

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

CIRCUIT CITY STORES INC
Form 10-Q
January 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended November 30, 2006
OR
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ___ to ___

Commission file number: 1-5767

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

Virginia 54-0493875
(State of Incorporation) (I.R.S. Employer Identification No.)

9950 Mayland Drive
Richmond, Virginia 23233
(Address of principal executive offices) (Zip Code)

(804) 527- 4000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer ___ Non-accelerated filer ___

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

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

Class	Outstanding at November 30, 2006
Common Stock, par value \$0.50	175,721,602

A Table of Contents is included on Page 2 and an Exhibit Index is included on Page 35.

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

CIRCUIT CITY STORES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Statements of Operations - Three Months and Nine Months Ended November 30, 2006 and 2005	3
Consolidated Balance Sheets - November 30, 2006, and February 28, 2006	4
Consolidated Statements of Cash Flows - Nine Months Ended November 30, 2006 and 2005	5
Notes to Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
--	----

Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
--	----

Item 4. Controls and Procedures	31
---------------------------------	----

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	31
---------------------------	----

Item 1A. Risk Factors	31
-----------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
---	----

Item 6. Exhibits	33
------------------	----

SIGNATURES	34
------------	----

EXHIBIT INDEX	35
---------------	----

Page 2 of 35

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Three Months Ended November 30	
2006	2005
-----	-----

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

Net sales	\$ 3,102,299	\$ 2,901,385	\$
Cost of sales, buying and warehousing	2,413,492	2,201,371	
	-----	-----	
Gross profit	688,807	700,014	
Selling, general and administrative expenses	720,921	686,668	
	-----	-----	
Operating (loss) income	(32,114)	13,346	
Interest income	5,744	4,334	
Interest expense	1,034	1,113	
	-----	-----	
(Loss) earnings from continuing operations before income taxes	(27,404)	16,567	
Income tax (benefit) provision	(11,778)	6,415	
	-----	-----	
Net (loss) earnings from continuing operations	(15,626)	10,152	
Loss from discontinued operations, net of tax	(364)	(10)	
Cumulative effect of change in accounting principle, net of tax	-	-	
	-----	-----	
Net (loss) earnings	\$ (15,990)	\$ 10,142	\$
	=====	=====	
Weighted average common shares:			
Basic	171,063	174,438	
Diluted	171,063	177,509	
(Loss) earnings per share:			
Basic:			
Continuing operations	\$ (0.09)	\$ 0.06	\$
Discontinued operations	\$ -	\$ -	\$
Cumulative effect of change in accounting principle	\$ -	\$ -	\$
Net (loss) earnings	\$ (0.09)	\$ 0.06	\$
Diluted:			
Continuing operations	\$ (0.09)	\$ 0.06	\$
Discontinued operations	\$ -	\$ -	\$
Cumulative effect of change in accounting principle	\$ -	\$ -	\$
Net (loss) earnings	\$ (0.09)	\$ 0.06	\$
Cash dividends paid per share	\$ 0.04	\$ 0.0175	\$

See accompanying notes to consolidated financial statements.

Page 3 of 35

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

ASSETS

Current assets:

Cash and cash equivalents
Short-term investments

Nov. 30,

(Unaudi

\$ 44
45

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

Accounts receivable, net of allowance for doubtful accounts	42
Merchandise inventory	2,53
Deferred income taxes	3
Income tax recoverable	2
Prepaid expenses and other current assets	6

Total current assets	3,97
Property and equipment, net of accumulated depreciation of \$1,285,500 and \$1,179,481	93
Deferred income taxes	7
Goodwill	21
Other intangible assets, net of accumulated amortization of \$13,280 and \$6,123	2
Other assets	4

TOTAL ASSETS	\$5,26
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Merchandise payable	\$1,87
Expenses payable	41
Accrued expenses and other current liabilities	55
Accrued income taxes	
Short-term debt	3
Current installments of long-term debt	

Total current liabilities	2,87
Long-term debt, excluding current installments	4
Accrued straight-line rent and deferred rent credits	26
Accrued lease termination costs	5
Other liabilities	9

TOTAL LIABILITIES	3,35

Commitments and contingent liabilities	
Stockholders' equity:	
Common stock, \$0.50 par value; 525,000,000 shares authorized; 175,721,602 shares issued and outstanding at November 30, 2006 (174,789,390 at February 28, 2006)	8
Capital in excess of par value	43
Retained earnings	1,35
Accumulated other comprehensive income	4

TOTAL STOCKHOLDERS' EQUITY	1,91

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,26
	=====

See accompanying notes to consolidated financial statements.

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

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

	2006
<hr style="border-top: 1px dashed black;"/>	
Operating Activities:	
Net earnings (loss)	\$
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:	
Net loss from discontinued operations	2
Depreciation expense	132
Amortization expense	7
Stock-based compensation expense	22
Gain on dispositions of property and equipment	(1)
Provision for deferred income taxes	16
Cumulative effect of change in accounting principle	(1)
Other	
Changes in operating assets and liabilities:	
Accounts receivable, net	(180)
Merchandise inventory	(834)
Prepaid expenses and other current assets	(26)
Other assets	
Merchandise payable	1,023
Expenses payable	91
Accrued expenses, other current liabilities and accrued income taxes	(12)
Other long-term liabilities	(19)
	<hr style="border-top: 1px dashed black;"/>
Net cash provided by (used in) operating activities of continuing operations	219
	<hr style="border-top: 1px dashed black;"/>
Investing Activities:	
<hr style="border-top: 1px dashed black;"/>	
Purchases of property and equipment	(216)
Proceeds from sales of property and equipment	17
Purchases of investment securities	(664)
Sales and maturities of investment securities	736
Other investing activities	(9)
	<hr style="border-top: 1px dashed black;"/>
Net cash used in investing activities of continuing operations	(137)
	<hr style="border-top: 1px dashed black;"/>
Financing Activities:	
<hr style="border-top: 1px dashed black;"/>	
Proceeds from short-term borrowings	35
Principal payments on short-term borrowings	(22)
Proceeds from long-term borrowings	1
Principal payments on long-term borrowings	(6)
Change in overdraft balances	92
Excess tax benefit from stock-based payments	15
Repurchases of common stock	(137)
Issuances of common stock	88
Dividends paid	(13)
Redemption of preferred share purchase rights	
Other financing activities	(1)
	<hr style="border-top: 1px dashed black;"/>
Net cash provided by (used in) financing activities of continuing operations	52
	<hr style="border-top: 1px dashed black;"/>
Discontinued Operations:	
<hr style="border-top: 1px dashed black;"/>	
Operating cash flows	(5)

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

Investing cash flows	2
Financing cash flows	
<hr style="border-top: 1px dashed black;"/>	
Net cash used in discontinued operations	(3)
<hr style="border-top: 1px dashed black;"/>	
Effect of exchange rate changes on cash	
<hr style="border-top: 1px dashed black;"/>	
Increase (decrease) in cash and cash equivalents	130
Cash and cash equivalents at beginning of year	315
<hr style="border-top: 1px dashed black;"/>	
Cash and cash equivalents at end of period	\$ 446
<hr style="border-top: 3px double black;"/>	

See accompanying notes to consolidated financial statements.

Page 5 of 35

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

1. Basis of Presentation

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

The domestic segment is primarily engaged in the business of selling brand-name consumer electronics, personal computers, entertainment software, and related services in Circuit City stores in the United States and via the Web at www.circuitcity.com and www.firedog.com. At November 30, 2006, the company's domestic segment operated 640 Superstores and 11 other stores in 158 U.S. media markets.

The international segment, which is comprised of the operations of InterTAN, Inc., is primarily engaged in the business of selling private-label and brand-name consumer electronics in Canada. The international segment's headquarters are located in Barrie, Ontario, Canada, and it operates through retail stores and dealer outlets in Canada primarily under the trade names The Source By Circuit CitySM, Rogers Plus(R) and Battery Plus(R). At November 30, 2006, the international segment conducted business through 955 retail stores and dealer outlets, which consisted of 547 company-owned stores, 300 dealer outlets, 92 Rogers Plus(R) stores and 16 Battery Plus(R) stores. The international segment also operates a Web site at www.thesource.ca.

In accordance with the Amending Agreement dated March 27, 2004, between Rogers Wireless Inc. ("Rogers") and InterTAN Canada Ltd., Rogers has notified InterTAN that they do not intend to continue the existing arrangement with respect to InterTAN's operation of the Rogers Plus(R) stores after January 28, 2007. Exit costs related to the transition are expected to be inconsequential. The company expects to classify the results of operations attributable to the Roger Plus(R) stores as results from discontinued operations in the fourth quarter of fiscal 2007.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates. In the opinion of management, the accompanying unaudited financial statements contain all

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

adjustments, which consist only of normal, recurring adjustments, necessary for a fair presentation. Due to the seasonal nature of the company's business, interim results are not necessarily indicative of results for the entire fiscal year. The company's consolidated financial statements included in this report should be read in conjunction with the notes to the audited financial statements in the company's fiscal 2006 Annual Report on Form 10-K.

Reclassifications and Adjustments: The company has made revisions and reclassifications to its fiscal 2006 consolidated statement of operations as disclosed in Note 1, Basis of Presentation, of the Notes to the Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of the company's fiscal 2006 Annual Report on Form 10-K. Such revisions and reclassifications include the following:

- o Amounts previously reported as rent expense related to financing lease obligations have been reclassified to interest expense.
- o Interest income has been reclassified from selling, general and administrative expenses to a separate line item on the consolidated statement of operations.
- o The results of a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, have been presented as results from discontinued operations.

Page 6 of 35

During the first quarter of fiscal 2007, the company reclassified fiscal 2006 stock-based compensation expense from a separate line item on the consolidated statement of operations to selling, general and administrative expenses.

2. Restatement of Cash Flows

As disclosed in Note 22, Quarterly Financial Data (Unaudited), of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of the company's fiscal 2006 Annual Report on Form 10-K, the company identified errors in its previously filed consolidated statement of cash flows for the nine months ended November 30, 2005, and restated the consolidated statement of cash flows for the nine months ended November 30, 2005. The company had classified variable rate demand notes as cash and cash equivalents; however, these notes should have been classified as short-term investments and their purchases and sales as investing activities. The company incorrectly reflected bank overdrafts as a change in accounts payable in operating activities rather than in financing activities. The company incorrectly included accruals for purchases of property and equipment in operating activities and investing activities. The company incorrectly reflected deposits in transit as a reduction to accounts payable.

In addition, the company sold the assets of a domestic segment subsidiary, MusicNow, LLC, during the third quarter of fiscal 2006 and began holding the assets of a domestic segment operation for sale during the fourth quarter of fiscal 2006. The cash flow activities related to MusicNow, LLC, and the domestic segment operation have been reclassified and reported separately as cash flows from discontinued operations.

The following table summarizes the cash flow activities as previously reported for the nine months ended November 30, 2005, compared with the revised cash flow activities to reflect correction of the errors and cash flows from discontinued operations.

(Amounts in millions)

Nine Months Ended
November 30, 2005

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

Operating cash flows as previously reported.....	\$ (78.5)
Operating cash flows as revised.....	\$ (88.4)
Investing cash flows as previously reported.....	\$ (89.1)
Investing cash flows as revised.....	\$(147.0)
Financing cash flows as previously reported.....	\$(218.2)
Financing cash flows as revised.....	\$(206.5)
Discontinued operations cash flows as previously reported.....	\$ -
Discontinued operations cash flows as revised.....	\$ (19.6)
Decrease in cash and cash equivalents as previously reported.....	\$(386.0)
Decrease in cash and cash equivalents as revised.....	\$(461.9)

3. Stock-Based Compensation

Effective March 1, 2006, the company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123(R)), using the modified prospective transition method. Prior to the adoption of SFAS No. 123(R), the company accounted for stock-based compensation using a fair value-based method in accordance with SFAS No. 123, "Stock-Based Compensation." Because the fair value recognition provisions of SFAS No. 123 and SFAS No. 123(R) were materially consistent under the company's stock-based incentive plans, the adoption of SFAS No. 123(R) did not have a material impact on the company's financial position, results of operations or cash flows.

Page 7 of 35

Under SFAS No. 123(R), companies are required to report excess tax benefits as a financing cash inflow rather than as a reduction of taxes paid. Under SFAS No. 123, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows.

SFAS No. 123(R) requires companies to estimate the number of equity awards granted that are expected to be forfeited, recognize compensation cost based on the number of awards that are expected to vest, and subsequently adjust estimated forfeitures to reflect actual forfeitures. Under SFAS No. 123, the company recognized forfeitures when they occurred. During the first quarter of fiscal 2007, the company recorded an after-tax benefit of \$1.8 million, \$2.8 million pretax, as a cumulative effect of a change in accounting principle to adjust for awards granted prior to March 1, 2006, that are not expected to vest.

Under the company's stock-based incentive plans, nonqualified stock options, nonvested stock, nonvested stock units and other equity-based awards may be granted to management, key employees and non-employee directors. The company previously referred to nonvested stock as restricted stock and nonvested stock units as restricted stock units. At November 30, 2006, 3.9 million shares of common stock were available for future grants of options, nonvested stock or nonvested stock units. Upon the exercise of stock options, the grant of nonvested stock, or the vesting of or lapse of restrictions on nonvested stock units, common shares are issued from authorized and unissued shares.

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

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

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

(Amounts in millions)	Three Months Ended November 30	
	2006	2005
Compensation cost recognized:		
Stock options.....	\$1.8	\$3.6
Nonvested stock and nonvested stock units.....	4.2	4.6
Phantom stock.....	0.3	0.8
Employee stock purchase plan.....	0.2	0.3
Other.....	-	-
Total compensation cost recognized.....	\$6.5	\$9.3
Tax benefit recognized.....	\$2.3	\$3.3

(A) Stock Options: Under the terms of the company's stock-based incentive plans, the exercise price for nonqualified options must be equal to, or greater than, the market value at the grant date. Options generally are exercisable over a period of one year to ten years from the grant date. The company values stock options issued using the Black-Scholes option-pricing model and recognizes this value as an expense over the period in which the options vest. Option valuation models require the company to make subjective assumptions. Changes in the subjective assumptions can materially affect the fair value estimate. The expected dividend yield is based on expected annual dividends and the market value of the company's stock on the grant date. The expected stock volatility assumption is based on historical volatility of the company's stock. The risk-free interest rate is based on the U.S. Treasury Strip rate posted at the grant date for the expected term of the option. The expected term represents the period of time that options granted are expected to be outstanding and is primarily based on the historical exercise experience and post-vesting employment termination behavior of the company's employees. The company evaluates historical exercise behavior for two separate groups based on the employee's position in the company.

During the first quarter of fiscal 2007, a stock option grant with a vesting period of five years and an expiration date of ten years was made to the chairman, president and chief executive officer. Due to the lack of historical exercise behavior for an option with similar vesting provisions, the company used a simplified method to estimate the expected term of the grant. An average of the award's weighted average vesting period and its contractual term was calculated and resulted in an expected term of seven years.

Page 8 of 35

The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended November 30	
	2006	2005
Expected dividend yield.....	0.6%	0.4%
Expected stock volatility.....	51%	53%
Risk-free interest rates.....	5%	4%
Expected term (in years).....	5	4

The weighted average fair value of options granted, the total intrinsic

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

value of options exercised, the tax benefits realized from stock options exercised and the fair value of stock options that vested are summarized in the table below.

(Amounts in millions except per share data)	Three Months Ended November 30	
	2006	2005
Weighted average fair value of options granted (per share).....	\$13.37	\$7.97
Total intrinsic value of options exercised.....	\$25.5	\$2.0
Tax benefits realized from stock options exercised.....	\$ (0.2)	\$1.7
Fair value of stock options that vested.....	\$ 3.5	\$1.6

Total unrecognized compensation cost related to unvested stock options at November 30, 2006, was \$27.1 million and is expected to be recognized over a weighted average period of three years.

The company's stock option activity is summarized in the table below.

	Shares (in thousands)	Weighted Average Exercise Price	A Re Contr (
Outstanding at February 28, 2006.....	14,109	\$16.41	
Granted.....	1,105	\$24.32	
Exercised.....	(1,439)	\$11.86	
Forfeited or expired.....	(225)	\$15.37	

Outstanding at May 31, 2006.....	13,550	\$17.55	
Granted.....	91	\$27.16	
Exercised.....	(1,414)	\$14.82	
Forfeited or expired.....	(23)	\$16.71	

Outstanding at August 31, 2006.....	12,204	\$17.94	
Granted.....	66	\$27.23	
Exercised.....	(2,835)	\$18.09	
Forfeited or expired.....	(254)	\$16.66	

Outstanding at November 30, 2006.....	9,181	\$18.00	
=====			
Exercisable at November 30, 2006.....	6,179	\$17.15	

(B) Nonvested Stock and Nonvested Stock Units: Under the company's stock-based incentive plans, shares of nonvested stock are granted in the name of an employee or a non-employee director, who has all the rights of a shareholder, including the right to receive dividends, subject to certain restrictions and possible forfeitures. Restrictions on nonvested stock generally expire one year to four years from the grant date, when the stock typically becomes fully vested. Beginning June 2005, certain awards made to employees who are named executive officers in the proxy statement for the fiscal year end prior to the

completion of the service condition also are subject to a market condition. The market condition could extend the vesting period up to an additional three years and could result in the awards being forfeited if the market condition is not satisfied. The fair value of nonvested stock is the market

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

value on the grant date and is expensed over the vesting period.

A portion of the outstanding nonvested stock awards is performance-accelerated shares that are eligible for accelerated vesting if the company achieves earnings from continuing operations before income taxes as a percentage of net sales targets in fiscal 2007, fiscal 2008 or fiscal 2009. If vesting is not accelerated, the shares vest on July 1, 2009, except for awards that are subject to the market condition.

The company also issues nonvested stock units. Nonvested stock units are granted in the name of an employee or a non-employee director. Once granted, nonvested stock units are eligible for dividends but have no voting rights. The nonvested stock units are redeemed for company stock once the vesting period and any applicable deferral restrictions have been satisfied. The fair value of nonvested stock units is the market value on the grant date. Compensation cost is recognized over the vesting period, which is generally one year to three years.

The weighted average fair value of nonvested stock granted, the weighted average fair value of nonvested stock units granted and the fair value of nonvested stock and nonvested stock units that vested are summarized in the table below.

(Amounts in millions except per share data)	Three Months Ended November 30	
	2006	2005
<hr style="border-top: 1px dashed black;"/>		
Weighted average fair value of nonvested stock granted (per share).....	\$26.14	\$17.13
Weighted average fair value of nonvested stock units granted (per share).....	\$ -	\$ -
Fair value of nonvested stock and nonvested stock units that vested.....	\$ 0.3	\$ 0.6

Total unrecognized compensation cost related to nonvested stock and nonvested stock units at November 30, 2006, was \$50.4 million and is expected to be recognized over a weighted average period of three years. If nonvested stock or nonvested stock units are forfeited or cancelled, the shares issued as nonvested stock or the shares reserved for the nonvested stock units are available for future granting.

The company's nonvested stock and nonvested stock unit activity is summarized in the table below.

	Shares (in thousands)	Weighted Average Grant Date Fair Value	(in
<hr style="border-top: 1px dashed black;"/>			
Nonvested at February 28, 2006.....	3,825	\$17.08	
Granted.....	491	\$25.44	
Vested.....	(10)	\$12.26	
Forfeited.....	(231)	\$16.95	
<hr style="border-top: 1px dashed black;"/>			
Nonvested at May 31, 2006.....	4,075	\$18.11	
Granted.....	483	\$26.57	
Vested.....	(64)	\$11.40	
Forfeited.....	(76)	\$18.13	
<hr style="border-top: 1px dashed black;"/>			
Nonvested at August 31, 2006.....	4,418	\$19.13	
Granted.....	108	\$26.14	
Vested.....	(16)	\$14.77	

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

Forfeited.....	(360)	\$18.47

Nonvested at November 30, 2006.....	4,150	\$19.39
	=====	

Page 10 of 35

(C) Phantom Stock Program: The company issues phantom stock units through a long-term incentive program. An employee does not receive rights of a shareholder as a result of holding these units, nor is any stock transferred. The value of one unit is based on the market value of one share of common stock on the vesting date. The units will be paid out in cash at the end of the two-year vesting period. The cost of the grants is recognized over the vesting period, and the related liability is included in accrued expenses and other current liabilities on the consolidated balance sheets. At November 30, 2006, 0.2 million phantom stock units were outstanding. No phantom stock units were granted during the three months and nine months ended November 30, 2006. A total of 0.3 million units was granted during the three months and nine months ended November 30, 2005.

(D) Employee Stock Purchase Plan: The company has an employee stock purchase plan for all domestic segment employees meeting eligibility criteria. Under the plan, eligible employees may, subject to limitations, purchase shares of common stock. The company matches \$0.15 for each \$1.00 contributed by employees. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of \$13,000 per year. The company has authorized 18.5 million shares of common stock for purchase under the plan since the plan was adopted in 1984. At November 30, 2006, a total of 1.5 million shares remained available under the plan. The obligation for the company match is included in accrued expenses and other current liabilities on the consolidated balance sheets.

The company's employee stock purchase plan activity is summarized in the table below.

(Amounts in millions except per share data)	Three Months Ended November 30	
	2006	2005
Number of shares issued to or purchased on the open market on behalf of employees.....	0.1	0.1
Average price per share of common stock purchased.....	\$25.85	\$18.80

4. Comprehensive (Loss) Income

The components of the company's comprehensive (loss) income consist of the net (loss) earnings and foreign currency translation adjustments. Foreign currency translation adjustments are recorded net of deferred income taxes directly as a component of stockholders' equity.

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

(Amounts in millions)	Three Months Ended November 30	
	2006	2005
Net (loss) earnings.....	\$ (16.0)	\$10.1
Foreign currency translation.....	(8.7)	4.0
Comprehensive (loss) income.....	\$ (24.7)	\$14.2

=====

5. Net (Loss) Earnings Per Share

The following table presents a reconciliation of the denominators used in the net (loss) earnings per share calculations.

(Shares in millions)	Three Months Ended November 30	
	2006	2005
Weighted average common shares.....	171.1	174.4
Dilutive potential common shares:		
Options.....	-	2.6
Nonvested stock and nonvested stock units.....	-	0.5
Weighted average common shares and potentially dilutive common equivalent shares.....	171.1	177.5

For the nine months ended November 30, 2006, and the three months and nine months ended November 30, 2005, the computations of potentially dilutive common equivalent shares excluded certain options to purchase shares of common stock because the exercise prices were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. Shares excluded were as follows:

(Shares in millions)	Three Months Ended November 30 2005
Options to purchase common stock.....	5.6

For the three months ended November 30, 2006, 9.2 million stock options and 4.2 million shares of nonvested stock and nonvested stock units were excluded from the calculation of diluted net loss per share because the company reported a net loss from continuing operations.

6. Accrued Lease Termination Costs

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

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

(Amounts in millions)	Nine M No 2006
-----------------------	----------------------

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

Accrued lease termination costs at beginning of period.....	\$110.0
Provisions for closed locations.....	6.2
Changes in assumptions about future sublease income and terminations.....	4.9
Reversals of accruals for locations returned to operation(a).....	(12.9)
Interest accretion.....	6.3
Cash payments, net of cash received on subleased locations.....	(25.8)
<hr/>	
Accrued lease termination costs at end of period.....	88.7
Less current portion of accrued lease termination costs.....	30.0
<hr/>	
Non-current portion of accrued lease termination costs.....	\$ 58.7
<hr/>	

(a)The company reversed \$12.9 million of lease termination charges for seven previously vacant locations that have re-opened or will re-open as outlet stores.

The current portion of accrued lease termination costs is included in accrued expenses and other current liabilities, and the non-current portion is presented separately on the consolidated balance sheets.

7. Common Stock Repurchased

In June 2006, the company's board of directors authorized a \$400 million increase in its stock repurchase authorization for an aggregate authorization of \$1.2 billion, of which \$380.4 million remained available at November 30, 2006. As of November 30, 2006, the company had repurchased 52.9 million shares of common stock at a cost of \$819.6 million, excluding commission fees, cumulatively since inception of the stock repurchase program.

The company's stock repurchase activity for the three months and nine months ended November 30, 2006, was as follows:

(Amounts in millions)	Three Months Ended November 30, 2006
Total number of shares repurchased.....	0.7
Cost, excluding commission fees.....	\$19.9

8. Pension Plans

The company's domestic segment has a noncontributory defined benefit pension plan that was frozen as of February 28, 2005, except for employees who (i) were within three years of their early retirement date or normal retirement date; (ii) had reached their early or normal retirement date; or (iii) were permanently disabled before March 1, 2005. As a result, all employees affected by the plan freeze retain any benefits accumulated to the effective date, but are no longer eligible to increase their benefit.

The company also has an unfunded nonqualified benefit restoration plan that restored retirement benefits for domestic segment senior executives who were affected by Internal Revenue Code limitations on benefits provided under the company's pension plan. The benefit restoration plan was frozen as of February 28, 2005, and will provide benefits for participants who, as of that date, were within 10 years of attaining their early retirement date or normal retirement date.

On December 22, 2005, the benefit restoration plan was amended to allow W.

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

Alan McCollough to elect to receive a lump-sum payment following his retirement. Mr. McCollough received additional age and service credit under the benefit restoration plan, which is expected to result in Mr. McCollough receiving the maximum benefit payable under the plan.

Page 13 of 35

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

(Amounts in thousands)	Three Months Ended November 30	
	2006	2005
Service cost.....	\$ 675	\$ 703
Interest cost.....	3,820	3,455
Expected return on plan assets.....	(4,775)	(4,507)
Recognized prior service cost.....	54	54
Recognized actuarial loss.....	609	265
Loss due to settlement.....	-	-
Net pension expense (income).....	\$ 383	\$ (30)
	=====	=====

The company did not make a contribution to the defined benefit pension plan during the nine months ended November 30, 2006. No contributions are required during fiscal 2007 under applicable law to meet ERISA minimum funding standards. However, the company may make voluntary contributions to the defined benefit pension plan to ensure that the fair value of plan assets at February 28, 2007, exceeds the accumulated benefit obligation. The company does not expect to make a contribution in fiscal 2007.

A contribution of \$5.1 million, which is equal to the expected benefit payments for fiscal 2007, is expected to be made to the restoration plan during fiscal 2007. The expected benefit payments for fiscal 2007 include a lump-sum payment to Mr. McCollough of \$4.4 million, which is expected to be paid during the fourth quarter. The impact of this lump sum payment is reflected as a loss due to settlement in the preceding table. Benefit payments during the nine months ended November 30, 2006, were \$0.5 million.

9. Discontinued Operations

For the quarter ended November 30, 2006, the net loss from discontinued operations totaled \$0.4 million, which is net of \$0.2 million of income taxes, and related to a domestic segment operation that is held for sale. For the nine months ended November 30, 2006, the net loss from discontinued operations totaled \$2.1 million, which is net of \$0.9 million of income taxes, and related to a domestic segment operation that is held for sale. For the first nine months of fiscal 2007, this \$0.9 million of income tax benefit was offset by \$0.6 million of income tax expense resulting from a revision of management's estimate regarding certain tax uncertainties associated with the discontinued bankcard operations.

For the quarter ended November 30, 2005, the net loss from discontinued operations related to a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, which was sold in October 2005. For the nine months ended November 30, 2005, the net loss from discontinued operations totaled \$3.8 million, which is net of \$2.1 million of income taxes, and related to a domestic segment operation that is held for sale and MusicNow.

10. Segment Information

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

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

Page 14 of 35

Net sales by reportable segment were as follows:

(Amounts in millions)	Three Months Ended November 30	
	2006	2005
Domestic segment.....	\$2,930.7	\$2,730.8
International segment.....	171.6	170.6
Net sales.....	\$3,102.3	\$2,901.4

Net (loss) earnings from continuing operations by reportable segment were as follows:

(Amounts in millions)	Three Months Ended November 30	
	2006	2005
Domestic segment.....	\$(15.4)	\$13.1
International segment.....	(0.3)	(3.0)
Net (loss) earnings from continuing operations.....	\$(15.6)	\$10.2

Total assets by reportable segment were as follows:

(Amounts in millions)	At November 30	At February
	2006	2006
Domestic segment.....	\$4,742.0	\$3,594.
International segment.....	527.3	474.
Total assets.....	\$5,269.3	\$4,069.

11. Supplemental Consolidated Statements of Cash Flows Information

The following table summarizes supplemental cash flow information.

(Amounts in millions)	Nine M No 2006
Supplemental schedule of non-cash investing and financing activities:	
Change in capital expenditure accrual.....	\$25.2
Capital lease obligation.....	\$ -

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

Acquisition(a):	
Fair value of assets acquired.....	\$ -
Less: liabilities assumed.....	-

Acquisition.....	\$ -
	=====

(a)The acquisition is reflected in investing cash flows for discontinued operations on the consolidated statement of cash flows.

12. Recent Accounting Pronouncements

As discussed in Note 3, Stock-Based Compensation, the company adopted SFAS No. 123(R) during the first quarter of fiscal 2007.

In October 2005, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period." FSP No. FAS 13-1 requires companies to expense rent payments for building or ground leases incurred during a construction period. The company adopted FSP No. FAS 13-1 on a prospective basis in the first quarter of fiscal 2007. The

Page 15 of 35

adoption of this new standard did not have a material impact on the company's financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for the company beginning with the first quarter of fiscal 2008. The company has not yet determined the impact of adopting this standard.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the company beginning with the first quarter of fiscal 2009. The company has not yet determined the impact of adopting this standard.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize a plan's overfunded or underfunded status in its balance sheets and recognize the changes in a plan's funded status in comprehensive income in the year in which the changes occur. These provisions of SFAS No. 158 are effective for the company's fiscal year ending February 28, 2007. The company has not yet determined the impact of adopting these provisions. In addition, SFAS No. 158 requires an employer to measure plan assets and obligations that determine its funded status as of the end of its fiscal year, with limited exceptions. This provision of SFAS No. 158 is effective for the company's fiscal year ending February 28, 2009. The company is currently in compliance with this provision.

In September 2006, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior

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

Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements using both the roll-over and the iron curtain methods. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both methods. The provisions of SAB 108 are effective for the company's fiscal year ending February 28, 2007. The company has not yet determined the impact of adopting this standard.

13. Litigation

As previously reported in the company's Annual Report on Form 10-K for the year ended February 28, 2006, the company was involved in litigation with RadioShack Corporation ("RadioShack") related to various agreements between InterTAN and RadioShack and its subsidiaries. In September 2006, RadioShack and Circuit City reached an agreement that settles the litigation between the two companies.

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

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

Our domestic segment is primarily engaged in the business of selling brand-name consumer electronics, personal computers, entertainment software, and related services in our stores in the United States and via the Web at www.circuitcity.com and www.firedog.com. At November 30, 2006, the domestic segment operated 640 Superstores and 11 other stores in 158 U.S. media markets.

Page 16 of 35

Our international segment, which is comprised of the operations of InterTAN, Inc., is primarily engaged in the business of selling private-label and brand-name consumer electronics in Canada. The international segment's headquarters are located in Barrie, Ontario, Canada, and it operates through retail stores and dealer outlets in Canada primarily under the trade names The Source By Circuit CitySM, Rogers Plus(R) and Battery Plus(R). At November 30, 2006, the international segment conducted business through 955 retail stores and dealer outlets, which consisted of 547 company-owned stores, 300 dealer outlets, 92 Rogers Plus(R) stores and 16 Battery Plus(R) stores. The international segment also operates a Web site at www.thesource.ca.

In accordance with the Amending Agreement dated March 27, 2004, between Rogers Wireless Inc. ("Rogers") and InterTAN Canada Ltd., Rogers has notified InterTAN that they do not intend to continue the existing arrangement with respect to InterTAN's operation of the Rogers Plus(R) stores after January 28, 2007. Exit costs related to the transition are expected to be inconsequential. We expect to classify the results of operations attributable to Rogers Plus(R) stores as results from discontinued operations in the fourth quarter of fiscal 2007.

Management's Discussion and Analysis (MD&A) is designed to provide the reader of financial statements with a narrative discussion of our results of operations; financial position, liquidity and capital resources; critical accounting policies and significant estimates; and the impact of recently issued accounting standards. Our MD&A is presented in eight sections:

- o Executive Summary
- o Critical Accounting Policies
- o Results of Operations

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

- o Recent Accounting Pronouncements
- o Financial Condition
- o Updated Fiscal 2007 Outlook
- o Fiscal 2008 and Beyond Outlook
- o Forward-Looking Statements

This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements included in this report, the Annual Report on Form 10-K for the fiscal year ended February 28, 2006, as well as our reports on Form 8-K and other SEC filings.

EXECUTIVE SUMMARY

Fiscal 2007 Third Quarter Performance

- o Net sales grew 6.9 percent, driven by a comparable store sales gain of 5.1 percent on top of a comparable store sales gain of 13.1 percent in the same period last year.
- o In the domestic segment, Web-originated sales grew 67 percent, call center sales grew 84 percent and services revenues grew 72 percent over the same period last year.
- o Gross profit margin declined 192 basis points compared with the same period last year due to a decline in merchandise margin for televisions, PC hardware, and entertainment software, as well as a decrease in extended warranty net sales as a percentage of domestic segment net sales.
- o SG&A expenses as a percentage of net sales, which included approximately 120 basis points in net incremental expenses related to investments in information technology, multi-channel capabilities and innovation activities, declined 43 basis points from the same period last year.
- o The loss from continuing operations before income taxes was 0.9 percent of sales compared with earnings from continuing operations before income taxes of 0.6 percent of sales in the same period last year.
- o We reported a net loss from continuing operations of 9 cents per diluted share compared with net earnings of 6 cents per diluted share in the same period last year.

Page 17 of 35

CRITICAL ACCOUNTING POLICIES

See the discussion of critical accounting policies under Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2006 Annual Report on Form 10-K. These policies relate to accounting for cash consideration received from vendors, the calculation of the liability for lease termination costs, accounting for goodwill and other identified intangible assets, accounting for pension plans and accounting for income taxes. We have updated the discussion of our critical accounting policy for Stock-Based Compensation due to our adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," (SFAS No. 123(R)).

Accounting for Stock-Based Compensation

We account for stock-based compensation using a fair value-based method in accordance with SFAS No. 123(R). The Black-Scholes option valuation model is used to determine the fair value of stock options at the grant date, and expense is recognized over the period in which the options vest. Option valuation models require us to make subjective assumptions, including the expected future

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

volatility of the stock price, expected dividend yield, and expected term of the option. Changes in the subjective assumptions can materially affect the fair value estimate. We estimate the number of equity awards granted that are expected to be forfeited, recognize compensation cost based on the number of awards that are expected to vest, and subsequently adjust the estimated forfeitures to reflect actual forfeitures.

RESULTS OF OPERATIONS

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

Reclassifications and Adjustments

We have made revisions and reclassifications to our fiscal 2006 consolidated statement of operations as disclosed in Note 1, Basis of Presentation, of the Notes to the Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our fiscal 2006 Annual Report on Form 10-K. Such revisions and reclassifications include the following:

- o Amounts previously reported as rent expense related to financing lease obligations have been reclassified to interest expense.
- o Interest income has been reclassified from selling, general and administrative expenses to a separate line item on the consolidated statement of operations.
- o The results of a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, have been presented as results from discontinued operations.

During the first quarter of fiscal 2007, we reclassified fiscal 2006 stock-based compensation expense from a separate line item on the consolidated statement of operations to selling, general and administrative expenses.

Page 18 of 35

Summary of Segment Performance

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

SEGMENT PERFORMANCE SUMMARY

(Amounts in millions)	Three Months Ended November 30, 2006			Domestic
	Domestic	International	Consolidated	
Net sales.....	\$2,930.7	\$171.6	\$3,102.3	\$8,096.
Gross profit.....	\$ 632.4	\$ 56.4	\$ 688.8	\$1,846.
Selling, general and administrative expenses.....	\$ 664.7	\$ 56.2	\$ 720.9	\$1,860.
Net (loss) earnings from continuing operations.....	\$ (15.4)	\$ (0.3)	\$ (15.6)	\$ 4.

Three Months Ended
November 30, 2005

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

(Amounts in millions)	Domestic	International	Consolidated	Domestic
Net sales.....	\$2,730.8	\$170.6	\$2,901.4	\$7,259.
Gross profit.....	\$ 641.1	\$ 58.9	\$ 700.0	\$1,711.
Selling, general and administrative expenses.....	\$ 623.9	\$ 62.8	\$ 686.7	\$1,707.
Net earnings (loss) from continuing operations.....	\$ 13.1	\$ (3.0)	\$ 10.2	\$ 11.

Net Sales

Consolidated

For the third quarter of fiscal 2007, our net sales increased 6.9 percent to \$3.10 billion, and comparable store sales increased 5.1 percent from the same period last year. Net sales for the first nine months of fiscal 2007 increased 11.3 percent to \$8.56 billion from \$7.69 billion for the first nine months of last fiscal year. Comparable store sales increased 8.9 percent for the first nine months of fiscal 2007. A store's sales are included in comparable store sales after the store has been open for a full 12 months. Comparable store sales include Web-originated sales and sales from relocated stores. The calculation of comparable store sales excludes the impact of fluctuations in foreign currency exchange rates.

Domestic Segment

For the third quarter of fiscal 2007, the domestic segment's net sales were \$2.93 billion, an increase of 7.3 percent over the same period last fiscal year. Comparable store sales increased 5.5 percent. For the quarter, our sales growth was driven by the addition of 15 net new Superstores over the past four quarters. In addition, domestic segment Web-originated sales grew 67 percent, domestic segment services revenues grew 72 percent and domestic segment call center sales grew 84 percent over the same period last year. Services revenues are comprised of home theater installations and computer-related services.

For the nine months ended November 30, 2006, domestic segment sales were \$8.10 billion, an increase of 11.5 percent over the same period last fiscal year. Comparable store sales increased 9.5 percent.

The domestic segment's major product categories are

- o video, which includes televisions, imaging products, DVD hardware, camcorders, digital cameras, digital video services, furniture, and related accessories;

Page 19 of 35

- o information technology, which includes personal computer hardware, personal computer services, telecommunications products and services, and related accessories;
- o audio, which includes home audio products, mobile audio products, portable audio products, and related accessories; and
- o entertainment, which includes movie software, music software, game software, game hardware and personal computer software.

The percent of domestic segment sales represented by each major product category for the periods ended November 30, 2006 and 2005, is shown below.

PERCENT OF DOMESTIC SEGMENT SALES BY CATEGORY(a)

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

	Three Months Ended November 30	
	2006	2005
Video.....	47%	46%
Information technology.....	27	28
Audio.....	15	15
Entertainment.....	11	11
Total.....	100%	100%

(a)Excludes extended warranty net sales and installation revenue

In the video category, we produced a high-single-digit comparable store sales increase in the third quarter. Total television comparable store sales increased by double digits, led by double-digit comparable store sales growth in flat panel televisions. Comparable store sales of digital imaging products and accessories also increased by double digits. Growth in the category was partially offset by a single-digit decline in comparable store sales of camcorders and a double-digit decline in DVD hardware.

In the information technology category, we produced comparable store sales that were approximately flat compared to the prior year. Comparable store sales in PC hardware declined by low-single digits as a high-single-digit increase in notebook computers was more than offset by a double-digit decline in desktop computers.

In the audio category, we produced comparable store sales that were approximately flat compared to the prior year. A triple-digit comparable store sales increase in navigation products was offset by a high-single-digit decline in home audio products and a double-digit decline in satellite radio products. Comparable store sales of portable digital audio products were approximately flat to last year while portable digital audio accessories grew by high-single digits.

In the entertainment category, we produced a high-single-digit comparable store sales increase in the third quarter, reflecting a strong-double-digit comparable store sales increase in video gaming products and a double-digit comparable store sales increase in PC software. Comparable store sales of video software declined by mid-single digits and comparable store sales in music software declined by double digits.

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

DOMESTIC SEGMENT STORE MIX

	Nov. 30, 2006	Feb. 28, 2006
Superstores.....	640	626
Outlet and mall stores.....	11	5
Total domestic segment stores.....	651	631

In the first nine months of fiscal 2007, we relocated six Superstores and opened thirteen new Superstores. One of the relocated Superstores replaced a store that was closed in February 2006. We opened seven outlet stores, opened one test store and closed two mall stores. We also completed two remodels, one of which consisted of rebuilding a storm-damaged store.

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

Extended Warranty Net Sales. The domestic segment sells extended warranty programs on behalf of unrelated third parties who are the primary obligors. The extended warranty net sales were \$103.3 million, or 3.5 percent of domestic segment net sales, in the third quarter of fiscal 2007, compared with \$104.7 million, or 3.8 percent of domestic segment net sales, in the same period last fiscal year. The extended warranty net sales were \$303.3 million for the first nine months of fiscal 2007, or 3.7 percent of domestic segment net sales, compared with \$287.1 million, or 4.0 percent of domestic segment net sales, for the first nine months of last fiscal year. Effective fiscal year 2008, we will no longer report extended warranty net sales separately from consolidated net sales. Management views warranty revenue as one component of many that contribute to both sales and gross margin, reflecting our expanded ability to provide high value services in a growing number of ways. We will continue reporting domestic segment extended warranty net sales for the balance of fiscal year 2007.

International Segment

The international segment's net sales increased 0.6 percent to \$171.6 million for the third quarter of fiscal 2007, compared with \$170.6 million for the third quarter of last fiscal year. The increase was driven by the effect of fluctuations in foreign currency exchange rates, which accounted for approximately 4 percentage points of the international segment's third quarter net sales increase. Sales from our dealer relationships had a single-digit percentage increase for the third quarter in local currency, and the international segment added 5 net new retail stores during the past four quarters. Comparable store sales decreased 3.7 percent for the quarter in local currency.

For the nine months ended November 30, 2006, the international segment's net sales increased 8.1 percent to \$461.6 million, compared with \$426.9 million for the nine months ended November 30, 2005. The increase was driven primarily by the effect of fluctuations in foreign currency exchange rates, which accounted for approximately 7 percentage points of the international segment's year-over-year net sales increase. Comparable store sales decreased 1.4 percent in local currency for the first nine months of fiscal 2007.

INTERNATIONAL SEGMENT STORE MIX

	Nov. 30, 2006	Feb. 28, 2006
Company-owned stores.....	547	540
Dealer outlets.....	300	300
Rogers Plus(R) stores.....	92	93
Battery Plus(R) stores.....	16	21
Total international segment stores.....	955	954

Gross Profit Margin

Consolidated

The gross profit margin was 22.2 percent of net sales in the third quarter of fiscal 2007, compared with 24.1 percent for the same period last fiscal year. For the first nine months of fiscal 2007, the gross profit margin was 23.4 percent of net sales, compared with 24.3 percent for the same period last fiscal year.

Domestic Segment

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

For the third quarter of fiscal 2007, the domestic segment's gross profit margin declined 190 basis points from the prior year, driven by a decline in merchandise margin primarily in televisions, PC hardware, and

Page 21 of 35

entertainment software, as well as a decrease in extended warranty net sales as a percentage of domestic segment net sales.

For the first nine months of fiscal 2007, the domestic segment's gross profit margin was 22.8 percent of net sales, compared with 23.6 percent for the same period last fiscal year. The margin rate decline resulted primarily from a decline in merchandise margin for PC hardware, advanced televisions, and entertainment software, as well as a decrease in extended warranty net sales as a percentage of domestic segment net sales.

International Segment

For the third quarter of fiscal 2007, the international segment gross profit margin rate decline of 165 basis points did not materially impact the consolidated gross profit margin rate. The decrease resulted primarily from margin rate declines within digital products, such as name-brand computer hardware and portable digital audio players, as well as a sales mix shift to a higher level of sales of these products. Also contributing to the gross profit margin rate decline were clearance activities related to assortment rationalization.

For the first nine months of fiscal 2007, the international segment's gross profit margin was 34.3 percent of net sales, compared with 36.5 percent for the same period last fiscal year. The decrease resulted primarily from margin rate declines within the personal electronics, computer hardware, video and gadgets categories. Also, a sales mix shift from higher-margin categories, such as batteries, to lower-margin high-growth categories contributed to the decline.

Selling, General and Administrative Expenses

Consolidated

	Three Months Ended November 30				Ni
	2006		2005		20
(Dollar amounts in millions)	\$	% of Sales	\$	% of Sales	\$
Store expenses.....	\$637.7	20.6%	\$583.8	20.1%	\$1,743.
General and administrative expenses.....	79.8	2.6	86.6	3.0	253.
Stock-based compensation expense.....	5.4	0.2	9.3	0.3	20.
Remodel expenses.....	0.1	-	-	-	0.
Relocation expenses(a).....	(7.0)	(0.2)	2.6	0.1	(4.
Pre-opening expenses.....	4.9	0.2	4.3	0.2	9.
Total	\$720.9	23.2%	\$686.7	23.7%	\$2,023.

(a) Results for the three months ended November 30, 2006, include a benefit from the reversal of lease termination charges for seven previously vacant stores that have re-opened or will re-open as outlet stores, partially offset by expenses associated with completing four relocations during the quarter.

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

Selling, general and administrative expenses as a percentage of net sales declined 43 basis points to 23.2 percent of net sales in the third quarter of this fiscal year. The domestic segment's expense-to-sales ratio decreased 17 basis points from the same period last year. The international segment contributed 26 basis points to the decrease in the consolidated expense-to-sales ratio.

For the first nine months of fiscal 2007, selling, general and administrative expenses as a percentage of net sales declined 79 basis points from the same period last fiscal year. The domestic segment's expense-to-sales ratio decreased 54 basis points from the same period last year. The international segment contributed 25 basis points to the decrease in the consolidated expense-to-sales ratio.

Page 22 of 35

Domestic Segment

(Dollar amounts in millions)	Three Months Ended November 30 2006		2005		Ni 20
	\$	% of Sales	\$	% of Sales	\$
Store expenses.....	\$592.2	20.2%	\$539.5	19.8%	\$1,613.
General and administrative expenses.....	69.4	2.4	68.5	2.5	222.
Stock-based compensation expense.....	5.1	0.2	9.0	0.3	19.
Remodel expenses.....	0.1	-	-	-	0.
Relocation expenses(a).....	(7.0)	(0.2)	2.6	0.1	(4.
Pre-opening expenses.....	4.9	0.2	4.3	0.2	9.
Total	\$664.7	22.7%	\$623.9	22.8%	\$1,860.

(a) Results for the three months ended November 30, 2006, include a benefit from the reversal of lease termination charges for seven previously vacant stores that have re-opened or will re-open as outlet stores, partially offset by expenses associated with completing four relocations during the quarter.

For the three months ended November 30, 2006, the domestic segment's improvement primarily reflects a decrease in advertising expenses and leverage of payroll expenses. We also recorded a net benefit of \$7.0 million in relocation expenses. This net benefit resulted from the reversal of lease termination charges of \$12.9 million for seven previously vacant locations that have re-opened or will re-open as outlet stores, partially offset by expenses associated with completing four relocations during the quarter. These improvements were partially offset by net incremental expenses, primarily related to investments in information technology, multi-channel capabilities and innovation activities that amounted to approximately 120 basis points as a percentage of consolidated net sales. During the third quarter of fiscal 2006, we recorded our portion of the Visa/MasterCard antitrust litigation settlement. The \$9.4 million gain was reflected as a reduction to domestic segment store expenses.

For the nine months ended November 30, 2006, the domestic segment's improvement primarily reflects leverage of payroll; rent and occupancy; and advertising expenses. These improvements were partially offset by incremental store expenses related to multi-channel capabilities and innovation activities as well as by general and administrative expenses related to information systems and innovation activities.

International Segment

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

(Dollar amounts in millions)	Three Months Ended November 30		2005		2006
	\$	% of Sales	\$	% of Sales	\$
Store expenses.....	\$45.5	26.5%	\$44.3	26.0%	\$ 129.
General and administrative expenses.....	10.4	6.1	18.1	10.6	31.
Stock-based compensation expense.....	0.3	0.2	0.3	0.2	1.
Total	\$56.2	32.8%	\$62.8	36.8%	\$162.

For the third quarter of fiscal 2007, the international segment's expense-to-sales ratio decreased 403 basis points from the same period last year. The international segment's general and administrative expenses in the third quarter of fiscal 2006 included expenses of \$8.3 million associated with the brand transition in Canada.

For the nine months ended November 30, 2006, the international segment's expense-to-sales ratio decreased 471 basis points from the same period last fiscal year. The international segment's general and administrative expenses in the first nine months of fiscal 2006 included expenses of \$29.8 million associated with the brand transition in Canada.

Income Tax Provision

The income tax benefit recognized for the nine months ended November 30, 2006, was \$1.6 million on a loss from continuing operations before income taxes of \$0.8 million for an effective rate of 192 percent. This rate is a result of the impact of discrete items and the return-to-provision impact associated with the filing of the February 28, 2006, tax returns. The effective income tax rate applicable to results from continuing operations was 34.5 percent for the nine months ended November 30, 2005.

Net (Loss) Earnings from Continuing Operations

The net loss from continuing operations was \$15.6 million, or 9 cents per share, in the three months ended November 30, 2006, compared with net earnings from continuing operations of \$10.2 million, or 6 cents per share, in the same period last fiscal year.

For the nine months ended November 30, 2006, the net earnings from continuing operations were \$0.8 million, or zero cents per share, compared with net earnings from continuing operations of \$2.1 million, or 1 cent per share, for the same period last fiscal year.

Net Loss from Discontinued Operations

For the quarter ended November 30, 2006, the net loss from discontinued operations totaled \$0.4 million, which is net of \$0.2 million of income taxes, and related to a domestic segment operation that is held for sale. For the nine months ended November 30, 2006, the net loss from discontinued operations totaled \$2.1 million, which is net of \$0.9 million of income taxes, and related to a domestic segment operation that is held for sale. For the first nine months of fiscal 2007, this \$0.9 million of income tax benefit was offset by \$0.6 million of income tax expense resulting from a revision of management's estimate regarding certain tax uncertainties associated with our discontinued bankcard

operations.

For the quarter ended November 30, 2005, the net loss from discontinued operations related to a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, which was sold in October 2005. For the nine months ended November 30, 2005, the net loss from discontinued operations totaled \$3.8 million, which is net of \$2.1 million of income taxes, and related to a domestic segment operation that is held for sale and MusicNow.

Cumulative Effect of Change in Accounting Principle

In the first quarter of fiscal 2007, we adopted SFAS No. 123(R) using the modified prospective transition method, resulting in a non-cash after-tax benefit of \$1.8 million.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective March 1, 2006, we adopted SFAS No. 123(R), which requires companies to record compensation expense based on the fair value of employee stock-based compensation awards. The statement also requires that the compensation expense be recognized over the period during which the employee is required to provide service in exchange for the award. Prior to the adoption of SFAS No. 123(R), we accounted for stock-based compensation using a fair-value based method in accordance with SFAS No. 123, "Stock-Based Compensation." We adopted SFAS No. 123(R) using the modified prospective transition method. The adoption of SFAS No. 123(R) did not have a material impact on our financial position, results of operations or cash flows.

In October 2005, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period." FSP No. FAS 13-1 requires companies to expense rent payments for building or ground leases incurred during a construction period. We adopted FSP No. FAS 13-1 on a prospective basis in the first quarter of fiscal 2007. The adoption of this new standard did not have a material impact on our financial position, results of operations or cash flows.

Page 24 of 35

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for us beginning with the first quarter of fiscal 2008. We have not yet determined the impact of adopting this standard.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for us beginning with the first quarter of fiscal 2009. We have not yet determined the impact of adopting this standard.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize a plan's overfunded or underfunded status in its balance sheets and recognize the changes in a plan's funded status in comprehensive income in the year in which the changes occur. These provisions of SFAS No. 158 are effective for our fiscal year ending February 28, 2007. We have not yet determined the impact of adopting these provisions. In addition, SFAS No. 158 requires an

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

employer to measure plan assets and obligations that determine its funded status as of the end of its fiscal year, with limited exceptions. This provision of SFAS No. 158 is effective for our fiscal year ending February 28, 2009. We are currently in compliance with this provision.

In September 2006, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements using both the roll-over and iron curtain methods. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both methods. The provisions of SAB 108 are effective for our fiscal year ending February 28, 2007. We have not yet determined the impact of adopting this standard.

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash Flows

Restatement of Cash Flows

As disclosed in Note 22, Quarterly Financial Data (Unaudited), of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our fiscal 2006 Annual Report on Form 10-K, we identified errors in our previously filed consolidated statement of cash flows for the nine months ended November 30, 2005, and restated the consolidated statement of cash flows for the nine months ended November 30, 2005. We had classified variable rate demand notes as cash and cash equivalents; however, these notes should have been classified as short-term investments and their purchases and sales as investing activities. We incorrectly reflected bank overdrafts as a change in accounts payable in operating activities rather than in financing activities. We incorrectly included accruals for purchases of property and equipment in operating activities and investing activities. We incorrectly reflected deposits in transit as a reduction to accounts payable.

Page 25 of 35

Cash Flows Summary

The following table summarizes our cash flows for the nine months ended November 30, 2006 and 2005:

(Amounts in millions)	Nine Months Ended November 30	
	2006	2005
<hr style="border-top: 1px dashed black;"/>		
Net cash provided by (used in):		
Operating activities.....	\$ 219.3	\$ (88.4)
Investing activities.....	(138.0)	(147.0)
Financing activities.....	52.8	(206.5)
Discontinued operations.....	(3.2)	(19.6)
Effect of exchange rate changes on cash.....	(0.3)	(0.3)
<hr style="border-top: 1px dashed black;"/>		
Increase (decrease) in cash and cash equivalents.....	\$ 130.7	\$ (461.9)
<hr style="border-top: 3px double black;"/>		

Operating Activities

For the nine months ended November 30, 2006, net cash provided by operating activities was \$219.3 million, compared with net cash used in operating activities of \$88.4 million in the nine months ended November 30, 2005. The

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

change was due primarily to a lower seasonal inventory build during the nine months ended November 30, 2006, compared with the nine months ended November 30, 2005. The lower inventory build was driven by improved supply chain and inventory management execution, including a reduction in slower-moving and at-risk inventories. During the nine months ended November 30, 2006, the decrease in merchandise inventory, net of merchandise payable, was \$189.1 million. During the nine months ended November 30, 2005, merchandise inventory, net of merchandise payable, increased \$201.7 million. The cash provided by the reduction in inventory build was partially offset by an increase in accounts receivable, driven by an increase in vendor receivables.

Investing Activities

We used net cash from investing activities of \$138.0 million in the nine months ended November 30, 2006, compared with \$147.0 million in the nine months ended November 30, 2005. The change was due primarily to an increase in the proceeds from sales and maturities of investment securities, partially offset by a decrease in proceeds from sales of property and equipment and an increase in capital expenditures as we make investments in new Superstores.

Financing Activities

For the nine months ended November 30, 2006, net cash provided by financing activities was \$52.8 million, compared with net cash used in financing activities of \$206.5 million in the nine months ended November 30, 2005. The change was due primarily to a decrease in cash used to repurchase common stock under the stock repurchase authorization, coupled with an increase in cash provided by the issuance of common stock. In June 2006, the board authorized a \$400 million increase in the stock repurchase authorization resulting in a total stock repurchase authorization of up to \$1.2 billion, of which \$380.4 million remained available at November 30, 2006. During the nine months ended November 30, 2006, we used cash to repurchase 5.0 million shares of common stock at a total price of \$136.9 million, excluding commission fees. During the same period last fiscal year, we used cash to repurchase 17.8 million shares of common stock at a total price of \$298.5 million, excluding commission fees. As of November 30, 2006, we had repurchased a cumulative 52.9 million shares of common stock at a total price of \$819.6 million, excluding commission fees.

Also in June 2006, the board of directors authorized an increase in our quarterly dividend rate to \$0.04 per share from the previous quarterly dividend of \$0.0175 per share on our common stock. The dividend rate change was effective with the declaration of the quarterly dividend in the third quarter of fiscal 2007.

Cash, Cash Equivalents and Short-term Investments

At November 30, 2006, we had cash, cash equivalents and short-term investments of \$897.9 million, compared with \$838.0 million at February 28, 2006. The increase in the cash position is primarily due to cash provided by operations, driven by the reduction in net-owned inventory, and cash provided by the issuance of

common stock. The increase was partially offset by cash used to purchase property and equipment and to repurchase common stock. During the first nine months of fiscal 2006, we used cash of \$216.9 million to purchase property and equipment. In addition, during the first nine months of fiscal 2007, we used cash to repurchase 5.0 million shares of common stock at a total price of \$136.9 million, excluding commission fees. At November 30, 2005, we had cash, cash equivalents and short-term investments of \$550.3 million. The year-over-year change in the cash position reflects cash provided by operations, including a reduction in net-owned inventory, partially offset by the use of cash to purchase property and equipment and to repurchase common stock.

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

Net-owned Inventory

Merchandise inventory increased to \$2.53 billion at November 30, 2006, from \$1.70 billion at February 28, 2006, driven by an increase in domestic segment inventory of \$793.9 million due to an increase in inventory purchases to support seasonal sales trends and customer encountered in-stock positions. Net-owned inventory, calculated as merchandise inventory less merchandise payable, decreased by \$189.1 million from February 28, 2006, to November 30, 2006. Domestic segment net-owned inventory decreased by \$185.2 million from February 28, 2006 to November 30, 2006, driven by improved supply chain and inventory management execution, including a reduction in slower-moving and at-risk inventories while improving customer-encountered in-stock levels.

Capital Expenditures

Capital expenditures, net of landlord reimbursements, were \$215.3 million in the nine months ended November 30, 2006, compared with \$161.9 million in the same period last fiscal year.

Sources of Liquidity

We have a \$500 million revolving credit facility secured by inventory and accounts receivable. This facility is scheduled to mature in June 2009. The credit facility provides for a \$400 million borrowing limit for the domestic segment and a \$100 million borrowing limit for the international segment. At November 30, 2006, short-term borrowings were \$35.0 million and related to our international segment. At November 30, 2006, outstanding letters of credit were \$62.4 million, leaving \$402.6 million available for borrowing. We were in compliance with all covenants at November 30, 2006.

Our primary sources of liquidity include available cash, borrowing capacity under the credit facility and landlord reimbursements. We expect that our primary sources of liquidity will be sufficient to fund capital expenditures and working capital for the foreseeable future.

UPDATED FISCAL 2007 OUTLOOK

We expect to generate the following results in fiscal 2007, excluding the impact of classifying the results from the Rogers Plus(R) stores as results from discontinued operations:

- o consolidated net sales growth of 9 percent to 10 percent
- o domestic segment comparable store sales growth of 7 percent to 8 percent
- o earnings from continuing operations before income taxes (EBT) as a percentage of consolidated net sales of 1.2 percent to 1.4 percent

The outlook also includes the following expectations:

- o incremental expenses in information technology, multi-channel capabilities and innovation activities, primarily related to expenses for investments, that will total approximately 90 basis points as a percentage of consolidated net sales
- o expenses related to domestic segment store relocations, remodeling and store refresh activities of approximately \$25 million, which excludes the \$12.9 million reversal of lease termination charges recorded in the third quarter for seven previously vacant locations that have re-opened or will re-open as outlet stores
- o consolidated effective income tax rate applicable to results from continuing operations of 35.8 percent
- o the classification of net income of approximately \$5.1 million, all of which relates to the fourth quarter, as results from discontinued operations in the fourth quarter as the result of returning management of 92 Rogers Plus(R) stores to Rogers Wireless Inc. in January 2007

Page 27 of 35

- o capital expenditures, net of landlord reimbursements, of approximately \$275

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

million

- o depreciation and amortization expense of approximately \$190 million
- o a reduction in domestic segment net-owned inventory from February 28, 2006, to February 28, 2007, of \$75 million to \$125 million

Domestic segment Superstore openings and estimates are shown in the following table. The timing of store openings depends on a number of factors and can change during the year. Ten of the fourth quarter openings are planned for February. We expect approximately one third of the openings to be in the 20,000 square foot format. We have completed the planned remodel of two locations.

Domestic Segment Superstore Openings(a)

	Q1	Q2	Q3	Q4	FY07
Incremental Superstores.....	3	2	8	9 -10	22 - 23
Relocated Superstores.....	2	-	4	4 - 6	10 - 12
Total expected Superstore openings.....	5	2	12	13 - 16	32 - 35

(a) First, second and third quarter openings are actual. On February 28, 2006, we closed one store in advance of opening a replacement store in the first quarter of fiscal 2007. The replacement store is included in relocations for the first quarter of fiscal 2007.

Our estimate of capital expenditures includes \$126 million for relocations, new store construction, store refreshes and category resets. Information technology capital expenditures are expected to total \$115 million. Distribution and other capital expenditures are expected to total \$23 million. Net capital expenditures of \$11 million are anticipated for the international segment.

The fiscal 2007 outlook, as updated, is based on the following assumptions:

- o a continuation of current competitive and macroeconomic environments
- o continued gross margin pressure in key product areas
- o continued sales growth in key product areas including flat panel televisions, video game hardware, notebook computers, digital imaging and portable digital audio players as well as related accessories and services
- o continued growth in Web-originated sales
- o improved customer-encountered inventory in-stock levels
- o no realization of benefits in fiscal 2007 from initiatives to accelerate sales growth, gross margin improvement or expense reductions, nor any potential costs or expenses associated with those initiatives

In the second quarter, we conducted our annual review of goodwill associated with the international segment for impairment and determined that no impairment existed. We are carefully monitoring sales and margin trends in the fourth quarter to determine whether it will be necessary to re-evaluate the asset for impairment. Future valuation adjustments based upon this review could cause actual results to vary materially from expected results.

FISCAL 2008 AND BEYOND OUTLOOK

We expect to generate earnings from continuing operations before income taxes (EBT) as a percentage of consolidated net sales of approximately 5.0 percent, excluding the impact of classifying the results from the Rogers Plus(R) stores as results from discontinued operations, in a three- to five-year timeframe.

In fiscal 2008, we expect to open 60 to 65 Superstores, of which 15 to 20 will be relocated stores. In fiscal 2009, we expect to open 75 to 100 Superstores.

FORWARD-LOOKING STATEMENTS

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

The provisions of the Private Securities Litigation Reform Act of 1995 provide companies with a "safe harbor" when making forward-looking statements. This "safe harbor" encourages companies to provide prospective information about their companies without fear of litigation. We wish to take advantage of the "safe harbor" provisions of the Act. Our statements that are not historical facts, including statements about management's

Page 28 of 35

expectations for fiscal 2007 and beyond, are forward-looking statements and involve various risks and uncertainties. In most cases, you can identify our forward-looking statements by words such as "expect," "anticipate," "believe," "should," "may," "plan," "will" or similar words.

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

- o changes in the amount and degree of competition, pricing and promotional pressure exerted by current competitors and potential new competition from competitors using either similar or alternative methods or channels of distribution such as the Internet, telephone shopping services and mail order;
- o our response to pricing and promotional activities of our competitors;
- o changes in general economic conditions including, but not limited to, financial market performance, consumer credit availability, interest rates, inflation, energy prices, personal discretionary spending levels, trends in consumer retail spending, (both in general and in our product categories), unemployment and consumer sentiment about the economy in general;
- o the level of consumer response to new products or product features in the merchandise categories we sell and changes in our merchandise sales mix;
- o the pace of commoditization of digital products;
- o the impact of inventory and supply chain management initiatives on inventory levels and profitability;
- o our ability to generate sales and margin growth through expanded services offerings;
- o the impact of new products and product features on the demand for existing products and the pricing and profit margins associated with the products we sell;
- o significant changes in retail prices for products and services we sell;
- o changes in availability or cost of financing for working capital and capital expenditures, including financing to support development of our business;
- o the lack of availability or access to sources of inventory or the loss or disruption in supply from one of our major suppliers;
- o our inability to liquidate excess inventory should excess inventory develop;
- o our inability to maintain sales and profitability improvement programs for our Circuit City Superstores, including our store revitalization plan;
- o our ability to continue to generate strong sales growth through our direct sales channel;
- o the availability of appropriate real estate locations for relocations and new stores;
- o the cost and timeliness of new store openings and relocations;

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

- o consumer reaction to new store locations and changes in our store design and merchandise;
- o our ability and the ability of Chase Card Services to successfully market and promote the third party credit card program being offered by Chase Card Services;
- o the extent to which customers respond to promotional financing offers and the types of promotional terms we offer;
- o our ability to attract and retain an effective management team or changes in the costs or availability of a suitable work force to manage and support our service-driven operating strategies;
- o the impact of initiatives related to upgrading merchandising, marketing and information systems on revenue and operating margin and the costs associated with these investments;
- o our ability to control and leverage expenses as a percentage of sales;
- o changes in production or distribution costs or costs of materials for our advertising;
- o effectiveness of our advertising and marketing programs for increasing consumer traffic and sales;
- o the successful implementation of our initiatives to accelerate sales growth, gross margin improvement and expense reductions;

- o the imposition of new restrictions or regulations regarding the sale of products and/or services we sell, changes in tax rules and regulations applicable to, the imposition of new environmental restrictions,

Page 29 of 35

- o regulations or laws or the discovery of environmental conditions at current or future locations, or any failure to comply with such laws or any adverse change in such laws;
- o failure to successfully implement sales and profitability improvement programs for our international segment;
- o deterioration of the expected future performance of our international segment may result in a goodwill impairment charge;
- o the timely production and delivery of private-label merchandise and level of consumer demand for those products;
- o reduced investment returns or other changes relative to the assumptions for our pension plans that impact our pension expense;
- o changes in our anticipated cash flow;
- o whether, when and in what amounts share repurchases may be made under our stock buyback program;
- o adverse results in significant litigation matters;
- o currency exchange rate fluctuations between Canadian and U.S. dollars and other currencies;
- o the global regulatory and trade environment;
- o the disruption of global, national or regional transportation systems;
- o the occurrence of severe weather events or natural disasters that could significantly damage or destroy stores or prohibit consumers from traveling to our retail locations, especially during peak selling periods; and
- o the successful execution of the initiatives to achieve revenue growth and increase operating margin and the accuracy of the assumptions underlying our projected 2007 results as discussed under "Updated Fiscal 2007 Outlook" in MD&A.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from potential changes in the U.S./Canadian currency exchange rates as they relate to inventory purchases and the

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

translation of our international segment's financial results.

Inventory Purchases

A portion of InterTAN's purchases are from vendors requiring payment in U.S. dollars. Accordingly, there is risk that the value of the Canadian dollar could fluctuate relative to the U.S. dollar from the time the goods are ordered until payment is made. InterTAN's management monitors the foreign exchange risk associated with its U.S. dollar open orders on a regular basis by reviewing the amount of such open orders; exchange rates, including forecasts from major financial institutions; local news; and other economic factors. At November 30, 2006, U.S. dollar purchase orders totaled approximately \$10.8 million. A 10 percent decline in the value of the Canadian dollar would result in an increase in product cost of approximately \$1.1 million for those orders. The incremental cost of such a decline in currency values, if incurred, would be reflected in higher cost of sales in future periods. In these circumstances, management would take product pricing action, to the degree commercially feasible.

Translation of Financial Results

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

Page 30 of 35

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the chief executive officer and chief financial officer, the company has evaluated the effectiveness of its "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, the chief executive officer and chief financial officer concluded that the company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes in the company's internal control over financial reporting in the quarter ended November 30, 2006, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously reported in the company's Annual Report on Form 10-K for the year ended February 28, 2006, the company was involved in litigation with RadioShack Corporation ("RadioShack") related to various agreements between InterTAN and RadioShack and its subsidiaries. In September 2006, RadioShack and Circuit City reached an agreement that settles the litigation between the two companies.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should

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

carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended February 28, 2006, which could materially affect our business, financial condition or future results. There have been no material changes to those risk factors since we filed our 2006 Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Page 31 of 35

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

The following table provides information about common stock repurchases by or on behalf of the company during the quarter ended November 30, 2006:

(Amounts in millions except per share data)	Total Number of Shares Purchased	Average Price Paid per Share	Tot Sh Pur Part A
September 1 - September 30, 2006.....	-	\$ -	
October 1 - October 31, 2006.....	0.7	\$27.19	
November 1 - November 30, 2006.....	-	\$ -	
 Total fiscal 2007 third quarter.....	 ----- 0.7 =====	 ----- \$27.19 =====	 ----- ----- =====

(a) In January 2003, the company announced that the board of directors had authorized the repurchase of up to \$200 million of common stock. In June 2004, the company announced a \$200 million increase in its stock repurchase authorization, raising the repurchase capacity to \$400 million. In March 2005, the company announced a \$400 million increase in its stock repurchase authorization, raising the repurchase capacity to \$800 million. In June 2006, the company announced a \$400 million increase in its stock repurchase authorization, raising the repurchase capacity to \$1.2 billion. There is no expiration date under the authorization. At November 30, 2006, \$380.4 million remained available for stock repurchases under the \$1.2 billion stock repurchase authorization.

Page 32 of 35

ITEM 6. EXHIBITS

Articles of Incorporation and Bylaws

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

3.2 Circuit City Stores, Inc. Bylaws, as amended December 17, 2005, filed as Exhibit 3.1 to the company's Current Report on Form 8-K filed December 22, 2005 (File No. 1-5767), are expressly incorporated herein by this reference.

Material Contracts

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

10.1 Circuit City Stores, Inc. 2003 Stock Incentive Plan, as Amended and Restated, effective December 14, 2006, filed herewith.*

10.2 Circuit City Stores, Inc. 2000 Non-Employee Directors Stock Incentive Plan, as Amended and Restated, effective December 14, 2006, filed herewith.*

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

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

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

Section 1350 Certifications

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

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

*Indicates management contracts, compensatory plans or arrangements of the company required to be filed as an exhibit.

Page 33 of 35

SIGNATURES

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

CIRCUIT CITY STORES, INC.
(Registrant)

By: /s/ Philip J. Schoonover

Philip J. Schoonover
Chairman, President and Chief Executive Officer

By: /s/ Michael E. Foss

Michael E. Foss
Executive Vice President and
Chief Financial Officer

By: /s/ Philip J. Dunn

Philip J. Dunn
Senior Vice President, Treasurer,
Controller and

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

Chief Accounting Officer

January 5, 2007

Page 34 of 35

EXHIBIT INDEX

Articles of Incorporation and Bylaws

- 3.1 Circuit City Stores, Inc. Amended and Restated Articles of Incorporation, effective February 3, 1997, as amended through August 16, 2005, filed as Exhibit 3.1 to the company's Form 8-A/A filed September 13, 2005 (File No. 1-5767), are expressly incorporated herein by this reference.
- 3.2 Circuit City Stores, Inc. Bylaws, as amended December 17, 2005, filed as Exhibit 3.1 to the company's Current Report on Form 8-K filed December 22, 2005 (File No. 1-5767), are expressly incorporated herein by this reference.

Material Contracts

- 10.1 Circuit City Stores, Inc. 2003 Stock Incentive Plan, as Amended and Restated, effective December 14, 2006, filed herewith.*
- 10.2 Circuit City Stores, Inc. 2000 Non-Employee Directors Stock Incentive Plan, as Amended and Restated, effective December 14, 2006, filed herewith.*

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

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

Section 1350 Certifications

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

*Indicates management contracts, compensatory plans or arrangements of the company required to be filed as an exhibit.

Page 35 of 35