

CIRCUIT CITY STORES INC
Form 10-Q
January 11, 2002

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended November 30, 2001

OR

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

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	2
Circuit City Stores, Inc. - CarMax Group Common Stock, par value \$0.50	

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

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES

INDEX

PART I.

FINANCIAL INFORMATION

Item 1.

Financial Statements

Consolidated Financial Statements:

Consolidated Balance Sheets -
November 30, 2001, and February 28, 2001

Consolidated Statements of Operations -
Three Months and Nine Months Ended November 30, 2001, and 2000

Consolidated Statements of Cash Flows -
Nine Months Ended November 30, 2001, and 2000

Notes to Consolidated Financial Statements

Circuit City Group Financial Statements:

Circuit City Group Balance Sheets -
November 30, 2001, and February 28, 2001

Circuit City Group Statements of Operations -
Three Months and Nine Months Ended November 30, 2001, and 2000

Circuit City Group Statements of Cash Flows -
Nine Months Ended November 30, 2001, and 2000

Notes to Circuit City Group Financial Statements

CarMax Group Financial Statements:

CarMax Group Balance Sheets -
November 30, 2001, and February 28, 2001

CarMax Group Statements of Earnings -
Three Months and Nine Months Ended November 30, 2001, and 2000

CarMax Group Statements of Cash Flows -
Nine Months Ended November 30, 2001, and 2000

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

Pa
N

4

5

6

7

24

25

26

27

37

38

39

40

16

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

Circuit City Group Management's Discussion and Analysis of Financial Condition and Results of Operations 32

CarMax Group Management's Discussion and Analysis of Financial Condition and Results of Operations 43

Page 2 of 49

Item 3. Quantitative and Qualitative Disclosures About Market Risk:

Circuit City Stores, Inc. Quantitative and Qualitative Disclosures About Market Risk 23

Circuit City Group Quantitative and Qualitative Disclosures About Market Risk 36

CarMax Group Quantitative and Qualitative Disclosures About Market Risk 47

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K 48

Page 3 of 49

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, 2001 ----- (Unaudited)	Feb. 28, 2001 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 709,914	\$ 446,100
Net accounts receivable	700,713	585,700
Inventory	2,500,678	1,757,600
Prepaid expenses and other current assets	66,082	57,600
	-----	-----
Total current assets	3,977,387	2,847,000
Property and equipment, net	861,059	988,900
Other assets	33,227	35,200
	-----	-----
TOTAL ASSETS	\$ 4,871,673 =====	\$ 3,871,300 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 102,469	\$ 132,300
Accounts payable	1,765,244	902,500

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

Short-term debt	2,591	1,2
Accrued expenses and other current liabilities	177,432	162,9
Deferred income taxes	142,045	92,4
	-----	-----
Total current liabilities	2,189,781	1,291,5
Long-term debt, excluding current installments	15,212	116,1
Deferred revenue and other liabilities	88,493	92,1
Deferred income taxes	9,194	14,9
	-----	-----
TOTAL LIABILITIES	2,302,680	1,514,8
	-----	-----
Stockholders' equity:		
Circuit City Group common stock, \$0.50 par value; 350,000,000 shares authorized; 208,440,080 shares issued and outstanding as of November 30, 2001	104,220	103,5
CarMax Group common stock, \$0.50 par value; 175,000,000 shares authorized; 36,416,191 shares issued and outstanding as of November 30, 2001	18,208	12,8
Capital in excess of par value	800,649	642,8
Retained earnings	1,645,916	1,597,3
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	2,568,993	2,356,4
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,871,673	\$ 3,871,3
	=====	=====

See accompanying notes to consolidated financial statements.

Page 4 of 49

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

	Three Months Ended		Ni
	November 30,		
	2001	2000	2001
	-----	-----	-----
Net sales and operating revenues	\$ 3,054,232	\$ 2,887,269	\$ 8,620,
Cost of sales, buying and warehousing	2,412,055	2,305,141	6,807,
Appliance exit costs	-	-	
	-----	-----	-----
Gross profit	642,177	582,128	1,813,
	-----	-----	-----
Selling, general and administrative expenses	597,051	677,853	1,712,
Appliance exit costs	-	-	
Interest expense	474	5,061	5,
	-----	-----	-----
Total expenses	597,525	682,914	1,717,

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

Earnings (loss) before income taxes	44,652	(100,786)	95,
Income tax provision (benefit)	16,964	(38,299)	36,
Net earnings (loss)	\$ 27,688	\$ (62,487)	\$ 59,
Net earnings (loss) attributed to:			
Circuit City Group common stock	\$ 21,134	\$ (64,407)	\$ 38,
CarMax Group common stock	6,554	1,920	21,
	\$ 27,688	\$ (62,487)	\$ 59,
Weighted average common shares:			
Circuit City Group:			
Basic	205,571	204,079	205,
Diluted	206,639	204,079	206,
CarMax Group:			
Basic	36,292	25,570	30,
Diluted	38,316	27,020	32,
Net earnings (loss) per share attributed to:			
Circuit City Group common stock:			
Basic	\$ 0.10	\$ (0.32)	\$ 0
Diluted	\$ 0.10	\$ (0.32)	\$ 0
CarMax Group common stock:			
Basic	\$ 0.18	\$ 0.08	\$ 0
Diluted	\$ 0.17	\$ 0.07	\$ 0
Dividends paid per share:			
Circuit City Group common stock	\$ 0.0175	\$ 0.0175	\$ 0.0
CarMax Group common stock	\$ -	\$ -	\$

See accompanying notes to consolidated financial statements.

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

Operating Activities:	
Net earnings	\$ 59,505
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities of continuing operations:	
Depreciation and amortization	129,408
Loss (gain) on sales of property and equipment	7,255
Deferred income taxes	43,811
Changes in operating assets and liabilities, net of effects from business acquisitions:	
(Increase) decrease in net accounts receivable	(114,952)
Increase in inventory	(743,014)
Increase in prepaid expenses and other current assets	(8,456)
(Increase) decrease in other assets	(121)
Increase in accounts payable, accrued expenses and other current liabilities	888,730
Increase (decrease) in deferred revenue and other liabilities	11,036

Net cash provided by (used in) operating activities of continuing operations	273,202

Investing Activities:	
Cash used in business acquisitions	-
Purchases of property and equipment	(137,290)
Proceeds from sales of property and equipment	130,564

Net cash used in investing activities of continuing operations	(6,726)

Financing Activities:	
Proceeds from issuance of short-term debt, net	1,391
Principal payments on long-term debt	(130,844)
Issuances of Circuit City Group common stock, net	20,650
Issuances of CarMax Group common stock, net	1,055
Proceeds from CarMax Group stock offering, net	139,633
Dividends paid on Circuit City Group common stock	(10,904)

Net cash provided by (used in) financing activities of continuing operations	20,981

Cash used in discontinued operations	(23,674)

Increase (decrease) in cash and cash equivalents	263,783
Cash and cash equivalents at beginning of year	446,131

Cash and cash equivalents at end of period	\$ 709,914
	=====

See accompanying notes to consolidated financial statements.

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

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

1. Basis of Presentation

The common stock of Circuit City Stores, Inc. (the "Company") consists of two common stock series that are intended to reflect the performance of the Company's two businesses. The Circuit City Group stock is intended to reflect the performance of the Circuit City store-related operations, the shares of CarMax Group stock reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock and the Company's investment in Digital Video Express, which has been discontinued (see Note 8). The CarMax Group stock is intended to reflect the performance of the CarMax Group's operations. The reserved CarMax Group shares are not outstanding CarMax Group common stock. Any net earnings attributed to the reserved CarMax Group shares are not included in the CarMax Group's earnings per share calculations. As of November 30, 2001, 65,923,200 shares of CarMax Group stock were reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock. The reserved CarMax Group shares represented 64.4 percent of the total outstanding and reserved shares, excluding shares reserved for CarMax employees' stock incentive plans, of CarMax Group stock at November 30, 2001, and 74.6 percent at both February 28, 2001, and November 30, 2000. The Company allocates to the Circuit City Group the portion of the net earnings of the CarMax Group attributed to the reserved CarMax Group shares. The terms of each series of common stock are discussed in detail in the Company's Form 8-A registration statement on file with the Securities and Exchange Commission.

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 the financial statements, holders of Circuit City Group stock and holders of CarMax Group stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. Neither shares of CarMax Group stock nor shares of Circuit City Group stock represent a direct equity or legal interest solely in the assets and liabilities allocated to a particular group. Instead, those shares represent direct equity and legal interests in the assets and liabilities of the Company. The results of operations or financial condition of one group could affect the results of operations or financial condition of the other group. Net losses of either group and dividends or distributions on, or repurchases of, Circuit City Group stock or CarMax Group stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the Company's consolidated financial statements included in this report should be read in conjunction with the financial statements of each group and the Company's SEC filings.

2. Accounting Policies

The consolidated financial statements of the Company conform to accounting principles generally accepted in the United States of America. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments, which consist 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 the audited financial statements included in the Company's fiscal 2001 Annual Report on Form 10-K.

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

Page 7 of 49

3. Net Earnings (Loss) per Share

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

(Amounts in thousands except per share data)	Three Months Ended November 30,	
	2001	2000

Circuit City Group:		
Weighted average shares.....	205,571	204,079
Dilutive potential shares:		
Options.....	259	-
Restricted stock.....	809	-

Weighted average shares and dilutive potential shares.....	206,639	204,079
	=====	
Net earnings (loss) available to shareholders.....	\$ 21,134	\$ (64,407)
Basic net earnings (loss) per share	\$ 0.10	\$ (0.32)
Diluted net earnings (loss) per share	\$ 0.10	\$ (0.32)
 CarMax Group:		
Weighted average shares.....	36,292	25,570
Dilutive potential shares:		
Options.....	1,997	1,386
Restricted stock.....	27	64

Weighted average shares and dilutive potential shares.....	38,316	27,020
	=====	
Net earnings available to shareholders.....	\$ 6,554	\$ 1,920
Basic net earnings per share.....	\$ 0.18	\$ 0.08
Diluted net earnings per share.....	\$ 0.17	\$ 0.07

In a public offering completed during the second quarter, Circuit City Stores, Inc. sold 9,516,800 CarMax Group shares that had previously been reserved for the Circuit City Group. Because both the earnings allocation and the outstanding CarMax shares were adjusted to reflect the impact of the sale, net earnings per CarMax Group share were not diluted by the sale. With the impact of the offering, 64.5 percent of the CarMax Group's third quarter earnings and 70.4 percent of the CarMax Group's nine-month earnings were allocated to the Circuit City Group. For the same periods last year, 74.6 percent of the CarMax Group's earnings were allocated to the Circuit City Group. At the end of the third quarter, the reserved CarMax Group shares represented 64.4 percent of the total outstanding and reserved shares, excluding shares reserved for CarMax employees' stock incentive plans, of CarMax Group stock.

Certain options were outstanding and not included in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the shares. For the three-month

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

period ended November 30, 2001, options to purchase 8,385,622 shares of Circuit City Group stock at prices ranging from \$13.86 to \$43.03 per share were outstanding and not included in the calculation. For the three-month period ended November 30, 2000, options to purchase 9,922,445 shares of Circuit City Group stock at prices ranging from \$9.09 to \$47.53 per share were outstanding and not included in the calculation.

Page 8 of 49

For the three-month period ended November 30, 2001, options to purchase 8,406 shares of CarMax Group stock at prices ranging from \$16.31 to \$16.36 per share were outstanding and not included in the calculation. For the three-month period ended November 30, 2000, options to purchase 1,365,025 shares of CarMax Group stock at prices ranging from \$6.06 to \$16.31 per share were outstanding and not included in the calculation.

4. Securitizations

(A) Credit Card Securitizations:

The Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by Circuit City's finance operation. For transfers of receivables that qualify as sales, the Company recognizes gains or losses as a component of Circuit City's finance operation. In these securitizations, the Company retains servicing rights and subordinated interests. Private-label credit card receivables are financed through a master trust securitization program. As of November 30, 2001, the private-label master trust securitization program had a capacity of \$1.13 billion. The private-label master trust agreement has no recourse provisions. Bankcard receivables are financed through a separate master trust securitization program. As of November 30, 2001, the bankcard master trust securitization program had a capacity of \$1.70 billion. Provisions under the bankcard master trust agreement provided recourse to the Company for cash flow deficiencies on \$63 million of receivables sold as of November 30, 2001. At that date, the Company believes no liability existed under the recourse provisions.

At November 30, 2001, the total principal amount of credit card receivables managed was \$2.66 billion, including \$2.57 billion principal amount of receivables securitized and \$91 million principal amount of receivables held for sale. The aggregate amount of loans that were 31 days or more delinquent was \$199.4 million at November 30, 2001. The principal amount of losses net of recoveries totaled \$65.6 million for the three months ended November 30, 2001, and \$197.5 million for the nine months ended November 30, 2001.

The Company receives annual servicing compensation approximating 2 percent of the outstanding principal loan balance of the receivables and retains the rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the securitized assets. Accordingly, no servicing asset or liability has been recorded.

The table below summarizes certain cash flows received from and paid to the securitization trusts:

(Amounts in thousands)

Three Months Ended
November 30, 2001

Nine Months
November 30,

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

Proceeds from new securitizations.....	\$ 291,800	\$ 670,00
Proceeds from collections reinvested in previous credit card securitizations.....	\$ 417,755	\$1,234,79
Servicing fees received.....	\$ 12,568	\$ 38,47
Other cash flows received on retained interests*.....	\$ 48,920	\$ 142,85

*This amount represents cash flows received from retained interests by the transferor other than servicing fees, including cash flows from interest-only strips and cash above the minimum required level in cash collateral accounts.

When determining the fair value of retained interests, the Company estimates future cash flows using management's best estimates of key assumptions such as finance charge income, default rates, payment rates, forward yield curves and discount rates. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile may qualify for promotional financing.

Page 9 of 49

Future finance income from serviced assets that exceeds the contractually specified investor returns and servicing fees is carried at fair value, amounted to \$125.8 million at November 30, 2001, and is included in net accounts receivable. Gains of \$45.1 million on sales were recorded for the three-month period ended November 30, 2001; gains of \$124.4 million on sales were recorded for the nine-month period ended November 30, 2001.

The fair value of retained interests at November 30, 2001, was \$302.0 million, with a weighted-average life ranging from 0.08 years to 2.00 years. The following table shows the key economic assumptions used in measuring the fair value of retained interests at November 30, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at November 30, 2001, are not materially different from assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in actual circumstances, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Payment rate.....	6.8%-10.6%	\$ 8,301	\$16,121
Default rate.....	9.4%-17.9%	\$23,342	\$46,017
Discount rate.....	8.0%-15.0%	\$ 2,078	\$ 4,129

(B) Automobile Loan Securitizations:

The Company also has asset securitization programs to finance the consumer installment credit receivables generated by CarMax's automobile loan finance operation. Automobile loan receivables are sold to special purpose subsidiaries, which, in turn, securitize those receivables through both

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

private placement and the public market. For transfers of receivables that qualify as sales, the Company recognizes gains or losses as a component of CarMax's finance operation. In these securitizations, the Company retains servicing rights and subordinated interests. As of November 30, 2001, the combined capacity of these programs was \$1.90 billion. The automobile loan securitization programs have no recourse provisions.

At November 30, 2001, the total principal amount of automobile loan receivables managed was \$1.52 billion, including \$1.51 billion principal amount of loans securitized and \$10 million principal amount of loans held for sale or investment. The principal amount of loans that were 31 days or more delinquent was \$21.6 million at November 30, 2001. The principal amount of losses net of recoveries totaled \$4.1 million for the three months ended November 30, 2001, and \$8.7 million for the nine months ended November 30, 2001.

The Company receives annual servicing fees approximating 1 percent of the outstanding principal balance of the securitized automobile loans and retains the rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The servicing fees specified in the automobile loan securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

Page 10 of 49

The table below summarizes certain cash flows received from and paid to the securitization trusts:

(Amounts in thousands)	Three Months Ended November 30, 2001	Nine Months Ended November 30, 2001
Proceeds from new securitizations.....	\$ 736,725	\$1,112,725
Proceeds from collections reinvested in previous automobile loan securitizations.....	\$ 132,331	\$ 350,725
Servicing fees received.....	\$ 3,680	\$ 10,417
Other cash flows received on retained interests*.....	\$ 17,917	\$ 48,489

*This amount represents cash flows received from retained interests by the transferor other than servicing fees, including cash flows from interest-only strips and cash above the minimum required level in cash collateral accounts.

When determining the fair value of retained interests, the Company estimates future cash flows using management's best estimates of key assumptions such as finance charge income, default rates, prepayment rates and discount rates. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile may qualify for promotional financing.

Future finance income from serviced assets that exceeds the contractually specified investor returns and servicing fees is carried at fair value, amounted to \$76.0 million at November 30, 2001, and is included in net accounts receivable. Gains of \$15.6 million on sales were recorded for the three months ended November 30, 2001; gains of \$43.4 million on sales were recorded for the nine months ended November 30, 2001.

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

The fair value of retained interests at November 30, 2001, was \$104.7 million, with a weighted-average life of 1.63 years. The following table shows the key economic assumptions used in measuring the fair value of retained interests at November 30, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at November 30, 2001, are not materially different from assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in actual circumstances, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Prepayment speed.....	1.5%-1.6%	\$3,599	\$7,303
Default rate.....	1.0%-1.2%	\$2,065	\$4,133
Discount rate.....	12.0%	\$1,422	\$2,814

5. Financial Derivatives

On behalf of the Circuit City Group, the Company enters into interest rate cap agreements to meet the requirements of the credit card receivable securitization transactions. In the third quarter of fiscal 2002, the Company did not enter into any new interest rate caps. At November 30, 2001, the total notional amount of interest rate caps outstanding was \$677 million. Purchased interest rate caps are included in net accounts receivable and had a fair value of \$4.2 million as of November 30, 2001. Written interest rate caps are included in accounts payable and had a fair value of \$4.2 million as of November 30, 2001.

On behalf of the CarMax Group, the Company, in the third quarter of fiscal 2002, entered into three 40-month amortizing interest rate swaps related to auto loan receivable securitizations. These swaps had an initial

Page 11 of 49

notional amount of approximately \$228 million. The total notional amount of all swaps related to the automobile loan receivable securitizations was \$227 million at November 30, 2001, and \$299 million at February 28, 2001. The total notional amount of the CarMax interest rate swaps was reduced in the third quarter following the replacement of floating-rate securities with a \$642 million fixed-rate securitization in November 2001. These swaps are used to better match funding costs and are recorded at fair value. At November 30, 2001, these swaps totaled a net asset of \$7,000 and are included in accounts receivable.

The market and credit risks associated with interest rate caps and interest rate swaps are similar to those relating to other types of financial instruments. Market risk is the exposure created by potential fluctuations in interest rates and is directly related to the product type, agreement terms and transaction volume. The Company has entered into offsetting interest rate cap positions, and therefore, does not anticipate significant market risk arising from interest rate caps. The Company does not anticipate significant market risk from swaps because they are used to

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

match funding costs to the use of the funding. Credit risk is the exposure to nonperformance of another party to an agreement. The Company mitigates credit risk by dealing with highly rated bank counterparties.

6. Appliance Exit Costs

On July 25, 2000, the Company announced plans to exit the major appliance category and expand its selection of key consumer electronics and home office products in all Circuit City Superstores. A product profitability analysis had indicated that the appliance category produced below-average profits. This analysis, combined with declining appliance sales, expected increases in appliance competition and the Company's profit expectations for the consumer electronics and home office categories led to the decision to exit the major appliance category. To exit the appliance business, the Company has closed eight distribution centers and eight service centers. The majority of these closed properties are leased. While the Company has entered into contracts to sublease some of these properties, it continues the process of preparing and marketing the remaining properties to be subleased. The Company maintains control over Circuit City's in-home major appliance repair business, although repairs are subcontracted to an unrelated third party.

Approximately 910 employees were terminated as a result of the exit from the appliance business. These reductions mainly were in the service, distribution and merchandising functions. Because severance is being paid to employees on a biweekly schedule based on years of service, cash payments lag job eliminations. Certain fixed-assets were written down in connection with the exit from the appliance business, including appliance build-to-order kiosks in stores and non-salvageable fixed assets and leasehold improvements at the closed locations.

In the second quarter of fiscal 2001, the Company recorded appliance exit costs of \$30 million. These expenses are reported separately on the fiscal 2001 statement of earnings. The remaining appliance exit cost accrual is included in the accrued expenses and other current liabilities line item on the consolidated balance sheet. The composition of the appliance exit cost accrual and the remaining liability at November 30, 2001, are presented in the following table.

(Amounts in millions)	Total Exit Cost Accrual	Payments or Write-downs	Liability at November 30, 2001
Lease termination costs.....	\$17.8	\$ 4.4	\$13.4
Fixed asset write-downs, net.....	5.0	5.0	-
Employee termination benefits.....	4.4	4.0	0.4
Other.....	2.8	2.8	-
Appliance exit costs.....	\$30.0	\$ 16.2	\$13.8

Page 12 of 49

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 Circuit City's finance operation. This segment is

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

engaged in the business of selling brand-name consumer electronics, information technology and entertainment software. CarMax refers to the used- and new-car retail locations bearing the CarMax name and to all related operations, such as CarMax's finance operation. Financial information for these segments for the three- and nine-month periods ended November 30, 2001, and 2000, is presented below.

Three Months Ended November 30, 2001

(Amounts in thousands)	Circuit City	CarMax	Total Operating Segments
Revenues from external customers.....	\$ 2,279,908	\$ 774,324	\$ 3,054,232
Interest expense.....	410	64	474
Depreciation and amortization.....	47,792	3,934	51,726
Earnings before income taxes.....	14,905	29,747	44,652
Provision for income taxes	5,660	11,304	16,964
Net earnings.....	9,245	18,443	27,688
Total assets.....	\$ 4,209,448	\$ 661,882	\$ 4,871,330

Three Months Ended November 30, 2000

(Amounts in thousands)	Circuit City	CarMax	Total Operating Segments
Revenues from external customers.....	\$ 2,325,576	\$ 561,693	\$ 2,887,269
Interest expense.....	2,397	2,664	5,061
Depreciation and amortization.....	33,787	4,904	38,691
(Loss) earnings before income taxes.....	(112,992)	12,206	(100,786)
Income tax (benefit) provision.....	(42,937)	4,638	(38,299)
Net (loss) earnings.....	(70,055)	7,568	(62,487)
Total assets.....	\$ 3,839,627	\$ 668,993	\$ 4,508,620

Nine Months Ended November 30, 2001

(Amounts in thousands)	Circuit City	CarMax	Total Operating Segments
Revenues from external customers.....	\$ 6,198,114	\$ 2,422,507	\$ 8,620,621
Interest expense.....	419	4,701	5,120
Depreciation and amortization.....	116,169	13,239	129,408
(Loss) earnings before income taxes.....	(20,814)	116,784	95,970
Income tax (benefit) provision.....	(7,913)	44,378	36,465
Net (loss) earnings.....	(12,901)	72,406	59,505
Total assets.....	\$ 4,209,448	\$ 661,882	\$ 4,871,330

Page 13 of 49

Nine Months Ended November 30, 2000

(Amounts in thousands)	Circuit City	CarMax	Total Operating Segments
Revenues from external customers.....	\$ 7,280,906	\$ 1,860,995	\$ 9,141,901
Interest expense.....	5,715	9,150	14,865
Depreciation and amortization.....	91,598	14,050	105,648
Earnings before income taxes.....	32,024	60,939	92,963
Provision for income taxes.....	12,169	23,156	35,325
Net earnings.....	19,855	37,783	57,638
Total assets.....	\$ 3,839,627	\$ 668,993	\$ 4,508,620

Net (loss) earnings and total assets for Circuit City in the above tables

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

exclude the reserved CarMax shares and the discontinued Divx operations, which are discussed in Note 8.

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. Discontinued operations have been segregated on the consolidated statements of cash flows. However, Divx is not segregated on the consolidated balance sheets.

A loss on the disposal of Divx was recorded in fiscal 2000, including a provision for operating losses to be incurred during the phase-out period. The loss on disposal also included 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 three- and nine-month periods ended November 30, 2001, and 2000, the discontinued Divx operations had no impact on the earnings of Circuit City Stores, Inc.

The net liabilities of the discontinued Divx operations, reflected in the consolidated balance sheets as of November 30, 2001, and February 28, 2001, are comprised of the following:

(Amounts in thousands)	November 30, 2001	February 28, 2001
Current assets.....	\$ 71	\$ 8
Other assets.....	272	324
Current liabilities.....	(17,881)	(27,522)
Other liabilities.....	-	(14,082)
Net liabilities of discontinued operations.....	\$ (17,538)	\$ (41,272)

9. Recent Accounting Pronouncements

In July 2000, the Financial Accounting Standards Board issued Emerging Issues Task Force Issue No. 00-14, "Accounting for Certain Sales Incentives," which is effective for fiscal quarters beginning after December 15, 2001. EITF No. 00-14 provides that sales incentives, such as mail-in rebates, offered to customers should be classified as a reduction of revenue. The Company offers certain mail-in rebates that are currently recorded in cost of sales, buying and warehousing. However, the Company expects to reclassify these rebate expenses from cost of sales, buying and warehousing to net sales and operating revenues to be in compliance with EITF No. 00-14 in the first quarter of fiscal year 2003. For the quarter ended November 30, 2001, this reclassification would have increased the gross profit margin by 12 basis points and the expense ratio by 11 basis points. For the nine months ended November 30, 2001, the reclassification would have increased both the gross profit margin and the expense ratio by 10 basis points. The Company does not expect the adoption of EITF No. 00-14 to have a material impact on its financial position, results of operations or cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations," effective for business combinations

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

initiated after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 141, the pooling of interests method of accounting for business combinations is eliminated, requiring that all business combinations initiated after the effective date be accounted for using the purchase method. Also under SFAS No. 141, identified intangible assets acquired in a purchase business combination must be separately valued and recognized on the balance sheet if they meet certain requirements. Under the provisions of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncements. Other intangible assets that are identified to have finite useful lives will continue to be amortized in a manner that reflects the estimated decline in the economic value of the intangible asset and will be subject to review when events or circumstances arise which indicate impairment. Application of the nonamortization provisions of SFAS No. 142 in fiscal 2003 is not expected to have a material impact on the financial position, results of operations or cash flows of the Company. During fiscal 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets, as outlined in the new pronouncements. Based on preliminary estimates, as well as ongoing periodic assessments of goodwill, the Company does not expect to recognize any material impairment losses from these tests.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company has not yet determined the impact, if any, of adopting this standard.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," related to the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The Company is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001, and plans to adopt the provisions for the quarter ending May 31, 2002. The Company has not yet determined the impact, if any, of adopting this standard.

10. Reclassifications

Certain previously reported amounts have been reclassified to conform with the current year presentation.

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

CIRCUIT CITY STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this discussion, "we," "our" and "Circuit City Stores" refer to Circuit City Stores, Inc. and our wholly owned subsidiaries, unless the context requires otherwise. "Circuit City business" and "Circuit City" refer to the retail operations bearing the Circuit City name and to all related operations such as product service and Circuit City's finance operation. "Circuit City Group" refers to the Circuit City business and the reserved CarMax Group shares. "CarMax business," "CarMax" and "CarMax Group" refer to retail locations bearing the CarMax name and to all related operations such as CarMax's finance operation.

Net Sales and Operating Revenues and General Comments

Circuit City Stores, Inc. Total Circuit City Stores sales for the third quarter

of fiscal 2002 were \$3.05 billion, an increase of 6 percent from \$2.89 billion for the same period last year. For the nine months ended November 30, 2001, total sales were \$8.62 billion, a 6 percent decrease from \$9.14 billion for the same period last year.

Our operations, in common with other retailers in general, are subject to seasonal influences. Historically, the Circuit City business has realized more of its net sales and net earnings in the fourth quarter, which includes the December holiday selling season, than in any other fiscal quarter. The CarMax business, however, has experienced more of its net sales in the first half 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.

Circuit City Group. Total Circuit City sales for the third quarter of fiscal

2002 declined 2 percent to \$2.28 billion from \$2.33 billion in last year's third quarter. For the nine months ended November 30, 2001, total Circuit City sales decreased 15 percent to \$6.20 billion from \$7.28 billion in the prior year. Comparable store sales changes for the third quarter and first nine months of fiscal years 2002 and 2001 were as follows:

Comparable Store Sales	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Circuit City	(4%)	(10%)	(17%)	(1%)
Circuit City, excluding the appliance category	(2%)	3%	(8%)	6%

In this year's third quarter, comparable store sales improved progressively each month, and for the month of November, the same-store sales comparison turned positive, increasing 6 percent.

Third quarter Circuit City sales improved across a broad base of product

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

categories. We generated double-digit or higher comparable store sales growth not only in better featured and newer technologies such as big-screen televisions, digital satellite systems, digital cameras and wireless phones, but also in new and expanded product selections including video game hardware, software and accessories; DVD software; and personal computer software and accessories. Although personal computer sales continued to reflect the difficult industry trends, the year-over-year decline in sales moderated over the course of the quarter.

Page 16 of 49

The percent of merchandise sales represented by each major product category during the third quarter and the first nine months of fiscal 2002 and 2001 were as follows:

Product Mix	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Video	41%	37%	39%	34%
Audio	14	16	16	15
Information technology	33	37	35	35
Entertainment	12	8	10	6
Appliances	--	2	--	10
Total	100%	100%	100%	100%

Although Circuit City sales volumes and traffic levels were particularly strong over the Thanksgiving weekend, November comparable store sales were positive both before and after that weekend. Pricing over the holiday weekend was promotional, helping to increase store traffic. We believe the recent sales improvements reflect a number of factors including not only effective pricing strategies, but also a more effective marketing program covering a variety of vehicles including newspaper inserts, television, magazines, direct mail and creative in-store events, as well as improved customer service.

Circuit City gross dollar sales from all extended warranty programs were 5.2 percent of sales in the third quarter of fiscal 2002 and 5.1 percent of sales in the third quarter of fiscal 2001. Third-party warranty revenue was 4.0 percent of sales in this year's third quarter and 3.9 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 3.9 percent of sales in the third quarter of fiscal 2002, compared with 4.0 percent in last year's third quarter.

The following table provides details on the Circuit City retail units:

Store Mix	Nov. 30, 2001	Nov. 30, 2000	Estimate Feb. 28, 2002	Feb.
Superstores	603	590	604	

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

Mall-based			
Express stores	29	39	20

Total	632	629	624
=====			

Circuit City expects to open 10 Superstores and relocate 10 Superstores in the current fiscal year. In the first quarter of fiscal 2002, we opened one Circuit City Superstore and relocated one Superstore. In the second quarter of fiscal 2002, we opened four Superstores and relocated two Superstores. In the third quarter of fiscal 2002, we opened five Superstores and relocated five Superstores.

During fiscal 2002, the company is testing two remodeling approaches in a total of 24 stores. The most extensive approach is being conducted in 10 stores in the Chicago market and two stores in Virginia; a second, less costly version is being tested in 12 stores in the Washington, D.C., and Baltimore, Md., markets. Remodeling was completed at 23 of the stores in the second quarter, and remodeling of the 24th store was completed in early November 2001. The performance of the remodeled stores were evaluated over the course of the holidays, and the findings will be used to make decisions on the extent and pace of future remodeling activities.

Page 17 of 49

CarMax Group. Total CarMax sales for the third quarter of fiscal 2002 increased

 38 percent to \$774.3 million from \$561.7 million in last year's third quarter. For the nine months ended November 30, 2001, CarMax total sales increased 30 percent to \$2.42 billion from \$1.86 billion in the prior year. Comparable store vehicle dollar and unit sales for the third quarter and first nine months of fiscal years 2002 and 2001 were as follows:

Comparable Store	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01

Vehicle dollars:				
Used vehicles	36%	15%	31%	15%
New vehicles	51%	(4%)	28%	11%
Total	38%	11%	30%	15%

Vehicle units:				
Used vehicles	29%	11%	24%	11%
New vehicles	46%	(3%)	24%	11%
Total	31%	9%	24%	11%
=====				

In the third quarter of fiscal 2002, sales in the CarMax business accelerated beyond the strong sales trend that began in fiscal 2001. Early in the third quarter, used-car unit sales were consistent with the 20 percent growth trends experienced throughout the first two quarters of the year. Beginning in late

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

September, traffic flow to our used-car superstores increased significantly, which we believe was driven by cross shopping from new-car financing incentive programs. We converted this increased traffic flow into significantly accelerated used-car sales in both October and November. The five-year, zero-percent financing incentives drove extraordinary new-car sales growth in October. However, the new-car sales growth rate slowed in November as we sold through most of our close-out inventory of 2001 models and as most zero-percent financing incentive terms were limited to three years and available on fewer models. The sales increase also reflects higher average retails for both used- and new-car sales. The percent of vehicle sales represented by used cars and new cars for the third quarter and the first nine months of fiscal 2002 and 2001 were as follows:

Vehicle Sales Mix	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Vehicle dollars:				
Used vehicles	80%	81%	81%	80%
New vehicles	20%	19%	19%	20%
Total	100%	100%	100%	100%
Vehicle units:				
Used vehicles	86%	87%	86%	86%
New vehicles	14%	13%	14%	14%
Total	100%	100%	100%	100%

Page 18 of 49

Average retail selling prices for CarMax vehicles for the third quarter and first nine months of fiscal 2002 and 2001 were as follows:

Average Retail Selling Prices	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Used vehicles	\$15,100	\$14,400	\$15,200	\$14,400
New vehicles	\$23,500	\$22,700	\$23,100	\$22,700
Blended average	\$16,300	\$15,400	\$16,300	\$15,400

CarMax gross dollar sales from all extended warranty programs were 3.9 percent of sales in the third quarter of fiscal 2002 and 4.1 percent in the third quarter of fiscal 2001. Third-party warranty revenue was 1.7 percent of sales in this year's third quarter and 1.8 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 1.7 percent of sales in the third quarter of fiscal 2002 and 1.8 percent of sales in the third quarter of fiscal 2001.

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

The following table provides detail on the CarMax retail units:

Store Mix	Nov. 30, 2001	Nov. 30, 2000	Estimate Fe 2002
"C" and "B" stores	14	14	14
"A" stores	17	17	18
Prototype satellite stores	4	4	5
Stand-alone new-car stores	4	5	3
Total	39	40	40

CarMax's geographic growth over the next five years is expected to include primarily the addition of superstores in new mid-sized markets that can be served effectively with one CarMax superstore and additional satellite stores in existing multi-store markets. Mid-sized markets are those with populations of approximately 1 million to 2.5 million people. During the third quarter, we closed the new-car stand-alone Mitsubishi franchise in the Los Angeles market, and after the end of the quarter, in December 2001, we completed the sale of our Dallas Chrysler new-car stand-alone franchise. We expect to open one standard-sized used-car superstore and one satellite used-car superstore in late February 2002. The standard superstore is planned for Greensboro, N.C., and the satellite for Merrillville, Ind., in the greater Chicago market. In fiscal 2003, we plan to open four to six stores, and in fiscal years 2004 through 2006, we plan to open six to eight stores per year. The standard superstore previously planned for opening at the end of this fiscal year in Sacramento, Calif., now is planned to open in the first quarter next fiscal year.

Cost of Sales, Buying and Warehousing

Circuit City Stores, Inc. The Circuit City Stores gross profit margin was 21.0 percent of sales in the third quarter of fiscal 2002, compared with 20.2 percent in the same period last year. For the nine months ended November 30, 2001, our gross profit margin was 21.0 percent, compared with 21.2 percent in the same period last year.

Circuit City Group. The Circuit City gross profit margin increased to 24.2 percent of sales in the third quarter from 22.0 percent in the same period last year. Appliance merchandise markdowns associated with the exit from the appliance business reduced last year's Circuit City gross margin by \$21 million in the third quarter and \$28 million in the first nine months. Excluding the impact of the appliance exit costs, last year's third quarter gross profit margin was 22.9 percent. The improvement in the gross profit margin reflects the solid sales growth in better-featured products and new technologies, partially offset by the effect of promotional

activities, especially over the Thanksgiving holiday weekend. For the nine months ended November 30, 2001, the gross profit margin was 24.4 percent, compared with 23.2 percent in the same period last year. Excluding the impact of the appliance exit costs, the gross profit margin for the first nine months of last year was 24.0 percent.

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

CarMax Group. The CarMax gross profit margin was 11.8 percent of sales in the

third quarter of fiscal 2002 versus 12.8 percent for the same period last year. For the nine months ended November 30, 2001, the gross profit margin was 12.5 percent, compared with 13.3 percent in the same period last year. We achieved our gross profit margin dollar targets per vehicle; however, used-car higher average retails and the slightly higher mix of new cars to used cars generated a decline in the gross profit margin on a percentage basis. Used-car gross dollar margins are similar across makes and models. Consequently, the gross profit margin percentage on a higher priced used car is lower than on a more modestly priced car. The incentive-driven growth in new car sales resulted in the higher mix of new cars to used cars, and new cars carry much lower gross margins, both in dollars and on a percentage basis. We also experienced a small amount of gross profit margin erosion caused by wholesale auction losses that occurred following the rapid decline in wholesale vehicle prices after September 11.

Selling, General and Administrative Expenses

Circuit City Stores, Inc. Our selling, general and administrative expense ratio

was 19.5 percent of sales in the third quarter of fiscal 2002, compared with 23.5 percent for the same period last year. For the nine-month period ended November 30, 2001, the selling, general, and administrative expense ratio was 19.9 percent of sales, compared with 20.0 percent for the same period last year.

Circuit City Group. The Circuit City selling, general and administrative expense

ratio was 23.5 percent of sales in the third quarter of fiscal 2002, compared with 26.7 percent for the same period last year. Costs associated with partial remodels to exit the appliance business and add new categories to the stores increased last year's Circuit City selling, general and administrative expenses by \$30 million in the third quarter and the first nine months. Excluding the impact of the appliance exit costs, the third quarter expense ratio for fiscal 2001 was 25.0 percent. The decline in the ratio and in the absolute expense level reflects the benefits of cost control and productivity initiatives, including more efficient advertising expenditures, as well as the significant decrease in remodeling costs in this year's third quarter. Last year's third quarter included costs for our Florida store remodeling activities. Costs associated with our current year remodeling tests in the Chicago, Washington, D.C., and Baltimore markets were largely incurred in the second quarter of this year. For the nine-month period ended November 30, 2001, the Company's selling, general, and administrative expense ratio was 24.7 percent, compared with 22.7 percent for the same period last year. Excluding the impact of the appliance exit costs, the selling, general and administrative expense ratio for the nine-month period ended November 30, 2000, was 22.2 percent.

CarMax Group. The CarMax selling, general and administrative expense ratio

decreased to 7.9 percent of sales in the third quarter of fiscal 2002 from 10.1 percent of sales for the same period last year. For the nine-month period ended November 30, 2001, the ratio was 7.5 percent of sales, compared with 9.5 percent for the same period last year. The expense ratio improvement reflects the significant expense leverage generated by comparable store vehicle unit sales growth and higher average retails. As in the first half of this year, we experienced increased yield spreads from our finance operation, which continues to benefit from the lower cost of funds.

Page 20 of 49

Interest Expense

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

The Circuit City Stores interest expense declined by \$4.6 million to \$0.5 million for the third quarter of fiscal 2002 and by \$9.7 million to \$5.1 million for the nine months ended November 30, 2001, compared with the same periods last year, reflecting both lower debt levels and interest rates.

Net Earnings (Loss)

Circuit City Stores, Inc. Net earnings for Circuit City Stores increased to -----
\$27.7 million in the third quarter of fiscal 2002, compared with a net loss of \$62.5 million in last year's third quarter. For the nine-month period ended November 30, 2001, net earnings for the Company increased to \$59.5 million from \$57.6 million for the same period last year.

In a public offering completed during the second quarter, the Company sold approximately 9.5 million CarMax Group shares that had previously been reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock. Because both the earnings allocation and the outstanding CarMax shares were adjusted to reflect the impact of the sale, net earnings per CarMax Group share were not diluted by the sale. With the impact of the offering, 64.5 percent of the CarMax Group's third quarter earnings and 70.4 percent of the CarMax Group's nine-month earnings were allocated to the Circuit City Group. For the same periods last year, 74.6 percent of the CarMax Group's earnings were allocated to the Circuit City Group. At the end of the third quarter, the reserved CarMax Group shares represented 64.4 percent of the total outstanding and reserved shares, excluding shares reserved for CarMax employees' stock incentive plans, of CarMax Group stock.

Circuit City Group. Net earnings for the Circuit City business, before income -----
attributed to the reserved CarMax Group shares were \$9.2 million, or 4 cents per share, in the third quarter of fiscal 2002, compared with a net loss of \$70.1 million, or 34 cents per share, in last year's third quarter. For the first nine months of this fiscal year, the Circuit City business had a net loss of \$12.9 million, or 6 cents per share, compared with net earnings of \$19.9 million, or 10 cents per share, in fiscal 2001.

The net earnings attributed to the reserved CarMax Group shares were \$11.9 million in the third quarter of this year, compared with \$5.6 million in last year's third quarter, and \$51.0 million in the first nine months of this fiscal year, compared with \$28.2 million for the same period last year.

Net earnings of the Circuit City Group were \$21.1 million, or 10 cents per share, in the third quarter of fiscal 2002, versus a net loss of \$64.4 million, or 32 cents per share, in the third quarter of fiscal 2001. For the first nine months, net earnings of the Circuit City Group were \$38.1 million, or 18 cents per share, this year, compared with net earnings of \$48.1 million, or 23 cents per share, last year.

CarMax Group. Net earnings for the CarMax business, increased 143.7 percent to -----
\$18.4 million in the third quarter of fiscal 2002 from \$7.6 million in last year's third quarter. For the first nine months of the current fiscal year, the CarMax business had net earnings of \$72.4 million, compared with \$37.8 million in fiscal 2001.

Net earnings attributed to the CarMax Group stock increased 241.4 percent to \$6.6 million, or 17 cents per share, in the third quarter of fiscal 2002 from \$1.9 million, or 7 cents per share, in the third quarter of last year. For the first nine months of the current year, net earnings attributed to the CarMax

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

Group stock were \$21.4 million, or 66 cents per share, compared with \$9.6 million, or 36 cents per share, last year.

For the quarter and the nine months ended November 30, 2001, net earnings attributed to the CarMax Group stock grew faster than total net earnings and net earnings per CarMax Group share because of the impact of the public offering of CarMax Group shares during the second quarter of fiscal 2002. Quarterly earnings per share is calculated by dividing earnings attributed to the CarMax Group stock for the reported quarter by the weighted average CarMax shares outstanding for the quarter. Under current accounting standards, year-to-date earnings per share is calculated by dividing year-to-date earnings attributed to the CarMax Group stock by the weighted

Page 21 of 49

average shares outstanding for the nine-month period. Therefore, year-to-date earnings per share does not necessarily equal the sum of the quarterly earnings per share.

Liquidity and Capital Resources

For the first nine months, Circuit City Stores generated cash from operating activities of \$273.2 million in fiscal 2002, compared with cash used in operating activities of \$333.5 million in fiscal 2001. The improvement was primarily the result of working capital efficiencies. While inventories for the Circuit City business typically increase seasonally at the end of the third quarter, better supply chain management in that business contributed to a \$220.4 million reduction in working capital used for inventories in the first nine months of this fiscal year, compared with last year. In addition, increases in accounts payable, accrued expenses and other current liabilities reduced working capital by \$359.4 million, compared with the first nine months of last year and primarily reflect extended payment terms in the Circuit City business achieved through supply chain management.

Net cash used in investing activities was \$6.7 million in the nine months ended November 30, 2001, compared with \$159.0 million in the first nine months of last year. Capital expenditures declined to \$137.3 million in the first nine months of fiscal 2002 from \$244.0 million in the comparable period last year. Capital expenditures in the first nine months of fiscal 2001 included spending for the remodeling of 26 Circuit City Superstores in south Florida and the construction of 20 new or relocated Circuit City Superstores. Capital expenditures in the first nine months of fiscal 2002 included spending for the less costly remodeling of 24 Superstores, including stores in the Chicago, Baltimore and Washington, D.C., markets and the construction of 18 new or relocated Superstores. Proceeds from sales of property and equipment increased to \$130.6 million in the first nine months of the current year from \$86.3 million in the comparable period of last year. In August 2001, CarMax entered into a sale-leaseback transaction covering nine superstore properties valued at \$102.4 million. This transaction, which represented the first sale-leaseback entered into by CarMax without a Circuit City Stores guarantee, was structured at competitive rates with an initial lease term of 15 years and two 10-year renewal options. In November 2001, Circuit City completed a sale-leaseback transaction for its Marion, Ill., distribution center valued at \$29.0 million. This transaction was structured at competitive rates with an initial lease term of 20 years and two 10-year renewal options.

As scheduled, in June 2001 Circuit City Stores used existing working capital to repay a \$130 million term loan. At November 30, 2001, the Company had cash and cash equivalents of \$709.9 million and total debt of \$120.3 million. Circuit City Stores maintains a \$150 million unsecured revolving credit facility and \$195 million in committed seasonal lines of credit that are renewed annually with various banks.

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

Circuit City's finance operation has a master trust securitization program facility for its private-label credit card that allows for the transfer of up to \$1.13 billion in receivables. A second master trust securitization program allows for the transfer of up to \$1.70 billion in receivables related to the operation's bankcard programs. Securitized receivables under all Circuit City programs totaled \$2.54 billion at November 30, 2001. The master trust vehicles permit further expansion of the securitization programs in both the public and private markets.

The Company also has asset securitization programs to finance the consumer installment credit receivables generated by CarMax's automobile loan finance operation. Automobile loan receivables are sold to special purpose subsidiaries which, in turn, securitize those receivables through both private placement and the public market. As of November 30, 2001, the combined capacity of these programs was \$1.90 billion. During the quarter, the Company completed its third public automobile loan receivable securitization program, securitizing \$641.7 million of auto loan receivables. Securitized receivables under all CarMax programs totaled \$1.51 billion as of November 30, 2001. We anticipate that we will be able to expand or enter into new arrangements comparable to these securitization programs to meet future needs.

During the second quarter, Circuit City Stores completed the public offering of 9,516,800 shares of CarMax Group stock, including the exercise of an underwriters' over-allotment option for 666,800 shares. The shares

Page 22 of 49

sold in the offering were shares of CarMax Group stock that previously had been reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock. The net proceeds from the offering of \$139.6 million were allocated to the Circuit City Group to be used for general purposes of the Circuit City business, including remodeling of Circuit City Superstores.

We anticipate that fiscal 2002 capital expenditures will continue to be funded through a combination of internally generated cash, proceeds from sales of property and equipment and receivables, sale-leaseback transactions, operating leases, floor plan financing of CarMax inventory or proceeds from the second quarter public offering of CarMax Group shares.

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 our SEC filings, including our report on Form 10-Q for the quarter ended May 31, 2001.

ITEM 3.

CIRCUIT CITY STORES, INC. QUANTITATIVE AND QUALITATIVE

----- DISCLOSURES ABOUT MARKET RISK -----

We centrally manage the market risk associated with the private-label and bankcard revolving loan portfolios of Circuit City's finance operation and the automobile loan portfolio of CarMax's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the consolidated

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

balance sheets. Interest rate exposure relating to these receivables represents a market risk exposure that we manage with matched funding and interest rate swaps.

As of November 30, 2001, the composition of the Circuit City finance operation's private-label and bankcard portfolios had not changed significantly since February 28, 2001. However, as a result of CarMax's growth and the amortization of automobile loan receivables funded through public securitizations, the composition of the automobile installment loan portfolio has changed significantly. Financing for these automobile loan receivables is achieved through asset securitization programs that, in turn, issue both fixed- and floating-rate securities. Because programs are in place to manage interest rate exposure relating to the existing automobile loan receivables, we expect to experience relatively little impact as interest rates fluctuate. Receivables held for investment or sale are financed with working capital.

CarMax financings at November 30 and February 28, 2001, were as follows:

(Amounts in millions)	November 30	February 28
Fixed-rate securitizations.....	\$ 1,279	\$ 984
Floating-rate securitizations		
synthetically altered to fixed.....	227	299
Floating-rate securitizations.....	1	1
Held by the Company:		
For investment*.....	6	9
For sale.....	4	3
Total principal outstanding.....	\$ 1,517	\$ 1,296

* Held by a bankruptcy remote special purpose company.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	Nov. 30, 2001	Feb. 28, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 699,900	\$ 437,329
Net accounts receivable	532,515	451,099
Merchandise inventory	2,149,668	1,410,527
Prepaid expenses and other current assets	64,023	55,317
Total current assets	3,446,106	2,354,272
Property and equipment, net	753,524	796,789
Reserved CarMax Group shares	301,483	292,179

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

Other assets	10,161	9,319
	-----	-----
TOTAL ASSETS	\$ 4,511,274	\$ 3,452,559
	=====	=====
LIABILITIES AND GROUP EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 59,431	\$ 24,237
Accounts payable	1,672,025	820,077
Short-term debt	1,508	213
Accrued expenses and other current liabilities	153,072	146,818
Deferred income taxes	122,206	74,317
	-----	-----
Total current liabilities	2,008,242	1,065,662
Long-term debt, excluding current installments	14,386	33,080
Deferred revenue and other liabilities	80,687	85,329
Deferred income taxes	5,481	11,329
	-----	-----
TOTAL LIABILITIES	2,108,796	1,195,400
GROUP EQUITY	2,402,478	2,257,159
	-----	-----
TOTAL LIABILITIES AND GROUP EQUITY	\$ 4,511,274	\$ 3,452,559
	=====	=====

See accompanying notes to group financial statements.

Page 24 of 49

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

	Three Months Ended		Ni
	November 30,		
	2001	2000	2001
	-----	-----	-----
Net sales and operating revenues	\$ 2,279,908	\$ 2,325,576	\$ 6,198,
Cost of sales, buying and warehousing	1,728,757	1,815,127	4,688,
Appliance exit costs	-	-	-
	-----	-----	-----
Gross profit	551,151	510,449	1,510,
	-----	-----	-----
Selling, general and administrative expenses	535,836	621,044	1,530,

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

Appliance exit costs	-	-	
Interest expense	410	2,397	
Total expenses	536,246	623,441	1,530,
Earnings (loss) before income taxes and income attributed to the reserved CarMax Group shares	14,905	(112,992)	(20,
Income tax provision (benefit)	5,660	(42,937)	(7,
Earnings (loss) before income attributed to the reserved CarMax Group shares	9,245	(70,055)	(12,
Net earnings attributed to the reserved CarMax Group shares	11,889	5,648	50,
Net earnings (loss)	\$ 21,134	\$ (64,407)	\$ 38,

See accompanying notes to group financial statements.

Page 25 of 49

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

	Nine Months November 2001

Operating Activities:	
Net earnings	\$ 38,091
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities of continuing operations:	
Net earnings attributed to the reserved CarMax Group shares	(50,992)
Depreciation and amortization	116,169
Loss (gain) on sales of property and equipment	7,255
Deferred income taxes	42,041
Changes in operating assets and liabilities:	
(Increase) decrease in net accounts receivable	(81,416)
Increase in merchandise inventory	(739,141)
Increase in prepaid expenses and other current assets	(8,703)
(Increase) decrease in other assets	(894)
Increase in accounts payable, accrued expenses and other current liabilities	866,754
Increase (decrease) in deferred revenue and other liabilities	10,066

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

Net cash provided by (used in) operating activities of continuing operations	199,230
Investing Activities:	
Purchases of property and equipment	(114,379)
Proceeds from sales of property and equipment	34,220
Net cash used in investing activities of continuing operations	(80,159)
Financing Activities:	
Increase in allocated short-term debt, net	1,295
Increase (decrease) in allocated long-term debt, net	16,500
Issuances of group equity, net	20,650
Allocated proceeds from CarMax Group stock offering, net	139,633
Dividends paid	(10,904)
Net cash provided by financing activities of continuing operations	167,174
Cash used in discontinued operations	(23,674)
Increase (decrease) in cash and cash equivalents	262,571
Cash and cash equivalents at beginning of year	437,329
Cash and cash equivalents at end of period	\$ 699,900

See accompanying notes to group financial statements.

Page 26 of 49

CIRCUIT CITY STORES, INC. - CIRCUIT CITY GROUP
Notes to Group Financial Statements
(Unaudited)

1. Basis of Presentation

The common stock of Circuit City Stores, Inc. (the "Company") consists of two common stock series that are intended to reflect the performance of the Company's two businesses. The Circuit City Group stock is intended to reflect the performance of the Circuit City store-related operations, the shares of CarMax Group stock reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock and the Company's investment in Digital Video Express, which has been discontinued (see Note 6). The CarMax Group stock is intended to reflect the performance of the CarMax Group's operations. The reserved CarMax Group shares represented 64.4 percent of the total outstanding and reserved shares, excluding shares reserved for CarMax employees' stock incentive plans, of CarMax Group stock at November 30, 2001, and 74.6 percent at both February 28, 2001, and November 30, 2000. The Company allocates to the Circuit City Group the portion of net earnings of the CarMax Group attributed to the reserved CarMax Group shares. The terms of each series of common stock are discussed

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

in detail in the Company's Form 8-A registration statement on file with the Securities and Exchange Commission.

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 the financial statements, holders of Circuit City Group stock and holders of CarMax Group stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. Neither shares of CarMax Group stock nor shares of Circuit City Group stock represent a direct equity or legal interest solely in the assets and liabilities allocated to a particular group. Instead, those shares represent direct equity and legal interests in the assets and liabilities of the Company. The results of operations or financial condition of one group could affect the results of operations or financial condition of the other group. Net losses of either group and dividends or distributions on, or repurchases of, Circuit City Group stock or CarMax Group stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the Circuit City Group financial statements included in this report should be read in conjunction with the Company's consolidated financial statements, the CarMax Group financial statements and the Company's SEC filings.

2. Accounting Policies

The Circuit City Group has accounted for the reserved CarMax Group shares in a manner similar to the equity method of accounting. Accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments, which consist 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 the audited financial statements included in the Company's fiscal 2001 Annual Report on Form 10-K.

Page 27 of 49

3. Securitizations

The Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by Circuit City's finance operation. For transfers of receivables that qualify as sales, the Company recognizes gains or losses as a component of Circuit City's finance operation. In these securitizations, the Company retains servicing rights and subordinated interests. Private-label credit card receivables are financed through a master trust securitization program. As of November 30, 2001, the private-label master trust securitization program had a capacity of \$1.13 billion. The private-label master trust agreement has no recourse provisions. Bankcard receivables are financed through a separate master trust securitization program. As of November 30, 2001, the bankcard master trust securitization program had a capacity of \$1.70 billion. Provisions under the bankcard master trust agreement provided recourse to the Company for cash flow deficiencies on \$63 million of receivables sold as of November 30, 2001. At that date, the Company believes no liability existed

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

under the recourse provisions.

At November 30, 2001, the total principal amount of credit card receivables managed was \$2.66 billion, including \$2.57 billion principal amount of receivables securitized and \$91 million principal amount of receivables held for sale. The aggregate amount of loans that were 31 days or more delinquent was \$199.4 million at November 30, 2001. The principal amount of losses net of recoveries totaled \$65.6 million for the three months ended November 30, 2001, and \$197.5 million for the nine months ended November 30, 2001.

The Company receives annual servicing compensation approximating 2 percent of the outstanding principal loan balance of the receivables and retains the rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the securitized assets. Accordingly, no servicing asset or liability has been recorded.

The table below summarizes certain cash flows received from and paid to the securitization trusts:

(Amounts in thousands)	Three Months Ended November 30, 2001	Nine Months Ended November 30, 2001
Proceeds from new securitizations.....	\$ 291,800	\$ 670,000
Proceeds from collections reinvested in previous credit card securitizations.....	\$ 417,755	\$1,234,793
Servicing fees received.....	\$ 12,568	\$ 38,475
Other cash flows received on retained interests*.....	\$ 48,920	\$ 142,855

*This amount represents cash flows received from retained interests by the transferor other than servicing fees, including cash flows from interest-only strips and cash above the minimum required level in cash collateral accounts.

When determining the fair value of retained interests, the Company estimates future cash flows using management's best estimates of key assumptions such as finance charge income, default rates, payment rates, forward yield curves and discount rates. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile may qualify for promotional financing.

Future finance income from serviced assets that exceeds the contractually specified investor returns and servicing fees is carried at fair value, amounted to \$125.8 million at November 30, 2001, and is included in net accounts receivable. Gains of \$45.1 million on sales were recorded for the three-month period ended November 30, 2001; gains of \$124.4 million on sales were recorded for the nine-month period ended November 30, 2001.

The fair value of retained interests at November 30, 2001, was \$302.0 million, with a weighted-average life ranging from 0.08 years to 2.00 years. The following table shows the key economic assumptions used in measuring the fair value of retained interests at November 30, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at November 30, 2001, are not materially

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

different from assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in actual circumstances, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Payment rate.....	6.8%-10.6%	\$ 8,301	\$16,121
Default rate.....	9.4%-17.9%	\$23,342	\$46,017
Discount rate.....	8.0%-15.0%	\$ 2,078	\$ 4,129

4. Financial Derivatives

On behalf of the Circuit City Group, the Company enters into interest rate cap agreements to meet the requirements of the credit card receivable securitization transactions. In the third quarter of fiscal 2002, the Company did not enter into any new interest rate caps. At November 30, 2001, the total notional amount of interest rate caps outstanding was \$677 million. Purchased interest rate caps are included in net accounts receivable and had a fair value of \$4.2 million as of November 30, 2001. Written interest rate caps are included in accounts payable and had a fair value of \$4.2 million as of November 30, 2001.

The market and credit risks associated with interest rate caps are similar to those relating to other types of financial instruments. Market risk is the exposure created by potential fluctuations in interest rates and is directly related to the product type, agreement terms and transaction volume. The Company has entered into offsetting interest rate cap positions, and therefore, does not anticipate significant market risk arising from interest rate caps. Credit risk is the exposure to nonperformance of another party to an agreement. The Company mitigates credit risk by dealing with highly rated bank counterparties.

5. Appliance Exit Costs

On July 25, 2000, the Company announced plans to exit the major appliance category and expand its selection of key consumer electronics and home office products in all Circuit City Superstores. A product profitability analysis had indicated that the appliance category produced below-average profits. This analysis, combined with declining appliance sales, expected increases in appliance competition and the Company's profit expectations for the consumer electronics and home office categories led to the decision to exit the major appliance category. To exit the appliance business, the Company has closed eight distribution centers and eight service centers. The majority of these closed properties are leased. While the Company has entered into contracts to sublease some of these properties, it continues the process of preparing and marketing the remaining properties to be subleased. The Company maintains control over Circuit City's in-home major appliance repair business, although repairs are subcontracted to an unrelated third party.

Approximately 910 employees were terminated as a result of the exit from the appliance business. These reductions mainly were in the service, distribution and merchandising functions. Because severance is being paid to employees on a biweekly schedule based on years of service, cash

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

payments lag job eliminations. Certain fixed-assets were written down in connection with the exit from the appliance

Page 29 of 49

business including appliance build-to-order kiosks in stores and non-salvageable fixed assets and leasehold improvements at the closed locations.

In the second quarter of fiscal 2001, the Company recorded appliance exit costs of \$30 million. These expenses are reported separately on the fiscal 2001 statement of earnings. The remaining appliance exit cost accrual is included in the accrued expenses and other current liabilities line item on the consolidated balance sheet. The composition of the appliance exit cost accrual and the remaining liability at November 30, 2001, are presented in the following table.

(Amounts in millions)	Total Exit Cost Accrual	Payments or Write-downs	Liability at November 30, 2001
Lease termination costs.....	\$17.8	\$ 4.4	\$13.4
Fixed asset write-downs, net.....	5.0	5.0	-
Employee termination benefits.....	4.4	4.0	0.4
Other.....	2.8	2.8	-
Appliance exit costs.....	\$30.0	\$16.2	\$13.8

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

A loss on the disposal of Divx was recorded in fiscal 2000, including a provision for operating losses to be incurred during the phase-out period. The loss on disposal 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 three- and nine-month periods ended November 30, 2001, and 2000, the discontinued Divx operations had no impact on the earnings of the Circuit City Group.

The net liabilities of the discontinued Divx operations, reflected in the Circuit City Group's balance sheets as of November 30, 2001, and February 28, 2001, are comprised of the following:

(Amounts in thousands)	November 30, 2001	February 28, 2001
Current assets.....	\$ 71	\$ 8
Other assets.....	272	324
Current liabilities.....	(17,881)	(27,522)
Other liabilities.....	-	(14,082)
Net liabilities of discontinued operations.....	\$ (17,538)	\$ (41,272)

7. Recent Accounting Pronouncements

In July 2000, the Financial Accounting Standards Board issued Emerging Issues Task Force Issue No. 00-14, "Accounting for Certain Sales Incentives," which is effective for fiscal quarters beginning after December 15, 2001. EITF No. 00-14 provides that sales incentives, such as mail-in rebates, offered to customers should be classified as a reduction of revenue. The Company offers certain mail-in rebates that are currently recorded in cost of sales, buying and warehousing. However, the Company expects to reclassify these rebate expenses from cost of sales, buying and warehousing to net sales and operating revenues to be in compliance with EITF No. 00-14 in the first quarter of fiscal year 2003. For the quarter ended November 30, 2001, this reclassification would have increased the gross profit margin by 18 basis points and the expense ratio by 17 basis points. For the nine months ended November 30, 2001, the

Page 30 of 49

reclassification would have increased both the gross profit margin and the expense ratio by 16 basis points. The Company does not expect the adoption of EITF No. 00-14 to have a material impact on the Circuit City Group's financial position, results of operations or cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations," effective for business combinations initiated after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 141, the pooling of interests method of accounting for business combinations is eliminated, requiring that all business combinations initiated after the effective date be accounted for using the purchase method. Also under SFAS No. 141, identified intangible assets acquired in a purchase business combination must be separately valued and recognized on the balance sheet if they meet certain requirements. Under the provisions of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncements. Other intangible assets that are identified to have finite useful lives will continue to be amortized in a manner that reflects the estimated decline in the economic value of the intangible asset and will be subject to review when events or circumstances arise which indicate impairment. Application of the nonamortization provisions of SFAS No. 142 in fiscal 2003 is not expected to have a material impact on the financial position, results of operations or cash flows of the Company.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company has not yet determined the impact, if any, of adopting this standard.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting

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

provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," related to the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The Company is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001, and plans to adopt the provisions for the quarter ending May 31, 2002. The Company has not yet determined the impact, if any, of adopting this standard.

8. Reclassifications

 Certain previously reported amounts have been reclassified to conform with the current year presentation.

Page 31 of 49

ITEM 2.

CIRCUIT CITY GROUP MANAGEMENT'S DISCUSSION AND ANALYSIS

----- OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -----

In this discussion, "we," "our" and "Circuit City Stores" refer to Circuit City Stores, Inc. and our wholly owned subsidiaries, unless the context requires otherwise. "Circuit City business" and "Circuit City" refer to the retail operations bearing the Circuit City name and to all related operations such as product service and Circuit City's finance operation. "Circuit City Group" refers to the Circuit City business and the reserved CarMax Group shares. "CarMax business," "CarMax" and "CarMax Group" refer to retail locations bearing the CarMax name and to all related operations such as CarMax's finance operation.

Net Sales and Operating Revenues and General Comments

 Circuit City Group. Total Circuit City sales for the third quarter of fiscal

 2002 declined 2 percent to \$2.28 billion from \$2.33 billion in last year's third quarter. For the nine months ended November 30, 2001, total Circuit City sales decreased 15 percent to \$6.20 billion from \$7.28 billion in the prior year. Comparable store sales changes for the third quarter and first nine months of fiscal years 2002 and 2001 were as follows:

----- Comparable Store ----- Sales -----	----- 3rd Quarter -----		----- Nine Months -----	
	FY02	FY01	FY02	FY01
Circuit City	(4%)	(10%)	(17%)	(15%)
Circuit City, excluding the appliance category	(2%)	3%	(8%)	6%

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

In this current year's third quarter, comparable store sales improved progressively each month, and for the month of November, the same-store sales comparison turned positive, increasing 6 percent.

Third quarter Circuit City sales improved across a broad base of product categories. We generated double-digit or higher comparable store sales growth not only in better featured and newer technologies such as big-screen televisions, digital satellite systems, digital cameras and wireless phones, but also in new and expanded product selections including video game hardware, software and accessories; DVD software; and personal computer software and accessories. Although personal computer sales continued to reflect the difficult industry trends, the year-over-year decline in sales moderated over the course of the quarter. The percent of merchandise sales represented by each major product category during the third quarter and the first nine months of fiscal 2002 and 2001 were as follows:

Product Mix	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Video	41%	37%	39%	34%
Audio	14	16	16	15
Information technology	33	37	35	35
Entertainment	12	8	10	6
Appliances	--	2	--	10
Total	100%	100%	100%	100%

Although Circuit City sales volumes and traffic levels were particularly strong over the Thanksgiving weekend, November comparable store sales were positive both before and after that weekend. Pricing over the holiday weekend was promotional, helping to increase store traffic. We believe the recent sales improvements reflect a number of factors including not only effective pricing strategies, but also a more effective marketing program covering a variety of vehicles including newspaper inserts, television, magazines, direct mail and creative in-store events, as well as improved customer service.

Circuit City gross dollar sales from all extended warranty programs were 5.2 percent of sales in the third quarter of fiscal 2002 and 5.1 percent of sales in the third quarter of fiscal 2001. Third-party warranty revenue was 4.0 percent of sales in this year's third quarter and 3.9 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 3.9 percent of sales in the third quarter of fiscal 2002, compared with 4.0 percent in last year's third quarter.

The following table provides details on the Circuit City retail units:

Store Mix	Nov. 30, 2001	Nov. 30, 2000	Estimate Feb. 28, 2002	Feb.

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

Superstores	603	590	604

Mall-based			
Express stores	29	39	20

Total	632	629	624
=====			

Circuit City expects to open 10 Superstores and relocate 10 Superstores in the current fiscal year. In the first quarter of fiscal 2002, we opened one Circuit City Superstore and relocated one Superstore. In the second quarter of fiscal 2002, we opened four Superstores and relocated two Superstores. In the third quarter of fiscal 2002, we opened five Superstores and relocated five Superstores.

During fiscal 2002, the company is testing two remodeling approaches in a total of 24 stores. The most extensive approach is being conducted in 10 stores in the Chicago market and two stores in Virginia; a second, less costly version is being tested in 12 stores in the Washington, D.C., and Baltimore, Md., markets. Remodeling was completed at 23 of the stores in the second quarter, and remodeling of the 24th store was completed in early November 2001. The performance of the remodeled stores were evaluated over the course of the holidays, and the findings will be used to make decisions on the extent and pace of future remodeling activities.

Our operations, in common with other retailers in general, are subject to seasonal influences. Historically, the Circuit City business has realized more of its net sales and net earnings in the fourth 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 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 the quarter ended November 30, 2001, Circuit City's gross profit margin increased to 24.2 percent of sales from 22.0 percent in the same period last year. Appliance merchandise markdowns associated with the exit from the appliance business reduced last year's Circuit City gross margin by \$21 million in the third quarter and \$28 million in the first nine months. Excluding the impact of the appliance exit costs, last year's third quarter gross profit margin was 22.9 percent. The improvement in the gross profit margin reflects the solid sales growth in better-featured products and new technologies, partially offset by the effect of promotional activities, especially over the Thanksgiving holiday weekend. For the nine months ended November 30, 2001, the gross profit margin was 24.4 percent, compared with 23.2 percent in the same period last year. Excluding

the impact of the appliance exit costs, the gross profit margin for the first nine months of last year was 24.0 percent.

Selling, General and Administrative Expenses

Circuit City's selling, general and administrative expense ratio was 23.5 percent of sales in the third quarter of fiscal 2002, compared with 26.7 percent for the same period last year. Costs associated with partial remodels to exit the appliance business and add new categories to the stores increased last year's Circuit City selling, general and administrative expenses by \$30 million

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

in the third quarter and the first nine months. Excluding the impact of the appliance exit costs, the third quarter expense ratio for fiscal 2001 was 25.0 percent. The decline in the ratio and in the absolute expense level reflects the benefits of cost control and productivity initiatives, including more efficient advertising expenditures, as well as the significant decrease in remodeling costs in this year's third quarter. Last year's third quarter included costs for our Florida store remodeling activities. Costs associated with our current year remodeling tests in the Chicago, Washington, D.C., and Baltimore markets were largely incurred in the second quarter of this year. For the nine-month period ended November 30, 2001, the Company's selling, general, and administrative expense ratio was 24.7 percent, compared with 22.7 percent for the same period last year. Excluding the impact of the appliance exit costs, the selling, general and administrative expense ratio for the nine-month period ended November 30, 2000, was 22.2 percent.

Interest Expense

The Circuit City interest expense declined by \$2.0 million to \$0.4 million for the third quarter of fiscal 2002 and by \$5.3 million to \$0.4 million for the nine months ended November 30, 2001, compared with the same periods last year, reflecting both lower debt levels and interest rates.

Net Earnings (Loss) Before Income Attributed to the Reserved CarMax Group Shares

Excluding the income attributed to the reserved CarMax Group shares, Circuit City had third quarter net earnings of \$9.2 million, compared with a net loss of \$70.1 million for the same period last year. For the nine months ended November 30, 2001, excluding the income attributed to the reserved CarMax Group shares, Circuit City incurred a net loss of \$12.9 million, compared with net earnings of \$19.9 million for the same period last year.

Net Earnings Attributed to the Reserved CarMax Group Shares

For the third quarter of fiscal 2002, the net earnings attributed to the reserved CarMax Group shares rose 110.5 percent to \$11.9 million, compared with \$5.6 million for the same period last year. For the first nine months of fiscal 2002, net earnings attributed to the reserved CarMax Group shares rose 80.8 percent to \$51.0 million, compared with \$28.2 million for the same period last year.

Net Earnings (Loss)

Net earnings for the Circuit City Group for the quarter ended November 30, 2001, were \$21.1 million, compared with a net loss of \$64.4 million in the same period last year. For the nine months ended November 30, 2001, net earnings for the Circuit City Group were \$38.1 million, compared with \$48.1 million for the same period last year.

Liquidity and Capital Resources

For the first nine months, the Circuit City business generated cash from operating activities of \$199.2 million in fiscal 2002, compared with cash used in operating activities of \$382.1 million in fiscal 2001. The improvement was primarily the result of working capital efficiencies. While inventories typically increase seasonally at the end of the third quarter, better supply chain management contributed to a \$186.5 million reduction in working capital used for inventories in the first nine months, compared with last year. In addition, increases in

accounts payable, accrued expenses and other current liabilities reduced working

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

capital by \$343.8 million, compared with the first nine months of last year and primarily reflect extended payment terms achieved through supply chain management.

Net cash used in investing activities was \$80.2 million in the nine months ended November 30, 2001, compared with \$165.1 million in the first nine months of last year. Capital expenditures declined to \$114.4 million in the first nine months of fiscal 2002 from \$235.9 million in the comparable period of last year. Capital expenditures in the first nine months of fiscal 2001 included spending for the remodeling of 26 Circuit City Superstores in south Florida and the construction of 20 new or relocated Circuit City Superstores. Capital expenditures in the first nine months of fiscal 2002 included spending for the less costly remodeling of 24 Superstores including stores in the Chicago, Baltimore and Washington, D.C., markets and the construction of 18 new or relocated Superstores. Proceeds from sales of property and equipment totaled \$34.2 million in the first nine months of the current year, compared with \$70.8 million in the same period last year. In November 2001, Circuit City completed a sale-leaseback transaction for its Marion, Ill., distribution center valued at \$29.0 million. This transaction was structured at competitive rates with an initial lease term of 20 years and two 10-year renewal options.

As scheduled, in June 2001 we used existing working capital to repay a \$130 million term loan. Payment of corporate debt will not necessarily reduce Circuit City Group allocated debt. At November 30, 2001, the Circuit City Group had cash and cash equivalents of \$699.9 million and total debt of \$75.3 million. We maintain a \$150 million unsecured revolving credit facility and \$195 million in committed seasonal lines of credit that are renewed annually with various banks.

Circuit City's finance operation has a master trust securitization program facility for its private-label credit card that allows for the transfer of up to \$1.13 billion in receivables. A second master trust securitization program allows for the transfer of up to \$1.70 billion in receivables related to the operation's bankcard programs. Securitized receivables under all Circuit City programs totaled \$2.54 billion at November 30, 2001. The master trust vehicles permit further expansion of the securitization programs in both the public and private markets.

During the second quarter, we completed the public offering of 9,516,800 shares of CarMax Group stock, including the exercise of an underwriters' over-allotment option for 666,800 shares. The shares sold in the offering were shares of CarMax Group stock that previously had been reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock. The net proceeds from the offering of \$139.6 million were allocated to the Circuit City Group to be used for general purposes of the Circuit City business, including remodeling of Circuit City Superstores.

Circuit City relies on the external debt allocated to it by Circuit City Stores to provide working capital needed to fund net assets not otherwise financed through sale-leasebacks or receivable securitizations. We manage all significant financial activities of the Circuit City business on a centralized basis. Circuit City's significant financial activities are dependent on our financial condition as a whole and include the investment of surplus cash, issuance and repayment of debt, securitization of receivables and sale-leasebacks of real estate.

We anticipate that fiscal 2002 capital expenditures will continue to be funded through a combination of internally generated cash, proceeds from sales of property and equipment and receivables, sale-leaseback transactions, future increases in the Circuit City Stores' debt allocated to the Circuit City Group or proceeds from the public stock offering discussed above.

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

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 our SEC filings, including our report on Form 10-Q for the quarter ended May 31, 2001.

Page 35 of 49

ITEM 3.

CIRCUIT CITY GROUP QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

We centrally manage the market risk associated with the private-label and bankcard revolving loan portfolios of Circuit City's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Circuit City Group's balance sheets. Interest rate exposure relating to these receivables represents a market risk exposure that we manage with matched funding.

As of November 30, 2001, the composition of the Circuit City finance operation's private-label and bankcard portfolios had not changed significantly since February 28, 2001.

Page 36 of 49

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CIRCUIT CITY STORES, INC. - CARMAX GROUP

Balance Sheets

(Amounts in thousands)

	Nov. 30, 2001
	----- (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 10,014
Net accounts receivable	168,198
Inventory	351,010
Prepaid expenses and other current assets	2,059

Total current assets	531,281
Property and equipment, net	107,535
Other assets	23,066

TOTAL ASSETS	\$ 661,882 =====

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

LIABILITIES AND GROUP EQUITY	
Current liabilities:	
Current installments of long-term debt	\$ 43,038
Accounts payable	93,219
Short-term debt	1,083
Accrued expenses and other current liabilities	24,360
Deferred income taxes	19,839

Total current liabilities	181,539
Long-term debt, excluding current installments	826
Deferred revenue and other liabilities	7,806
Deferred income taxes	3,713

TOTAL LIABILITIES	193,884
GROUP EQUITY	467,998

TOTAL LIABILITIES AND GROUP EQUITY	\$ 661,882
	=====

See accompanying notes to group financial statements.

Page 37 of 49

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

	Three Months Ended		Ni
	November 30,		
	2001	2000	2001
	-----	-----	-----
Net sales and operating revenues	\$ 774,324	\$ 561,693	\$2,422,
Cost of sales	683,298	490,014	2,118,
	-----	-----	-----
Gross profit	91,026	71,679	303,
	-----	-----	-----
Selling, general and administrative expenses	61,215	56,809	182,
Interest expense	64	2,664	4,
	-----	-----	-----
Total expenses	61,279	59,473	186,
	-----	-----	-----
Earnings before income taxes	29,747	12,206	116,
Provision for income taxes	11,304	4,638	44,
	-----	-----	-----
Net earnings	\$ 18,443	\$ 7,568	\$ 72,
	=====	=====	=====

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

Net earnings attributed to:			
Circuit City Group common stock	\$ 11,889	\$ 5,648	\$ 50,
CarMax Group common stock	6,554	1,920	21,
	-----	-----	-----
	\$ 18,443	\$ 7,568	\$ 72,
	=====	=====	=====

See accompanying notes to group financial statements.

Page 38 of 49

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

	Nine Month November 2001

Operating Activities:	
Net earnings	\$ 72,406
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	13,239
Loss on sales of property and equipment	-
Deferred income taxes	1,770
Changes in operating assets and liabilities, net of effects from business acquisitions:	
(Increase) decrease in net accounts receivable	(33,536)
Increase in inventory	(3,873)
Decrease in prepaid expenses, other current assets and other assets	1,020
Increase in accounts payable, accrued expenses and other current liabilities	21,976
Increase (decrease) in deferred revenue and other liabilities	970

Net cash provided by operating activities	73,972

Investing Activities:	
Cash used in business acquisitions	-
Purchases of property and equipment	(22,911)
Proceeds from sales of property and equipment	96,344

Net cash provided by investing activities	73,433

Financing Activities:	
Increase in allocated short-term debt, net	96
Decrease in allocated long-term debt, net	(147,344)
Issuances of group equity, net	1,055

Net cash used in financing activities	(146,193)

Increase (decrease) in cash and cash equivalents	1,212
Cash and cash equivalents at beginning of year	8,802

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

Cash and cash equivalents at end of period

\$ 10,014
=====

See accompanying notes to group financial statements.

Page 39 of 49

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

1. Basis of Presentation

The common stock of Circuit City Stores, Inc. (the "Company") consists of two common stock series that are intended to reflect the performance of the Company's two businesses. The Circuit City Group stock is intended to reflect the performance of the Circuit City store-related operations, the shares of CarMax Group stock reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock and the Company's investment in Digital Video Express, which has been discontinued. The CarMax Group stock is intended to reflect the performance of the CarMax Group's operations. The reserved CarMax Group shares represented 64.4 percent of the total outstanding and reserved shares, excluding shares reserved for CarMax employees' stock incentive plans, of CarMax Group stock at November 30, 2001, and 74.6 percent at both February 28, 2001, and November 30, 2000. The Company allocates to the Circuit City Group the portion of net earnings of the CarMax Group attributed to the reserved CarMax Group shares. The terms of each series of common stock are discussed in detail in the Company's Form 8-A registration statement on file with the Securities and Exchange Commission.

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 the financial statements, holders of CarMax Group stock and holders of Circuit City Group stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. Neither shares of CarMax Group stock nor shares of Circuit City Group stock represent a direct equity or legal interest solely in the assets and liabilities allocated to a particular group. Instead, those shares represent direct equity and legal interests in the assets and liabilities of the Company. The results of operations or financial condition of one group could affect the results of operations or financial condition of the other group. Net losses of either group and dividends or distributions on, or repurchases of, Circuit City Group stock or CarMax Group stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the CarMax Group financial statements included in this report should be read in conjunction with the Company's consolidated financial statements, the Circuit City Group financial statements and the Company's SEC filings.

2. Accounting Policies

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

The financial statements of the CarMax Group conform to accounting principles generally accepted in the United States of America. The interim period financial statements are unaudited; however, in the opinion of management, all adjustments, which consist 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 the audited financial statements included in the Company's fiscal 2001 Annual Report on Form 10-K.

3. Securitizations

 The Company has asset securitization programs to finance the consumer installment credit receivables generated by CarMax's automobile loan finance operation. Automobile loan receivables are sold to special purpose subsidiaries, which, in turn, securitize those receivables through both private placement and the public market. For transfers of receivables that qualify as sales, the Company recognizes gains or losses as a component of CarMax's finance operation. In these securitizations, the Company retains servicing

Page 40 of 49

rights and subordinated interests. As of November 30, 2001, the combined capacity of these programs was \$1.90 billion. The automobile loan securitization programs have no recourse provisions.

At November 30, 2001, the total principal amount of automobile loan receivables managed was \$1.52 billion, including \$1.51 billion principal amount of loans securitized and \$10 million principal amount of loans held for sale or investment. The principal amount of loans that were 31 days or more delinquent was \$21.6 million at November 30, 2001. The principal amount of losses net of recoveries totaled \$4.1 million for the three months ended November 30, 2001, and \$8.7 million for the nine months ended November 30, 2001.

The Company receives annual servicing fees approximating 1 percent of the outstanding principal balance of the securitized automobile loans and retains the rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The servicing fees specified in the automobile loan securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

The table below summarizes certain cash flows received from and paid to the securitization trusts:

(Amounts in thousands)	Three Months Ended November 30, 2001	Nine Months End November 30, 2001
Proceeds from new securitizations.....	\$ 736,725	\$1,112,725
Proceeds from collections reinvested in previous automobile loan securitizations.....	\$ 132,331	\$ 350,725
Servicing fees received.....	\$ 3,680	\$ 10,417
Other cash flows received on retained interests*.....	\$ 17,917	\$ 48,489

*This amount represents cash flows received from retained interests by the transferor other than servicing fees, including cash flows from interest-only strips and cash above the minimum required level in cash collateral accounts.

When determining the fair value of retained interests, the Company

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

estimates future cash flows using management's best estimates of key assumptions such as finance charge income, default rates, prepayment rates and discount rates. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile may qualify for promotional financing.

Future finance income from serviced assets that exceeds the contractually specified investor returns and servicing fees is carried at fair value, amounted to \$76.0 million at November 30, 2001, and is included in net accounts receivable. Gains of \$15.6 million on sales were recorded for the three months ended November 30, 2001; gains of \$43.4 million on sales were recorded for the nine months ended November 30, 2001.

The fair value of retained interests at November 30, 2001, was \$104.7 million, with a weighted-average life of 1.63 years. The following table shows the key economic assumptions used in measuring the fair value of retained interests at November 30, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at November 30, 2001, are not materially different from assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in actual circumstances, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Page 41 of 49

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Prepayment speed.....	1.5%-1.6%	\$3,599	\$7,303
Default rate.....	1.0%-1.2%	\$2,065	\$4,133
Discount rate.....	12.0%	\$1,422	\$2,814

4. Financial Derivatives

On behalf of the CarMax Group, the Company, in the third quarter of fiscal 2002, entered into three 40-month amortizing interest rate swaps related to auto loan receivable securitizations. These swaps had an initial notional amount of approximately \$228 million. The total notional amount of all swaps related to the automobile loan receivable securitizations was \$227 million at November 30, 2001, and \$299 million at February 28, 2001. The total notional amount of the CarMax interest rate swaps was reduced in the third quarter following the replacement of floating-rate securitizations with a \$642 million fixed-rate securitization in November 2001. These swaps are used to better match funding costs and are recorded at fair value. At November 30, 2001, these swaps totaled a net asset of \$7,000 and are included in accounts receivable.

The market and credit risks associated with interest rate swaps are similar to those relating to other types of financial instruments. Market risk is the exposure created by potential fluctuations in interest rates and is directly related to the product type, agreement terms and transaction volume. The Company does not anticipate significant market risk from swaps because they are used to match funding costs to the use of the funding. Credit risk is the exposure to nonperformance of another party to an

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

agreement. The Company mitigates credit risk by dealing with highly rated bank counterparties.

5. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," effective for business combinations initiated after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 141, the pooling of interests method of accounting for business combinations is eliminated, requiring that all business combinations initiated after the effective date be accounted for using the purchase method. Also under SFAS No. 141, identified intangible assets acquired in a purchase business combination must be separately valued and recognized on the balance sheet if they meet certain requirements. Under the provisions of SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncements. Other intangible assets that are identified to have finite useful lives will continue to be amortized in a manner that reflects the estimated decline in the economic value of the intangible asset and will be subject to review when events or circumstances arise which indicate impairment. Application of the nonamortization provisions of SFAS No. 142 in fiscal 2003 is not expected to have a material impact on the financial position, results of operations or cash flows of the Company. During fiscal 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets, as outlined in the new pronouncements. Based on preliminary estimates, as well as ongoing periodic assessments of goodwill, the Company does not expect to recognize any material impairment losses from these tests.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the

Page 42 of 49

period incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company has not yet determined the impact, if any, of adopting this standard.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," related to the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The Company is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001, and plans to adopt the provisions for the quarter ending May 31, 2002. The Company has not yet

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

determined the impact, if any, of adopting this standard.

6. Reclassifications

Certain previously reported amounts have been reclassified to conform with the current year presentation.

ITEM 2.

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

In this discussion, "we," "our" and "Circuit City Stores" refer to Circuit City Stores, Inc. and our wholly owned subsidiaries, unless the context requires otherwise. "CarMax business," "CarMax" and "CarMax Group" refer to retail locations bearing the CarMax name and to all related operations such as CarMax's finance operation.

Net Sales and Operating Revenues and General Comments

CarMax Group. Total CarMax sales for the third quarter of fiscal 2002 increased

38 percent to \$774.3 million from \$561.7 million in last year's third quarter. For the nine months ended November 30, 2001, CarMax total sales increased 30 percent to \$2.42 billion from \$1.86 billion in the prior year. Comparable store vehicle dollar and unit sales for the third quarter and first nine months of fiscal years 2002 and 2001 were as follows:

Comparable Store Sales	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Vehicle dollars:				
Used vehicles	36%	15%	31%	15%
New vehicles	51%	(4%)	28%	11%
Total	38%	11%	30%	15%
Vehicle units:				
Used vehicles	29%	11%	24%	11%
New vehicles	46%	(3%)	24%	11%
Total	31%	9%	24%	11%

In the third quarter of fiscal 2002, sales in the CarMax business accelerated beyond the strong sales trend that began in fiscal 2001. Early in the third

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

quarter, used-car unit sales were consistent with the 20 percent growth trends experienced throughout the first two quarters of the year. Beginning in late September, traffic flow to our used-car superstores increased significantly, which we believe was driven by cross shopping from new-car financing incentive programs. We converted this increased traffic flow into significantly accelerated used-car sales in both October and November. The five-year, zero-percent financing incentives drove extraordinary new-car sales growth in October. However, the new-car sales growth rate slowed in November as we sold through most of our close-out inventory of 2001 models and as most zero-percent financing incentive terms were limited to three years and available on fewer models. The sales increase also reflects higher average retails for both used- and new-car sales. The percent of vehicle sales represented by used cars and new cars for the third quarter and the first nine months of fiscal 2002 and 2001 were as follows:

Vehicle Sales Mix	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Vehicle dollars:				
Used vehicles	80%	81%	81%	80%
New vehicles	20%	19%	19%	20%
Total	100%	100%	100%	100%
Vehicle units:				
Used vehicles	86%	87%	86%	86%
New vehicles	14%	13%	14%	14%
Total	100%	100%	100%	100%

Average retail selling prices for CarMax vehicles for the third quarter and first nine months of fiscal 2002 and 2001 were as follows:

Average Retail Selling Prices	3rd Quarter		Nine Months	
	FY02	FY01	FY02	FY01
Used vehicles	\$15,100	\$14,400	\$15,200	\$14,400
New vehicles	\$23,500	\$22,700	\$23,100	\$22,700
Blended average	\$16,300	\$15,400	\$16,300	\$15,400

CarMax gross dollar sales from all extended warranty programs were 3.9 percent of sales in the third quarter of fiscal 2002 and 4.1 percent in the third quarter of fiscal 2001. Third-party warranty revenue was 1.7 percent of sales in this year's third quarter and 1.8 percent in the same period last year. The total extended warranty revenue that is reported in total sales was 1.7 percent of sales in the third quarter of fiscal 2002 and 1.8 percent of sales in the

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

third quarter of fiscal 2001.

Page 44 of 49

The following table provides detail on the CarMax retail units:

Store Mix	Nov. 30, 2001	Nov. 30, 2000	Estimate Feb. 2002
"C" and "B" stores	14	14	14
"A" stores	17	17	18
Prototype satellite stores	4	4	5
Stand-alone new-car stores	4	5	3
Total	39	40	40

CarMax's geographic growth over the next five years is expected to include primarily the addition of superstores in new mid-sized markets that can be served effectively with one CarMax superstore and additional satellite stores in existing multi-store markets. Mid-sized markets are those with populations of approximately 1 million to 2.5 million people. During the third quarter, we closed the new-car stand-alone Mitsubishi franchise in the Los Angeles market and after the end of the quarter, in December 2001, we completed the sale of our Dallas Chrysler new-car stand-alone franchise. We expect to open one standard-sized used-car superstore and one satellite used-car superstore in late February 2002. The standard superstore is planned for Greensboro, N.C., and the satellite for Merrillville, Ind., in the greater Chicago market. In fiscal 2003, we plan to open four to six stores, and in fiscal years 2004 through 2006, we plan to open six to eight stores per year. The standard superstore previously planned for opening at the end of this fiscal year in Sacramento, Calif., now is planned to open in the first quarter next fiscal year.

Our operations, in common with other retailers in general, are subject to seasonal influences. Historically, the CarMax business has experienced more of its net sales in the first half 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 gross profit margin was 11.8 percent of sales in the third quarter of fiscal 2002 versus 12.8 percent for the same period last year. For the nine-month period ended November 30, 2001, the gross profit margin was 12.5 percent, compared with 13.3 percent for the same period last year. We achieved our gross profit margin dollar targets per vehicle; however, used-car higher average retails and the slightly higher mix of new cars to used cars generated a decline in the gross profit margin on a percentage basis. Used-car gross dollar margins are similar across makes and models. Consequently, the gross profit margin percentage on a higher priced used car is lower than on a more modestly priced car. The incentive-driven growth in new car sales resulted in the higher mix of new cars to used cars, and new cars carry much lower gross margins, both in dollars and on a percentage basis. We also experienced a small amount of gross profit margin erosion caused by wholesale auction losses that occurred following the rapid decline in wholesale vehicle prices after September 11.

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

Selling, General and Administrative Expense

The selling, general and administrative expense ratio decreased to 7.9 percent of sales in the third quarter of fiscal 2002 from 10.1 percent of sales for the same period last year. For the nine months ended November 30, 2001, the ratio was 7.5 percent of sales, compared with 9.5 percent in the same period last year. The expense ratio improvement reflects the significant expense leverage generated by the comparable store vehicle unit sales growth and higher average retails. As in the first half of this year, we experienced increased yield spreads from our finance operation, which continues to benefit from the lower cost of funds.

Page 45 of 49

Interest Expense

The CarMax interest expense declined by \$2.6 million to \$0.1 million for the third quarter of fiscal 2002 and by \$4.4 million to \$4.7 million for the nine months ended November 30, 2001, compared with the same periods last year, reflecting both lower debt levels and interest rates.

Net Earnings

Net earnings for the CarMax business, increased 143.7 percent to \$18.4 million in the third quarter of fiscal 2002 from \$7.6 million in last year's third quarter. For the first nine months of the current fiscal year, the CarMax business had net earnings of \$72.4 million, compared with \$37.8 million in fiscal 2001.

Net earnings attributed to the CarMax Group stock increased 241.4 percent to \$6.6 million in the third quarter of fiscal 2002 from \$1.9 million in the third quarter of last year. For the first nine months of the current year, net earnings attributed to the CarMax Group stock were \$21.4 million, compared with \$9.6 million last year.

Net earnings attributed to the CarMax Group stock reflect the effect of the public offering completed in the second quarter of this year. With the impact of the offering, 64.5 percent of the CarMax Group's nine-month earnings were allocated to the Circuit City Group. For the same period last year, 74.6 percent of the CarMax Groups earnings were allocated to the Circuit City Group.

Liquidity and Capital Resources

For the first nine months, CarMax generated cash from operating activities of \$74.0 million in fiscal 2002, compared with \$48.6 million in fiscal 2001. The improvement was primarily the result of increased net earnings.

Net cash provided by investing activities was \$73.4 million in the nine months ended November 30, 2001, compared with \$6.0 million in the first nine months of last year. This increase of \$67.4 million reflects the proceeds from the second quarter sale-leaseback transaction, partially offset by an increase in capital expenditures this year related to new store construction. In August 2001, CarMax entered into a sale-leaseback transaction covering nine superstore properties valued at \$102.4 million. This transaction, which represented the first sale-leaseback entered into by CarMax without a Circuit City Stores guarantee, was structured at competitive rates with an initial lease term of 15 years and two 10-year renewal options.

As scheduled, in June 2001 we used existing working capital to repay a \$130 million term loan. Payment of corporate debt will not necessarily reduce CarMax Group allocated debt. At November 30, 2001, the CarMax Group had cash and cash

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

equivalents of \$10.0 million and total debt of \$44.9 million. We maintain a \$150 million unsecured revolving credit facility and \$195 million in committed seasonal lines of credit that are renewed annually with various banks.

The Company has asset securitization programs to finance the consumer installment credit receivables generated by CarMax's automobile loan finance operation. Automobile loan receivables are sold to special purpose subsidiaries which, in turn, securitize those receivables through both private placement and the public market. As of November 30, 2001, the combined capacity of these programs was \$1.90 billion. During the quarter, the Company completed its third public automobile loan receivable securitization program, securitizing \$641.7 million of auto loan receivables. Securitized receivables under all CarMax programs totaled \$1.51 billion as of November 30, 2001. We anticipate that we will be able to expand or enter into new arrangements comparable to these securitization programs to meet future needs.

During the second quarter, we completed the public offering of 9,516,800 shares of CarMax Group stock, including the exercise of an underwriters' over-allotment option for 666,800 shares. The shares sold in the offering were shares of CarMax Group stock that previously had been reserved for the Circuit City Group or for issuance to holders of Circuit City Group stock. The net proceeds from the offering of \$139.6 million were

Page 46 of 49

allocated to the Circuit City Group to be used for general purposes of the Circuit City business, including remodeling of Circuit City Superstores.

CarMax relies on the external debt allocated to it by Circuit City Stores to provide working capital needed to fund net assets not otherwise financed through sale-leasebacks or receivable securitizations. We manage all significant financial activities of the CarMax business on a centralized basis. CarMax's significant financial activities are dependent on our financial condition as a whole and include the investment of surplus cash, issuance and repayment of debt, securitization of receivables or sale-leasebacks of real estate.

We anticipate that fiscal 2002 capital expenditures will continue to be funded through a combination of floor plan financing, internally generated cash, sale-leaseback transactions, proceeds from the sales of receivables or future increases in Circuit City Stores' debt allocated to the CarMax group.

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 our SEC filings, including our report on Form 10-Q for the quarter ended May 31, 2001.

ITEM 3.

CARMAX GROUP QUANTITATIVE AND QUALITATIVE

----- DISCLOSURES ABOUT MARKET RISK -----

We centrally manage the market risk associated with the automobile loan portfolio of CarMax's finance operation. A portion of this portfolio is

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

securitized and, therefore, is not presented on the CarMax Group's balance sheets. Interest rate exposure relating to these receivables represents a market risk exposure that we manage with matched funding and interest rate swaps. Financing for these automobile loan receivables is achieved through asset securitization programs that, in turn, issue both fixed- and floating-rate securities. Because programs are in place to manage interest rate exposure relating to the existing automobile loan receivables, we expect to experience relatively little impact as interest rates fluctuate. Receivables held for investment or sale are financed with working capital.

Financings at November 30 and February 28, 2001, were as follows:

(Amounts in millions)	November 30	February 28
Fixed-rate securitizations.....	\$ 1,279	\$ 984
Floating-rate securitizations		
synthetically altered to fixed.....	227	299
Floating-rate securitizations.....	1	1
Held by the Company:		
For investment*.....	6	9
For sale.....	4	3
Total Principal Outstanding.....	\$ 1,517	\$ 1,296

* Held by a bankruptcy remote special purpose company.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(3) (i) Articles of Incorporation

(a) Amended and Restated Articles of Incorporation of Circuit City Stores, Inc., effective February 3, 1997, filed as Exhibit 3 (i) (a) to the Company's Amended Quarterly Report on Form 10-Q/A for the quarter ended May 31, 1999 (File No. 1-5767), are expressly incorporated herein by this reference.

(b) Articles of Amendment to our Amended and Restated Articles of Incorporation, effective April 28, 1998, filed as Exhibit 3(i) (b) to the Company's Amended Quarterly Report on Form 10-Q/A for the quarter ended May 31, 1999 (File No. 1-5767), are expressly incorporated herein by this reference.

(c) Articles of Amendment to our Amended and Restated Articles of Incorporation, effective June 22, 1999, filed as Exhibit 3(i) (c) to the Company's Amended Quarterly Report on Form

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

10-Q/A for the quarter ended May 31, 1999 (File No. 1-5767), are expressly incorporated herein by this reference.

(3)(ii) Bylaws

(a) Bylaws of Circuit City Stores, Inc., as amended and restated December 20, 2001, filed herewith.

(b) Reports on Form 8-K

None.

Page 48 of 49

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 11, 2002

Page 49 of 49

