, 2000. The gross profit margin for the nine months ended November 30, 2000, was also reduced by \$28.3 million of one-time appliance exit costs incurred in the second fiscal quarter. The one-time costs included lease terminations and related fixed asset write-downs, employee severance and other related costs. Excluding the impact of the appliance merchandise markdowns and the one-time appliance exit costs, the gross margin was 22.9 percent of sales in this year's third quarter and 24.0 percent for the nine months ended November 30, 2000.

For the CarMax Group, the gross profit margin increased to 12.8 percent of sales in the third quarter of fiscal 2001 from 10.8 percent for the same period last year. For the nine months ended November 30, 2000, the gross profit margin increased to 13.3 percent compared with 11.8 percent for the same period last year. By effectively managing its inventory through the fall model-year changeover, CarMax significantly reduced the gross profit margin erosion that occurred in prior years during this period. The improved gross profit margin is a result of that inventory management combined with an increase in sales of used cars, which carry higher profit margins than new cars.

Selling, General and Administrative Expenses

The Company's selling, general and administrative expense ratio was 23.5 percent in the third quarter of fiscal 2001 compared with 19.5 percent for the same period last year. For the nine-month period ended November 30, 2000, the Company's selling, general, and administrative expense ratio was 20.0 percent compared with 19.2 percent for the same period last year.

For the Circuit City Group, the selling, general and administrative expense ratio for this year's third quarter was 26.7 percent of sales compared with 21.1 percent for the same period last year. This ratio includes \$33.6 million in costs associated with fully remodeling the stores primarily in central and south Florida and \$30.0 million in costs related to the partial remodels to exit the appliance business. Excluding these costs, this year's expense ratio would have been 24.0 percent. Excluding remodeling costs and the estimated sales disruption during the seven to 10 days of partial remodels, the third quarter expense ratio would have been 23.6 percent. The third quarter ratio, excluding the remodel costs and the sales disruption, reflects lower-than-anticipated sales through much of the quarter. The full remodel costs exceeded management's expectations and reflect changes made to the design during the remodeling process, the complexity of completing this first group of remodels and the desire to complete them prior to Thanksgiving.

For the nine-month period ended November 30, 2000, the Circuit City Group expense ratio was 22.7 percent compared with 20.9 percent for the same period last year. This ratio includes \$41.9 million in remodeling costs for the Florida stores and \$30.0 million in costs related to the partial remodels. Excluding these costs, this year's expense ratio would have been 21.7 percent. Excluding the remodeling costs and the sales disruption, the expense ratio was 21.6 percent for the nine-month period ended November 30, 2000.

The CarMax Group's selling, general and administrative expense ratio improved to 10.1 percent of sales in the third quarter of fiscal 2001 compared with 11.2 percent of sales for the same period last year. For the nine-month period ended November 30, 2000, the expense ratio was 9.5 percent of sales compared with 11.0 percent for the same period last year. Leverage from sales growth and more efficient advertising expenditures led to the better expense ratio.

(Loss) Earnings from Continuing Operations

The loss from continuing operations for Circuit City Stores, Inc. was \$62.5

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

million in this year's third quarter compared with earnings of \$51.6 million in the same period last year. Earnings from continuing operations were \$57.6 million in the first nine months of this year compared with \$168.1 million in the same period last year.

Excluding the Inter-Group Interest in the CarMax Group, the loss from continuing operations for the Circuit City Group was \$70.1 million in this year's third quarter compared with earnings from continuing operations of \$54.7 million last year. The loss per share from continuing operations was 34 cents this year

Page 14 of 39

compared with earnings per share from continuing operations of 27 cents last year. For the first nine months of this fiscal year, earnings from continuing operations for the Circuit City Group excluding the Inter-Group Interest in the CarMax Group were \$19.9 million, or 10 cents per share, compared with \$165.3 million, or 81 cents per share, in the same period last fiscal year.

Reconciliation of the Circuit City Group's (loss) earnings per share from continuing operations is presented below:

| | Three Months Ended | | Nine Mo |
|---|--------------------|---------|------------|
| | November 30, | | |
| | 2000 | 1999 | 2000 |
| Circuit City Store Business..... | \$ (0.06) | \$ 0.27 | \$ 0.52 |
| Impact of Merchandise Markdowns*..... | (0.06) | - | (0.08) |
| Impact of Appliance Exit..... | - | - | (0.09) |
| Impact of Florida Remodeling Costs**..... | (0.10) | - | (0.13) |
| Impact of Partial Remodeling Costs**..... | (0.09) | - | (0.09) |
| Impact of Sales Disruption..... | (0.03) | - | (0.03) |
| Inter-Group Interest in CarMax..... | 0.02 | (0.01) | 0.13 |
| | | | |
| Circuit City Group..... | \$ (0.32) | \$ 0.26 | \$ 0.23 |
| | | | |

* Reflected as a reduction in gross profit margins.

** Reflected as an increase in selling, general and administrative expenses.

The CarMax Group's net earnings were \$7.6 million in this year's third quarter compared with a net loss of \$3.1 million in the third quarter of last fiscal year. The net earnings attributed to the CarMax Group Common Stock were \$1.9 million this year compared with a net loss of \$757,000 in last year's third quarter. Net earnings per share of CarMax Group Common Stock were 7 cents in this year's third quarter compared with a net loss per share of 3 cents in the same period last year. Net earnings for the CarMax Group rose to \$37.8 million in the first nine months of this fiscal year from \$2.8 million in the same period last year. The net earnings attributed to the CarMax Group Common Stock increased to \$9.6 million from \$664,000 in the first nine months of last year. Net earnings per share of CarMax Group Common Stock rose to 36 cents from 3 cents in the first nine months of last year.

Discontinued Operations

On June 16, 1999, Digital Video Express announced that it would cease marketing the Divx home video system and discontinue operations, but existing, registered customers would be able to view discs during a two-year phase-out period. The

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

operating results of Divx and the loss on disposal of the Divx business have been segregated from continuing operations and reported as separate line items, after taxes, on the consolidated statements of operations for the periods presented. Discontinued operations also have been segregated on the consolidated statements of cash flows. However, Divx is not segregated on the consolidated balance sheets.

For the third quarter and nine-month period ended November 30, 2000, and the quarter ended November 30, 1999, the discontinued Divx operations had no impact on the earnings of Circuit City Stores, Inc. For the nine months ended November 30, 1999, the loss from the discontinued Divx operations totaled \$16.2 million after an income tax benefit of \$9.9 million. The loss on the disposal of the Divx business totaled \$114.0 million after an income tax benefit of \$69.9 million in that same period. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

Page 15 of 39

Net (Loss) Earnings

The net loss for Circuit City Stores, Inc. was \$62.5 million in this year's third quarter compared with net earnings of \$51.6 million in the same period last year. Net earnings were \$57.6 million in the first nine months of this year compared with \$37.8 million in the same period last year.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and No. 138, is effective for quarters for fiscal years beginning after June 15, 2000. SFAS No. 133 standardizes the accounting for derivative instruments and requires that an entity recognize those items as either assets or liabilities and measure them at fair value. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position, results of operations or cash flows.

Liquidity and Capital Resources

At November 30, 2000, total assets were \$4.51 billion. The inventory increase of \$964.2 million from the end of fiscal 2000 reflects seasonal inventory increases, the building of inventory for category expansion associated with the partial remodels and the comparable store sales decline in the Circuit City business. Store construction, including the Circuit City store remodels, and the purchase of inventory contributed to a \$544.4 million increase in accounts payable from the end of fiscal 2000. In June 2000, a term loan totaling \$130 million was classified as a current liability because it becomes due in June 2001. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

The Circuit City Group's finance operation has a master trust securitization facility for its private-label card that allows the transfer of receivables through private placement and the public market. The master trust vehicle permits further expansion of the securitization program to meet future needs. During the quarter, a \$300 million, five-year public securitization related to

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

the private-label card matured and was paid off. The Company also entered into a \$275 million, three-year public securitization related to its private-label card during the quarter. As of November 30, 2000, the master trust program had a total program capacity of \$1.11 billion. The Circuit City Group's finance operation also has a master trust securitization facility related to its bankcard program. This master trust vehicle permits further expansion of the securitization program in both the public and private markets. As of November 30, 2000, the bankcard master trust program had a total program capacity of \$1.64 billion. The Company anticipates that it will be able to expand its securitization programs to meet future needs.

The Company also has an asset securitization program, operated through a special purpose subsidiary on behalf of the CarMax Group. This program had a capacity of \$850 million as of November 30, 2000. The Company, on behalf of the CarMax Group, also has a public program with a capacity of \$378 million as of November 30, 2000. The Company anticipates that it will be able to expand its securitization programs to meet future needs.

The Company generally expects to continue its existing long-term capitalization strategy for the balance of the current fiscal year. Management anticipates that capital expenditures will be funded through a combination of internally generated funds, sale-leaseback transactions and operating leases. Securitization transactions will be used to finance growth in credit card and automobile loan receivables, and the Company anticipates that it will be able to expand its securitization programs to meet future needs.

At November 30, 2000, the Company maintained \$401 million in seasonal lines that are renewed annually with various banks, as well as a \$150 million revolving credit facility.

Page 16 of 39

ITEM 3.

CIRCUIT CITY STORES, INC. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company centrally manages the private-label and bankcard revolving loan portfolios of the Circuit City Group's finance operation and the installment loan portfolio of the CarMax Group's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Company's balance sheet. Interest rate exposure relating to these receivables represents a market risk exposure that the Company has managed with matched funding and interest rate swaps.

As of November 30, 2000, the private-label and bankcard portfolios of the Circuit City Group had not changed significantly since February 29, 2000. However, as a result of its growth, the CarMax Group's automobile installment loan portfolio had increased.

Total principal outstanding for fixed-rate automobile loans at November 30 and February 29, 2000, was as follows:

| (Amounts in millions) | November 30 | February 29 |
|-----------------------|-------------|-------------|
| Fixed APR..... | \$ 1,179 | \$ 932 |

Financing for these receivables is achieved through asset securitization programs which, in turn, issue both fixed- and floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched

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

to projected payoffs. Receivables held by the Company for investment or sale are financed with working capital. Financings at November 30 and February 29, 2000, were as follows:

| (Amounts in millions) | November 30 | February 29 |
|-------------------------------------|-------------|-------------|
| Fixed-rate securitizations..... | \$ 378 | \$ 559 |
| Floating-rate securitizations | | |
| synthetically altered to fixed..... | 773 | 327 |
| Floating-rate securitizations..... | 3 | 1 |
| Held by the Company: | | |
| For investment*..... | 22 | 22 |
| For sale..... | 3 | 23 |
| Total | \$ 1,179 | \$ 932 |

* Held by a bankruptcy remote special purpose company

Because programs are in place to manage interest rate exposure relating to its installment loan portfolio, the Company expects to experience relatively little impact as interest rates fluctuate.

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements, which are subject to risks and uncertainties. Additional discussion of factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations is contained in the Company's SEC filings, including the Company's report on Form 10-K for the year ended February 29, 2000.

Page 17 of 39

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CIRCUIT CITY STORES, INC. - CIRCUIT CITY GROUP
Balance Sheets
(Amounts in thousands)

| | Nov. 30, 2000 (Unaudited) | Feb. 29, 2000 |
|---|------------------------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 114,359 | \$ 633,000 |
| Net accounts receivable | 456,952 | 464,000 |
| Merchandise inventory | 2,331,287 | 1,405,000 |
| Prepaid expenses and other current assets | 99,680 | 13,000 |
| Total current assets | 3,002,278 | 2,516,000 |
| Property and equipment, net | 829,207 | 753,000 |
| Inter-Group Interest in the CarMax Group | 286,580 | 257,000 |
| Other assets | 8,638 | 9,000 |

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

| | | |
|--|--------------|-----------|
| TOTAL ASSETS | \$ 4,126,703 | \$ 3,537, |
| | ===== | ===== |
| LIABILITIES AND GROUP EQUITY | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 78,797 | \$ 85, |
| Accounts payable | 1,424,552 | 884, |
| Short-term debt | 90,474 | 1, |
| Accrued expenses and other current liabilities | 136,229 | 184, |
| Deferred income taxes | 53,228 | 53, |
| | ----- | ----- |
| Total current liabilities | 1,783,280 | 1,210, |
| Long-term debt, excluding current installments | 75,369 | 127, |
| Deferred revenue and other liabilities | 99,402 | 122, |
| Deferred income taxes | 16,067 | 21, |
| | ----- | ----- |
| TOTAL LIABILITIES | 1,974,118 | 1,482, |
| GROUP EQUITY | 2,152,585 | 2,054, |
| | ----- | ----- |
| TOTAL LIABILITIES AND GROUP EQUITY | \$ 4,126,703 | \$ 3,537, |
| | ===== | ===== |

See accompanying notes to group financial statements.

Page 18 of 39

CIRCUIT CITY STORES, INC. - CIRCUIT CITY GROUP
Statements of Operations (Unaudited)
(Amounts in thousands except per share data)

| | Three Months Ended | |
|---|--------------------|--------------|
| | 2000 | 1999 |
| | ----- | ----- |
| Net sales and operating revenues | \$ 2,325,576 | \$ 2,495,649 |
| Cost of sales, buying and warehousing | 1,815,127 | 1,877,467 |
| Appliance exit costs | - | - |
| | ----- | ----- |
| Gross profit | 510,449 | 618,182 |
| | ----- | ----- |
| Selling, general and administrative expenses | 621,044 | 526,237 |
| Appliance exit costs | - | - |
| Interest expense | 2,397 | 3,696 |
| | ----- | ----- |
| Total expenses | 623,441 | 529,933 |
| | ----- | ----- |
| (Loss) earnings from continuing operations before income taxes and Inter-Group | | |
| Interest in the CarMax Group | (112,992) | 88,249 |
| Income tax (benefit) provision | (42,937) | 33,535 |
| | ----- | ----- |
| (Loss) earnings from continuing operations | | |

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

| | | | |
|--|-------------|-----------|----|
| before Inter-Group Interest in the CarMax Group | (70,055) | 54,714 | |
| Net earnings (loss) related to Inter-Group Interest in the CarMax Group | 5,648 | (2,379) | |
| (Loss) earnings from continuing operations | (64,407) | 52,335 | |
| Discontinued operations: | | | |
| Loss from discontinued operations of Divx, less income tax benefit | - | - | |
| Loss on disposal of Divx, less income tax benefit | - | - | |
| Loss from discontinued operations | - | - | |
| Net (loss) earnings | \$ (64,407) | \$ 52,335 | \$ |
| Weighted average common shares: | | | |
| Basic: | 204,079 | 201,610 | |
| Diluted: | 204,079 | 204,525 | |
| Net (loss) earnings per share: | | | |
| Basic: | | | |
| Continuing operations | \$ (0.32) | \$ 0.26 | \$ |
| Discontinued operations | \$ - | \$ - | \$ |
| Net (loss) earnings | \$ (0.32) | \$ 0.26 | \$ |
| Diluted: | | | |
| Continuing operations | \$ (0.32) | \$ 0.26 | \$ |
| Discontinued operations | \$ - | \$ - | \$ |
| Net (loss) earnings | \$ (0.32) | \$ 0.26 | \$ |
| Dividends paid per common share | \$ 0.0175 | \$ 0.0175 | \$ |

See accompanying notes to group financial statements.

Page 19 of 39

CIRCUIT CITY STORES, INC. - CIRCUIT CITY GROUP
Statements of Cash Flows (Unaudited)
(Amounts in thousands)

Nine Mon

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

| | November 2000 |
|---|------------------|
| | ----- |
| Operating Activities: | |
| Net earnings | \$ 48,057 |
| Adjustments to reconcile net earnings to net cash used in operating activities of continuing operations: | |
| Loss from discontinued operations | - |
| Loss on disposal of discontinued operations | - |
| Net earnings related to Inter-Group Interest in the CarMax Group | (28,202) |
| Depreciation and amortization | 91,598 |
| Gain on sales of property and equipment | (2,935) |
| Provision for deferred income taxes | (6,553) |
| Decrease in deferred revenue and other liabilities | (3,369) |
| Decrease (increase) in net accounts receivable | 7,091 |
| Increase in merchandise inventory | (925,670) |
| (Increase) decrease in prepaid expenses and other current assets | (86,324) |
| Decrease in other assets | 1,287 |
| Increase in accounts payable, accrued expenses and other current liabilities | 522,909 |
| | ----- |
| Net cash used in operating activities of continuing operations | (382,111) |
| | ----- |
| Investing Activities: | |
| Purchases of property and equipment | (235,875) |
| Proceeds from sales of property and equipment | 70,819 |
| | ----- |
| Net cash used in investing activities of continuing operations | (165,056) |
| | ----- |
| Financing Activities: | |
| Increase in allocated short-term debt, net | 89,021 |
| Decrease in allocated long-term debt, net | (59,553) |
| Equity issuances, net | 32,497 |
| Dividends paid | (10,750) |
| | ----- |
| Net cash provided by financing activities of continuing operations | 51,215 |
| | ----- |
| Cash used in discontinued operations | (23,641) |
| | ----- |
| Decrease in cash and cash equivalents | (519,593) |
| Cash and cash equivalents at beginning of year | 633,952 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 114,359 |
| | ===== |

See accompanying notes to group financial statements.

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

The common stock of Circuit City Stores, Inc. consists of two series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Circuit City Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued (see Note 6). The CarMax Group Common Stock is intended to track the performance of the CarMax Group's operations. The Circuit City Group held a 74.6 percent interest in the CarMax Group at November 30, 2000, a 74.7 percent interest at February 29, 2000, and a 75.8 percent interest at November 30, 1999.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing each Group's financial statements, holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the Company's consolidated financial statements included herein should be read in conjunction with the financial statements of each Group and with the notes to the consolidated and Group financial statements included herein and in the Company's SEC filings, including its annual report on Form 10-K and its registration statement on Form 8-A.

2. Accounting Policies

The Circuit City Group has accounted for its interest in the CarMax Group in a manner similar to the equity method of accounting. Generally accepted accounting principles require that the CarMax Group be consolidated with the Circuit City Group. Except for the effects of not consolidating the CarMax Group with the Circuit City Group, the financial statements of the Circuit City Group conform to generally accepted accounting principles. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the interim consolidated financial statements have been included. The fiscal year-end balance sheet data was derived from audited financial statements.

Page 21 of 39

3. (Loss) Earnings per Share

Reconciliations of the numerator and denominator of basic and diluted (loss) earnings per share from continuing operations are presented below:

| (Amounts in thousands except per share data) | Three Months Ended November 30, | |
|---|------------------------------------|---------|
| | 2000 | 1999 |
| Weighted average common shares..... | 204,079 | 201,610 |

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

| | | |
|---|-------------|-----------|
| Dilutive potential common shares: | | |
| Options..... | - | 2,092 |
| Restricted stock..... | - | 823 |
| ----- | | |
| Weighted average common shares and dilutive potential common shares..... | 204,079 | 204,525 |
| ===== | | |
| (Loss) earnings from continuing operations | | |
| available to common shareholders..... | \$ (64,407) | \$ 52,335 |
| Basic (loss) earnings per share from continuing operations..... | \$ (0.32) | \$ 0.26 |
| Diluted (loss) earnings per share from continuing operations..... | \$ (0.32) | \$ 0.26 |

For the three-month period ended November 30, 2000, options to purchase 9,922,445 shares of Circuit City Group Common Stock at prices ranging from \$9.09 to \$47.53 per share were outstanding and not included in the calculation of diluted loss per share because they would have had an antidilutive effect as a result of a loss from continuing operations. For the three-month period ended November 30, 1999, options to purchase 2,000 shares of Circuit City Group Common Stock at \$43.03 per share were outstanding and not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

4. Gain or Loss on Securitizations

For transfers of receivables that qualify as sales, the Group recognizes gains or losses as a component of the Group's finance operations. For the three-month period ended November 30, 2000, the change in the Circuit City Group's retained interests of credit card securitizations consisted of originated interests of \$11.2 million, less amortization of \$11.2 million. For the same period last fiscal year, the change in the retained interests consisted of originated interests of \$9.7 million, less amortization of \$9.8 million. For the nine-month period ended November 30, 2000, the change in the retained interests consisted of originated interests of \$34.3 million, less amortization of \$36.5 million. For the same period last fiscal year, the change in retained interests consisted of originated interests of \$27.5 million, less amortization of \$29.5 million.

5. Appliance Exit Costs

On July 25, 2000, the Company announced plans to exit the major appliance category in all Circuit City stores. This decision reflects significant sales weakness and increased competition in the major appliance category and management's sales and earnings expectations for its new store design. To exit the appliance business, the Company will close six distribution centers by December 31, 2000, and expects to close two more by July 31, 2001. The Company also expects to close seven service operations by the end of the fiscal year and one more by June 30, 2001. The majority of these properties are leased. The Company is in the process of marketing these properties to be subleased. Circuit City will maintain control over its in-home major appliance repair business, although repairs will be subcontracted to an unrelated third party.

In the second quarter of fiscal 2001, the Company recorded appliance exit

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

costs of \$30 million. The majority of these expenses are included in cost of sales, buying and warehousing on the statements of operations.

Of the total exit costs, \$4.4 million relates to employee termination benefits. As of November 30, 2000, approximately 350 employees had been terminated and approximately 650 additional employees will be terminated as locations close or consolidate. These reductions will take place mainly in the service, distribution and merchandising functions. Because severance is being paid to employees on a bi-weekly schedule subsequent to their termination, cash payments lag job eliminations. The exit costs also include \$17.8 million for lease termination costs and \$5.0 million, net of salvage value, for the write-down of fixed assets.

| (Amounts in millions) | Original Estimate | Adjustments to Estimate | Ex Paid Wri |
|------------------------------------|----------------------|----------------------------|-------------------|
| Lease Termination Costs..... | \$ 17.8 | \$ - | \$ |
| Fixed Asset Write-Downs..... | 5.0 | - | |
| Employee Termination Benefits..... | 4.4 | - | |
| Other..... | 2.8 | - | |
| Appliance Exit Costs..... | \$ 30.0 | \$ - | \$ |

6. Discontinued Operations

On June 16, 1999, Digital Video Express announced that it would cease marketing the Divx home video system and discontinue operations, but that existing, registered customers would be able to view discs during a two-year phase-out period. The operating results of Divx and the loss on disposal of the Divx business have been segregated from continuing operations and reported as separate line items, after taxes, on the Circuit City Group statements of operations. Discontinued operations also have been segregated on the Circuit City Group statements of cash flows. However, Divx is not segregated on the Circuit City Group balance sheets.

The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments. For the quarters ended November 30, 2000, and 1999, and nine-month period ended November 30, 2000, the discontinued Divx operations had no impact on the earnings of the Circuit City Group. For the nine months ended November 30, 1999, the loss from the discontinued Divx operations totaled \$16.2 million after an income tax benefit of \$9.9 million. The loss on the disposal of the Divx business totaled \$114.0 million after an income tax benefit of \$69.9 million in that same period.

The net liabilities of the discontinued Divx operations, reflected in the accompanying Circuit City Group balance sheets as of November 30, 2000, and February 29, 2000, are comprised of the following:

(Amounts in thousands)

Nov. 30, 2000

Feb. 29, 2000

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

| | | | | |
|---|----|----------|----|---------|
| Current assets..... | \$ | 154 | \$ | 61 |
| Property and equipment, net..... | | - | | 51 |
| Other assets..... | | 342 | | |
| Current liabilities..... | | (28,861) | | (32,65) |
| Noncurrent liabilities..... | | (15,291) | | (35,29) |
| Net liabilities of discontinued operations..... | \$ | (43,656) | \$ | (66,81) |

7. Reclassifications

Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal year 2001.

Page 23 of 39

ITEM 2.

CIRCUIT CITY GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Sales and Operating Revenues and General Comments

For the quarter ended November 30, 2000, the Circuit City Group's total sales declined 7 percent to \$2.33 billion from \$2.50 billion in the same period last year. For the nine months ended November 30, 2000, total sales rose 2 percent to \$7.28 billion from \$7.12 billion in the first nine months of last year. Sales declined for the quarter because of an overall softening of sales in virtually all product categories, including those not affected by the partial or full remodeling of virtually all stores, promotional pricing over the Thanksgiving holiday weekend and continued declines in average retail prices for traditional analog products. Although sales for the Circuit City business were soft for the quarter, sales of better-featured products, new technologies and the new and expanded categories that were added to stores during the quarter grew rapidly.

Circuit City's comparable store sales changes for the third quarter and first nine months of fiscal years 2001 and 2000 were as follows:

| | 3rd Quarter | | Nine Months | |
|--------------------|-------------|-------|-------------|-------|
| | FY 01 | FY 00 | FY 01 | FY 00 |
| Circuit City Group | (10%) | 5% | (1%) | 8% |

The comparable store sales performance shown above for the Circuit City Group includes all merchandise sales categories in all comparable stores. Excluding stores in central and south Florida, where full remodels were completed late in the third quarter, comparable store sales declined 9 percent for the quarter and remained unchanged for the nine-month period ended November 30, 2000. Comparable store sales in the major appliance category declined 84 percent for the third quarter of this year and 36 percent for the nine-month period ended November 30, 2000. Excluding the appliance category, from which the company completed its exit in the third quarter, comparable store sales rose 3 percent for the quarter

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

and 6 percent for the nine months ended November 30, 2000.

During the first quarter of fiscal 2001, Circuit City removed the major appliance category from stores primarily in central and south Florida in advance of a full remodel of those stores to focus solely on the consumer electronics and home office categories. Circuit City completed full remodels of these 26 stores the weekend prior to Thanksgiving and has now grand-opened 18 new stores that follow the new consumer electronics and home office-only design. This design includes a more contemporary look, expanded merchandise selections and more flexible ways for the consumer to shop.

In late July 2000, the Company announced a plan to strategically reposition itself exclusively as a retailer of consumer electronics and home office products. The Company discontinued the sale of major appliances in all stores and undertook partial remodels to expand the selection of computer software, peripherals and accessories; video game hardware and software; movie titles; and digital cameras, and to add 35mm cameras and accessories. During the third quarter, Circuit City completed the exit from the appliance category and the partial remodel of 547 stores.

Management believes that it has achieved key consumer objectives in the store design introduced in the new and fully remodeled stores and expects to continue to follow this design for all new Circuit City store construction in the coming fiscal year. Circuit City expects to open 15 to 20 new stores and to relocate 10 to 15 stores in the upcoming fiscal year. However, the success of the new categories in the partial remodels suggests that the Company can strengthen Circuit City's brand identity and return on investment with a full remodel that is less costly and less disruptive than the full remodels completed this fiscal year. Therefore, in the coming fiscal year, Circuit City expects to test a remodel with an average cost of approximately \$1.5 million per store. This remodel will achieve similar product adjacencies, product availability, lighting

Page 24 of 39

and signage benefits as in this year's full remodels, while eliminating costly changes that management believes have little short-term impact on sales volumes. Management expects completion time for these remodels to be approximately 60 days. Circuit City expects to remodel 20 to 25 stores to reflect this new design in the upcoming fiscal year.

The table below details Circuit City retail units:

| | Retail Units At End of Quarter | | Estimate | |
|----------------------|--------------------------------|---------------|---------------|---------------|
| | Nov. 30, 2000 | Nov. 30, 1999 | Feb. 28, 2001 | Feb. 29, 2000 |
| ----- | | | | |
| Superstore | | | | |
| ----- | | | | |
| "D" Superstore | 118 | 118 | 118 | 118 |
| ----- | | | | |
| "C" Superstore | 309 | 295 | 314 | 295 |
| ----- | | | | |
| "B" Superstore | 107 | 101 | 107 | 102 |
| ----- | | | | |
| "A" Superstore | 56 | 56 | 56 | 56 |
| ----- | | | | |
| Circuit City Express | 39 | 45 | 39 | 45 |
| ----- | | | | |
| TOTAL | 629 | 615 | 634 | 616 |

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

For the Circuit City Group, gross dollar sales from all extended warranty programs were 5.1 percent of sales in the third quarter of fiscal 2001 compared with 5.5 percent of sales in the third quarter of fiscal 2000. Third-party warranty revenue decreased to 3.9 percent of sales in this year's third quarter from 4.3 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 4.0 percent of sales in this year's third quarter versus 4.5 percent in the third quarter of last fiscal year. The decline reflects the impact of lower average retail prices on consumer demand for the related warranties in many categories, increased sales of products on which the Company does not offer extended warranty programs and the shift in extended warranty sales from Circuit City extended warranties to third-party extended warranties over the past five years. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties.

Circuit City has updated its product category breakdowns to reflect the changes in its product selections that have occurred in recent years and are expected to continue occurring during the current decade. Prior years and quarters are being restated for comparability. The percentage of merchandise sales represented by each category is listed below:

| | 1st Quarter ended May 31 | | 2nd Quarter ended August 31 | | 3rd Quarter ended November 30 | |
|------------------------|-----------------------------|------|--------------------------------|------|----------------------------------|------|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Video | 32% | 32% | 32% | 29% | 37% | 32% |
| Audio | 15 | 16 | 15 | 15 | 16 | 15 |
| Information Technology | 34 | 31 | 34 | 33 | 37 | 34 |
| Entertainment | 5 | 5 | 5 | 5 | 8 | 5 |
| Appliances | 14 | 16 | 14 | 18 | 2 | 14 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

The Circuit City Group's operations, in common with other retailers in general, are subject to seasonal influences. Historically, the Circuit City Group has realized more of its net sales and net earnings in the final fiscal quarter, which includes the December holiday selling season, than in any other fiscal quarter. The net earnings of any interim quarter are seasonally disproportionate to net sales since administrative and certain operating expenses remain

Page 25 of 39

relatively constant during the year. Therefore, interim results should not be relied upon as necessarily indicative of results for the entire fiscal year.

Cost of Sales, Buying and Warehousing

The gross profit margin was 22.0 percent of sales in the third quarter of fiscal 2001 compared with 24.8 percent in the same period last year. For the nine months ended November 30, 2000, the gross profit margin was 23.2 percent of

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

sales compared with 24.8 percent for the same period last year. Excluding the appliance category, Circuit City's gross profit margin was 24.1 percent in this year's third quarter compared with 25.9 percent in the same period last year and 24.8 percent for the nine-month period ended November 30, 2000, compared with 25.4 percent for the same period last year. Thanksgiving weekend was highly promotional and sales of traditional products with lower year-over-year average retail prices remained high. As a result, the third quarter gross profit margin, excluding appliances, was significantly lower than anticipated. In addition, appliance merchandise markdowns associated with the exit from the appliance business reduced the gross margin by \$21.0 million in this year's third quarter and \$28.0 million for the nine months ended November 30, 2000. The gross profit margin for the nine months ended November 30, 2000, was also reduced by \$28.3 million of one-time appliance exit costs incurred in the second fiscal quarter. The one-time costs included lease terminations and related fixed asset write-downs, employee severance and other related costs. Excluding the impact of the appliance merchandise markdowns and the one-time appliance exit costs, the gross margin was 22.9 percent of sales in this year's third quarter and 24.0 percent for the nine months ended November 30, 2000.

Selling, General and Administrative Expenses

The selling, general and administrative expense ratio for this year's third quarter was 26.7 percent of sales compared with 21.1 percent for the same period last year. This ratio includes \$33.6 million in costs associated with fully remodeling the stores primarily in central and south Florida and \$30.0 million in costs related to the partial remodels to exit the appliance business. Excluding these costs, this year's expense ratio would have been 24.0 percent. Excluding remodeling costs and the estimated sales disruption during the seven to 10 days of partial remodels, the third quarter expense ratio would have been 23.6 percent. The third quarter ratio, excluding the remodel costs and the sales disruption, reflects lower-than-anticipated sales through much of the quarter. The full remodel costs exceeded management's expectations and reflect changes made to the design during the remodeling process, the complexity of completing this first group of remodels and the desire to complete them prior to Thanksgiving.

For the nine-month period ended November 30, 2000, the Circuit City expense ratio was 22.7 percent compared with 20.9 percent for the same period last year. This ratio includes \$41.9 million in remodeling costs for the Florida stores and \$30.0 million in costs related to the partial remodels. Excluding these costs, this year's expense ratio would have been 21.7 percent. Excluding the remodeling costs and the sales disruption, the expense ratio was 21.6 percent for the nine-month period ended November 30, 2000.

(Loss) Earnings Before Inter-Group Interest in the CarMax Group

Excluding the Inter-Group Interest in the CarMax Group, the loss from continuing operations for the Circuit City Group was \$70.1 million in this year's third quarter compared with earnings from continuing operations of \$54.7 million last year. The loss per share from continuing operations was 34 cents this year compared with earnings per share from continuing operations of 27 cents last year. Excluding the Inter-group Interest in the CarMax Group, earnings from continuing operations for the nine-month period ended November 30, 2000, were \$19.9 million, or 10 cents per share, this year, compared with \$165.3 million, or 81 cents per share, in the first nine months of last fiscal year.

Appliance merchandise markdowns associated with the exit from the appliance business reduced this year's third quarter earnings per share for the Circuit City business by 6 cents. The costs associated with fully remodeling the central and south Florida stores reduced third quarter earnings per share by another 10

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

cents, and the costs associated with the partial remodels reduced third quarter earnings per share by another 9 cents. The sales disruption caused by the

Page 26 of 39

absence of any product in the former appliance space during the seven to 10 days of partial remodeling reduced earnings per share by an estimated 3 cents. Excluding the markdowns remodeling costs, sales disruption and the interest in CarMax, the loss per share for the Circuit City business would have been 6 cents for the third quarter ended November 30, 2000.

Appliance merchandise markdowns had an 8-cent per share impact and one-time costs associated with the exit from the appliance business had a 9-cent per share impact on Circuit City business earnings for the nine months ended November 30, 2000. Costs associated with fully remodeling the central and south Florida stores reduced earnings for the first nine months of this fiscal year by 13 cents, and the costs associated with partial remodels, largely incurred in the third fiscal quarter, reduced earnings per share for the nine months by 9 cents. The sales disruption, which also was largely incurred in the third quarter, reduced earnings per share by an estimated 3 cents. Excluding the appliance merchandise markdowns, exit costs and remodel expenses and excluding the retained interest in CarMax for the nine-month period, earnings per share for the Circuit City business would have been 52 cents in the first nine months of this year.

Net Earnings (Loss) Related to Inter-Group Interest in the CarMax Group

During the third quarter, the net earnings attributed to the Circuit City Group's Inter-Group Interest in the CarMax Group was \$5.6 million, or 2 cents per share, compared with a net loss of \$2.4 million, or 1 cent per share, for the same period last year. For the first nine months of fiscal 2001, net earnings attributed to the Circuit City Group's Inter-Group Interest in the CarMax Group were \$28.2 million, or 13 cents per share, compared with \$2.2 million, or 1 cent per share, for the same period last year.

(Loss) Earnings from Continuing Operations

The loss from continuing operations for the Circuit City Group was \$64.4 million in this year's third quarter compared with earnings of \$52.3 million in the same period last year. The loss per share from continuing operations was 32 cents this year compared with earnings per share from continuing operations of 26 cents last year. Earnings from continuing operations for the Circuit City Group were \$48.1 million, or 23 cents per share, for the first nine months of this fiscal year, compared with \$167.4 million, or 82 cents per share, in the same period last fiscal year.

Reconciliation of earnings per share from continuing operations is presented below:

| | Three Months Ended November 30, | | Nine Months E November 3 |
|---|------------------------------------|---------|-----------------------------|
| | 2000 | 1999 | 2000 |
| Circuit City Store Business..... | \$ (0.06) | \$ 0.27 | \$ 0.52 |
| Impact of Merchandise Markdowns*..... | (0.06) | - | (0.08) |
| Impact of Appliance Exit..... | - | - | (0.09) |
| Impact of Florida Remodeling Costs**..... | (0.10) | - | (0.13) |
| Impact of Partial Remodeling Costs**..... | (0.09) | - | (0.09) |
| Impact of Sales Disruption..... | (0.03) | - | (0.03) |

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

| | | | |
|-------------------------------------|-----------|---------|---------|
| Inter-Group Interest in CarMax..... | 0.02 | (0.01) | 0.13 |
| ----- | | | |
| Circuit City Group..... | \$ (0.32) | \$ 0.26 | \$ 0.23 |
| ===== | | | |

* Reflected as a reduction in gross profit margins.

** Reflected as an increase in selling, general and administrative expenses.

Discontinued Operations

On June 16, 1999, Digital Video Express announced that it would cease marketing the Divx home video system and discontinue operations, but that existing, registered customers would be able to view discs during a two-year phase-out period. The operating results of Divx and the loss on disposal of the Divx business have been segregated from continuing operations and reported as separate line items, after taxes, on the Circuit City Group statements of operations for the periods presented. Discontinued operations also have been

Page 27 of 39

segregated on the Circuit City Group statements of cash flows. However, Divx is not segregated on the Circuit City Group balance sheets.

For the third quarter and nine-month period ended November 30, 2000, and for the quarter ended November 30, 1999, the discontinued Divx operations had no impact on the earnings of the Circuit City Group. For the nine months ended November 30, 1999, the loss from the discontinued Divx operations totaled \$16.2 million after an income tax benefit of \$9.9 million. The loss on the disposal of the Divx business totaled \$114.0 million after an income tax benefit of \$69.9 million in that same period. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

Net (Loss) Earnings

The net loss for the Circuit City Group was \$64.4 million, or 32 cents per share, in this year's third quarter compared with net earnings of \$52.3 million, or 26 cents per share, in the same period last year. Net earnings were \$48.1 million, or 23 cents per share, in the first nine months of this year compared with \$37.2 million, or 18 cents per share, in the same period last year.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and No. 138, is effective for quarters for fiscal years beginning after June 15, 2000. SFAS No. 133 standardizes the accounting for derivative instruments and requires that an entity recognize those items as either assets or liabilities and measure them at fair value. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position, results of operations or cash flows.

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

Liquidity and Capital Resources

At November 30, 2000, total assets were \$4.13 billion. The inventory increase of \$925.7 million from the end of fiscal 2000 reflects seasonal inventory increases, the building of inventory for category expansion associated with the partial remodels and the comparable store sales decline. Store construction, including the remodels, and the purchase of inventory contributed to a \$540.4 million increase in accounts payable from the end of fiscal 2000. In June 2000, a term loan totaling \$130 million was classified as a current liability because it becomes due in June 2001. While the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital. Payment of corporate debt will not necessarily reduce Circuit City Group allocated debt.

The Circuit City Group's finance operation has a master trust securitization facility for its private-label card that allows the transfer of receivables through private placement and the public market. The master trust vehicle permits further expansion of the securitization program to meet future needs. During the quarter, a \$300 million, five-year public securitization related to the private-label card matured and was paid off. The Company also entered into a \$275 million, three-year public securitization related to its private-label card during the quarter. As of November 30, 2000, the master trust program had a total program capacity of \$1.11 billion. The Circuit City Group's finance operation also has a master trust securitization facility related to its bankcard program. This master trust vehicle permits further expansion of the securitization program in both the public and private markets. As of November 30, 2000, the bankcard master trust program had a total program capacity of \$1.64 billion. The Company anticipates that it will be able to expand its securitization programs to meet future needs.

The Group relies on the Company's external debt allocated to the Circuit City Group to provide working capital needed to fund net assets not otherwise financed through sale-leasebacks or receivable securitizations. All significant financial activities of the Group are managed on a centralized basis and are dependent on the financial condition of the Company as a whole. Such financial activities include the investment of surplus cash, issuance and repayment of debt, securitization of receivables and sale-leasebacks of real estate. At

Page 28 of 39

November 30, 2000, the Company also maintained \$401 million in seasonal lines that are renewed annually with various banks, as well as a \$150 million revolving credit facility.

Management believes that proceeds from sales of property and equipment and receivables, future increases in the Company's debt allocated to the Circuit City Group, and cash generated by operations will be sufficient to fund the Circuit City Group's capital expenditures and operations.

ITEM 3.

CIRCUIT CITY GROUP QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company centrally manages the private-label and bankcard revolving loan portfolios of the Circuit City Group's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Circuit City Group's balance sheet. Interest rate exposure relating to these receivables represents a market risk exposure that the Company has managed with matched funding.

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

As of November 30, 2000, the Circuit City Group's private-label and bankcard portfolios had not changed significantly since February 29, 2000.

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements, which are subject to risks and uncertainties. Additional discussion of factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations is contained in the Company's SEC filings, including the Company's report on Form 10-K for the year ended February 29, 2000.

Page 29 of 39

PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

CIRCUIT CITY STORES, INC. - CARMAX GROUP Balance Sheets (Amounts in thousands)

| | Nov. 30, 2000 (Unaudited) | Feb. 29, 2000 |
|--|------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,509 | \$ 9,981 |
| Net accounts receivable | 107,880 | 129,253 |
| Inventory | 322,153 | 283,592 |
| Prepaid expenses and other current assets | 2,813 | 2,844 |
| | ----- | ----- |
| Total current assets | 440,355 | 425,670 |
| Property and equipment, net | 192,766 | 211,856 |
| Other assets | 35,872 | 37,969 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 668,993 | \$ 675,495 |
| | ===== | ===== |
| LIABILITIES AND GROUP EQUITY | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 53,557 | \$ 91,609 |
| Accounts payable | 79,989 | 75,959 |
| Short-term debt | 60,912 | 1,552 |
| Accrued expenses and other current liabilities | 21,104 | 19,856 |
| Deferred income taxes | 12,240 | 7,147 |
| | ----- | ----- |
| Total current liabilities | 227,802 | 196,123 |
| Long-term debt, excluding current installments | 42,736 | 121,257 |
| Deferred revenue and other liabilities | 6,934 | 7,249 |
| Deferred income taxes | 7,519 | 5,877 |
| | ----- | ----- |
| TOTAL LIABILITIES | 284,991 | 330,506 |

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

| | | |
|------------------------------------|------------|------------|
| GROUP EQUITY | 384,002 | 344,989 |
| | ----- | ----- |
| TOTAL LIABILITIES AND GROUP EQUITY | \$ 668,993 | \$ 675,495 |
| | ===== | ===== |

See accompanying notes to group financial statements.

Page 30 of 39

CIRCUIT CITY STORES, INC. - CARMAX GROUP
Statements of Operations (Unaudited)
(Amounts in thousands except per share data)

| | Three Months Ended November 30, | |
|--|------------------------------------|------------|
| | 2000 | 1999 |
| | ----- | ----- |
| Net sales and operating revenues | \$ 561,693 | \$ 488,958 |
| Cost of sales | 490,014 | 436,230 |
| | ----- | ----- |
| Gross profit | 71,679 | 52,728 |
| | ----- | ----- |
| Selling, general and administrative expenses | 56,809 | 54,979 |
| Interest expense | 2,664 | 2,808 |
| | ----- | ----- |
| Total expenses | 59,473 | 57,787 |
| | ----- | ----- |
| Earnings (loss) before income taxes | 12,206 | (5,059) |
| Income tax provision (benefit) | 4,638 | (1,923) |
| | ----- | ----- |
| Net earnings (loss) | \$ 7,568 | \$ (3,136) |
| | ===== | ===== |
| Net earnings (loss) attributed to: | | |
| Circuit City Group common stock | \$ 5,648 | \$ (2,379) |
| CarMax Group common stock | 1,920 | (757) |
| | ----- | ----- |
| | \$ 7,568 | \$ (3,136) |
| | ===== | ===== |
| Weighted average common shares: | | |
| Basic | 25,570 | 23,836 |
| | ===== | ===== |
| Diluted | 27,020 | 23,836 |
| | ===== | ===== |

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

Net earnings (loss) per share:

| | | |
|---------------------------------|---------|-----------|
| Basic | \$ 0.08 | \$ (0.03) |
| | ===== | ===== |
| Diluted | \$ 0.07 | \$ (0.03) |
| | ===== | ===== |
| Dividends paid per common share | \$ - | \$ - |
| | ===== | ===== |

See accompanying notes to group financial statements.

Page 31 of 39

CIRCUIT CITY STORES, INC. - CARMAX GROUP
 Statements of Cash Flows (Unaudited)
 (Amounts in thousands)

| | Nine Months ended 2000 |
|---|---------------------------------|
| | ----- |
| Operating Activities: | |
| Net earnings | \$ 37,783 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 14,050 |
| Loss (gain) on sales of property and equipment | 305 |
| Provision for deferred income taxes | 6,735 |
| Changes in operating assets and liabilities, net of effects from business acquisitions: | |
| (Decrease) increase in deferred revenue and other liabilities | (315) |
| Decrease (increase) in net accounts receivable | 21,373 |
| Increase in inventory | (37,761) |
| Decrease (increase) in prepaid expenses, other current assets and other assets | 30 |
| Increase in accounts payable, accrued expenses and other current liabilities | 6,381 |
| Net cash provided by (used in) operating activities | ----- 48,581 ----- |
| Investing Activities: | |
| Cash used in business acquisitions | (1,325) |
| Purchases of property and equipment | (8,152) |
| Proceeds from sales of property and equipment | 15,508 |
| Net cash provided by (used in) investing activities | ----- 6,031 ----- |
| Financing Activities: | |
| Increase in allocated short-term debt, net | 59,360 |
| Decrease in allocated long-term debt, net | (116,573) |
| Equity issuances, net | 129 |

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

| | |
|---|----------|
| Net cash (used in) provided by financing activities | (57,084) |
| Decrease in cash and cash equivalents | (2,472) |
| Cash and cash equivalents at beginning of year | 9,981 |
| Cash and cash equivalents at end of period | \$ 7,509 |

See accompanying notes to group financial statements.

CIRCUIT CITY STORES, INC. - CARMAX GROUP
Notes to Group Financial Statements

1. Basis of Presentation

The common stock of Circuit City Stores, Inc. consists of two series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Circuit City Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued. The CarMax Group Common Stock is intended to track the performance of the CarMax Group's operations. The Circuit City Group held a 74.6 percent interest in the CarMax Group at November 30, 2000, a 74.7 percent interest at February 29, 2000, and a 75.8 percent interest at November 30, 1999.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the CarMax Group and the Circuit City Group for the purposes of preparing each Group's financial statements, holders of CarMax Group Common Stock and holders of Circuit City Group Common Stock are shareholders of the Company and are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the Company's consolidated financial statements included herein should be read in conjunction with the financial statements of each Group and with the notes to the consolidated and Group financial statements included herein and the Company's SEC filings, including its annual report on Form 10-K and its registration statement on Form 8-A.

2. Accounting Policies

The financial statements of the CarMax Group conform to generally accepted accounting principles. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the interim group financial statements have been included. The fiscal year-end balance sheet data was derived from audited financial statements.

3. Earnings (Loss) per Share

Reconciliations of the numerator and denominator of basic and diluted net earnings (loss) per share are presented below:

| (Amounts in thousands except per share data) | Three Months Ended November 30, | | |
|---|------------------------------------|-----------|-------|
| | 2000 | 1999 | |
| Weighted average common shares..... | 25,570 | 23,836 | |
| Dilutive potential common shares: | | | |
| Options..... | 1,386 | - | |
| Restricted stock..... | 64 | - | |
| | ----- | ----- | |
| Weighted average common shares and dilutive potential common shares..... | 27,020 | 23,836 | ===== |
| | | | ===== |
| Net earnings (loss) available to common shareholders..... | \$ 1,920 | \$ (757) | \$ |
| Basic net earnings (loss) per share..... | \$ 0.08 | \$ (0.03) | \$ |
| Diluted net earnings (loss) per share..... | \$ 0.07 | \$ (0.03) | \$ |

For the three-month period ended November 30, 2000, options to purchase 1,365,025 shares of CarMax Group Common Stock at prices ranging from \$6.06 to \$16.31 per share were outstanding and not included in the calculation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. For the three-month period ended November 30, 1999, options to purchase 4,824,235 shares of CarMax Group Common Stock at prices ranging from \$0.22 to \$16.31 per share were outstanding and not included in the calculation of diluted net loss per share because they would have had an antidilutive effect as a result of a net loss.

4. Gain or Loss on Securitizations

For transfers of receivables that qualify as sales, the Group recognizes gains or losses as a component of the Group's finance operations. For the three-month period ended November 30, 2000, the change in retained interests of automobile loan securitizations for the CarMax Group consisted of originated interests of \$6.9 million, less amortization of \$4.6 million. For the same period last fiscal year, the change in the retained interests consisted of originated interests of \$0.6 million, less amortization of \$3.3 million. For the nine-month period ended November 30, 2000, the change in retained interests consisted of originated interests of \$19.9 million, less amortization of \$11.9 million. For the same period last fiscal year, the change consisted of originated interests of \$9.4 million, less amortization of \$9.3 million.

5. Interest Rate Swaps

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

On behalf of the CarMax Group, during the quarter the Company entered into two 40-month amortizing swaps with a total notional amount of approximately \$171 million related to the automobile loan receivable securitizations. The total notional amount of the CarMax swaps was \$773 million at November 30, 2000, and \$327 million at February 29, 2000. These swaps were entered into as part of the sales of receivables and are, therefore, included in the gain or loss on sales of receivables.

6. Reclassifications

Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal year 2001.

Page 34 of 39

ITEM 2.

CARMAX GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Sales and Operating Revenues and General Comments

For the quarter ended November 30, 2000, total sales rose 15 percent to \$561.7 million from \$489.0 million in the same period last year. For the nine months ended November 30, 2000, total sales rose 23 percent to \$1.86 billion from \$1.51 billion in the first nine months of last year. Management believes the strong CarMax sales reflect improved execution in the stores, increased consumer traffic generated by an enhanced Web site, strong used-car sales and effective inventory management during this year's fall model-year changeover.

CarMax's comparable store sales changes for the third quarter and first nine months of fiscal years 2001 and 2000 were as follows:

| 3rd Quarter | | Nine Months | |
|-------------|-------|-------------|-------|
| FY 01 | FY 00 | FY 01 | FY 00 |
| 11% | 3% | 15% | (2%) |

CarMax has restarted its expansion plans and expects to open two superstores in late fiscal 2002. In addition, CarMax continues to seek prototype satellite stores for its existing multi-store markets.

The table below details CarMax retail units:

| | Retail Units At End of Quarter | | Estimate | |
|--------------------|--------------------------------|---------------|---------------|------|
| | Nov. 30, 2000 | Nov. 30, 1999 | Feb. 28, 2001 | Feb. |
| "C" and "B" Stores | 14 | 14 | 14 | |
| "A" Stores | 17 | 17 | 17 | |

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

| | | | |
|----------------------------|----|----|----|
| Satellite Prototype Stores | 4 | 2 | 4 |
| Stand-Alone New-Car Stores | 5 | 5 | 5 |
| TOTAL | 40 | 38 | 40 |

The table below details CarMax's new-car franchises:

| | Franchises Open At End of Quarter | | Estimate | |
|--|--------------------------------------|---------------|---------------|----|
| | Nov. 30, 2000 | Nov. 30, 1999 | Feb. 28, 2001 | Fe |
| Integrated/Co-Located New-Car Franchises | 17 | 15 | 17 | |
| Stand-Alone New-Car Franchises | 5 | 5 | 5 | |
| TOTAL | 22 | 20 | 22 | |

For the CarMax Group, gross dollar sales from all extended warranty programs were 4.1 percent of sales in the third quarter of fiscal 2001 compared with 3.5 percent in the same period last year. Third-party warranty revenue increased to 1.8 percent of sales in this year's third quarter from 1.5 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 1.8 percent of sales in this year's third quarter versus 1.5 percent in last year's third quarter. The increase is a result of enhanced manufacturers' programs and improved warranty penetration.

Page 35 of 39

The percentage of vehicle sales represented by each category for the third quarter and the nine months is as follows:

| | Three Months Ended November 30 | | Nine Months Ended November 30 | |
|-------------------------|-----------------------------------|------|----------------------------------|------|
| | 2000 | 1999 | 2000 | 1999 |
| Vehicle Dollars: | | | | |
| Used Vehicles | 81% | 78% | 80% | 77% |
| New Vehicles | 19% | 22% | 20% | 23% |
| Vehicle Units: | | | | |
| Used Vehicles | 87% | 86% | 86% | 85% |

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

New Vehicles 13% 14% 14%

=====

The CarMax Group's operations, in common with other retailers in general, are subject to seasonal influences. Historically, CarMax stores have experienced more of their net sales in the first two quarters of the fiscal year. The net earnings of any interim quarter are seasonally disproportionate to net sales since administrative and certain operating expenses remain relatively constant during the year. Therefore, interim results should not be relied upon as necessarily indicative of results for the entire fiscal year.

Cost of Sales

The CarMax Group's gross profit margin increased to 12.8 percent of sales in the third quarter of fiscal 2001 from 10.8 percent for the same period last year. For the nine months ended November 30, 2000, the gross profit margin increased to 13.3 percent compared with 11.8 percent for the same period last year. By effectively managing its inventory through the fall model-year changeover, CarMax significantly reduced the gross profit margin erosion that occurred in prior years during this period. The improved gross profit margin is a result of that inventory management combined with an increase in sales of used cars, which carry higher profit margins than new cars.

Selling, General and Administrative Expenses

The selling, general and administrative expense ratio improved to 10.1 percent of sales in the third quarter of fiscal 2001 compared with 11.2 percent of sales for the same period last year. For the nine-month period ended November 30, 2000, the expense ratio was 9.5 percent of sales compared with 11.0 percent for the same period last year. Leverage from the sales growth and more efficient advertising expenditures led to the better expense ratio.

Net Earnings

The CarMax Group's net earnings were \$7.6 million in this year's third quarter compared with a net loss of \$3.1 million in the third quarter of last fiscal year. The net earnings attributed to the CarMax Group Common Stock were \$1.9 million this year compared with a net loss of \$757,000 in last year's third quarter. Net earnings per share of CarMax Group Common Stock were 7 cents in this year's third quarter compared with a net loss per share of 3 cents in the same period last year.

Net earnings for the CarMax Group rose to \$37.8 million in the first nine months of this fiscal year from \$2.8 million in the same period last year. The net earnings attributed to the CarMax Group Common Stock increased to \$9.6 million from \$664,000 in the first nine months of last year. Net earnings per share of CarMax Group Common Stock rose to 36 cents from 3 cents in the first nine months of last year.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued statement of

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

Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and No. 138, is effective for quarters for fiscal years beginning after June 15, 2000. SFAS No. 133 standardizes the accounting for derivative instruments and requires that an entity recognize those items as either assets or liabilities and measure them at fair value. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial position, results of operations or cash flows.

Liquidity and Capital Resources

At November 30, 2000, total assets were \$669.0 million. Inventory increased \$38.6 million from the end of fiscal 2000 because of the addition of new franchises during the current year and the general industry-wide slowdown in new car sales. In June 2000, a term loan totaling \$130 million was classified as a current liability because it becomes due in June 2001. While the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital. Payment of corporate debt will not necessarily reduce CarMax Group allocated debt.

The Company has an asset securitization program operated through a special purpose subsidiary on behalf of the CarMax Group. This program had a capacity of \$850 million as of November 30, 2000. The Company, on behalf of the CarMax Group, also has a public program with a capacity of \$378 million as of November 30, 2000. The Company anticipates that it will be able to expand its securitization programs to meet future needs.

The Group relies on the Company's external debt allocated to the CarMax Group to provide working capital needed to fund net assets not otherwise financed through sale-leasebacks or receivable securitizations. All significant financial activities of the Group are managed on a centralized basis and are dependent on the financial condition of the Company as a whole. Such financial activities include the investment of surplus cash, issuance and repayment of debt, securitization of receivables and sale-leasebacks of real estate. At November 30, 2000, the Company also maintained \$401 million in seasonal lines that are renewed annually with various banks, as well as a \$150 million revolving credit facility.

Management believes that proceeds from the sales of property and equipment and receivables, future increases in the Company's debt allocated to the CarMax Group and cash generated by operations will be sufficient to fund the CarMax Group's capital expenditures and operations.

ITEM 3.

CARMAX GROUP QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company centrally manages the installment loan portfolio of the CarMax Group's finance operation. Portions of this portfolio are securitized and, therefore, are not presented on the Group's balance sheet. Interest rate exposure relating to these receivables represents a market risk exposure that the Company has managed with matched funding and interest rate swaps.

Total principal outstanding for fixed-rate automobile loans at November 30 and February 29, 2000, was as follows:

| (Amounts in millions) | November 30 | February 29 |
|-----------------------|-------------|-------------|
|-----------------------|-------------|-------------|

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

Fixed APR..... \$ 1,179 \$ 932

Page 37 of 39

Financing for these receivables is achieved through asset securitization programs which, in turn, issue both fixed-and floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched to projected payoffs. Receivables held by the Company for investment or sale are financed with working capital. Financings at November 30 and February 29, 2000, were as follows:

| (Amounts in millions) | November 30 | February 29 |
|------------------------------------|-------------|-------------|
| Fixed-rate securitizations..... | \$ 378 | \$ 559 |
| Floating-rate securitizations | | |
| synthetically altered to fixed... | 773 | 327 |
| Floating-rate securitizations..... | 3 | 1 |
| Held by the Company: | | |
| For investment*..... | 22 | 22 |
| For sale..... | 3 | 23 |
| Total | \$ 1,179 | \$ 932 |

* Held by a bankruptcy remote special purpose company

Because programs are in place to manage interest rate exposure relating to its installment loan portfolio, the Company expects to experience relatively little impact as interest rates fluctuate.

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements, which are subject to risks and uncertainties. Additional discussion of factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations is contained in the Company's SEC filings, including the Company's report on Form 10-K for the year ended February 29, 2000.

PART II. OTHER INFORMATION

- Item 6. Exhibits and Reports on Form 8-K
 - (a) Exhibits
 - None.
 - (b) Reports on Form 8-K
 - None.

Page 38 of 39

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRCUIT CITY STORES, INC.

By: s/W. Alan McCollough

W. Alan McCollough
President and
Chief Executive Officer

By: s/Michael T. Chalifoux

Michael T. Chalifoux
Executive Vice President,
Chief Financial Officer and
Corporate Secretary

By: s/Philip J. Dunn

Philip J. Dunn
Senior Vice President, Treasurer,
Corporate Controller and
Chief Accounting Officer

January 12, 2001

Page 39 of 39