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CIRCUIT CITY STORES INC
Form 10-Q
October 10, 2006

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 August 31, 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 September 30, 2006 |
|--------------------------------|-----------------------------------|
| Common Stock, par value \$0.50 | 175,160,748 |

A Table of Contents is included on Page 2 and an Exhibit Index is included on Page 33.

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CIRCUIT CITY STORES, INC. AND SUBSIDIARIES

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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

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| | August 31 | |
|---|--------------|--------------|
| | 2006 | 2005 |
| Net sales | \$ 2,839,193 | \$ 2,557,091 |
| Cost of sales, buying and warehousing | 2,163,354 | 1,947,449 |
| Gross profit | 675,839 | 609,642 |
| Selling, general and administrative expenses | 662,791 | 608,099 |
| Operating income (loss) | 13,048 | 1,543 |
| Interest income | 5,794 | 4,602 |
| Interest expense | 113 | 215 |
| Earnings (loss) from continuing operations before income taxes | 18,729 | 5,930 |
| Income tax provision (benefit) | 7,350 | 2,065 |
| Net earnings (loss) from continuing operations | 11,379 | 3,865 |
| Loss from discontinued operations, net of tax | (1,338) | (2,517) |
| Cumulative effect of change in accounting principle, net of tax | - | - |
| Net earnings (loss) | \$ 10,041 | \$ 1,348 |
| Weighted average common shares: | | |
| Basic | 169,973 | 179,057 |
| Diluted | 174,659 | 181,801 |
| Earnings (loss) per share: | | |
| Basic: | | |
| Continuing operations | \$ 0.07 | \$ 0.02 |
| Discontinued operations | \$ (0.01) | \$ (0.01) |
| Cumulative effect of change in accounting principle | \$ - | \$ - |
| Net earnings (loss) | \$ 0.06 | \$ 0.01 |
| Diluted: | | |
| Continuing operations | \$ 0.07 | \$ 0.02 |
| Discontinued operations | \$ (0.01) | \$ (0.01) |
| Cumulative effect of change in accounting principle | \$ - | \$ - |
| Net earnings (loss) | \$ 0.06 | \$ 0.01 |
| Cash dividends paid per share | \$ 0.0175 | \$ 0.0175 |

See accompanying notes to consolidated financial statements.

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ASSETS

Current assets:

| | |
|---|-------|
| Cash and cash equivalents | \$ 29 |
| Short-term investments | 30 |
| Accounts receivable, net of allowance for doubtful accounts | 30 |
| Merchandise inventory | 1,84 |
| Deferred income taxes | 3 |
| Income tax receivable | 5 |
| Prepaid expenses and other current assets | ----- |

Total current assets 2,84

Property and equipment, net of accumulated depreciation of
\$1,252,988 and \$1,179,481 88

Deferred income taxes 10

Goodwill 22

Other intangible assets, net of accumulated amortization of
\$11,067 and \$6,123 2

Other assets 4

TOTAL ASSETS \$ 4,12
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Merchandise payable \$ 98

Expenses payable 28

Accrued expenses and other current liabilities 41

Accrued income taxes 3

Short-term debt 3

Current installments of long-term debt -----

Total current liabilities 1,72

Long-term debt, excluding current installments 4

Accrued straight-line rent and deferred rent credits 26

Accrued lease termination costs 7

Deferred income taxes 10

Other liabilities -----

TOTAL LIABILITIES 2,214

Commitments and contingent liabilities

Stockholders' equity:

Common stock, \$0.50 par value;

525,000,000 shares authorized; 173,972,371 shares 8

issued and outstanding at August 31, 2006 40

(174,789,390 at February 28, 2006) 1,37

Capital in excess of par value 5

Retained earnings -----

Accumulated other comprehensive income 1,91

TOTAL STOCKHOLDERS' EQUITY -----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 4,12
=====

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See accompanying notes to consolidated financial statements.

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

| | 2006 |
|--|-------|
| <hr/> | |
| Operating Activities: | |
| Net earnings (loss) | \$ 16 |
| Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities: | |
| Net loss from discontinued operations | 1 |
| Depreciation expense | 86 |
| Amortization expense | 4 |
| Stock-based compensation expense | 16 |
| Loss (gain) on dispositions of property and equipment | |
| Provision for deferred income taxes | (12) |
| Cumulative effect of change in accounting principle | (1) |
| Other | |
| Changes in operating assets and liabilities: | |
| Accounts receivable, net | (67) |
| Merchandise inventory | (147) |
| Prepaid expenses and other current assets | (19) |
| Other assets | |
| Merchandise payable | 131 |
| Expenses payable | 45 |
| Accrued expenses, other current liabilities and accrued income taxes | (116) |
| Other long-term liabilities | (8) |
| | <hr/> |
| Net cash (used in) provided by operating activities of continuing operations | (69) |
| | <hr/> |
| Investing Activities: | |
| <hr/> | |
| Purchases of property and equipment | (113) |
| Proceeds from sales of property and equipment | 10 |
| Purchases of investment securities | (284) |
| Sales and maturities of investment securities | 502 |
| Other investing activities | (9) |
| | <hr/> |
| Net cash provided by (used in) investing activities of continuing operations | 105 |
| | <hr/> |
| Financing Activities: | |
| <hr/> | |
| Proceeds from short-term borrowings | 26 |
| Principal payments on short-term borrowings | (17) |
| Principal payments on long-term debt | (4) |
| Change in overdraft balances | 18 |
| Excess tax benefit from stock-based payments | 11 |
| Repurchases of common stock | (117) |
| Issuances of common stock | 38 |
| Dividends paid | (6) |
| Redemption of preferred share purchase rights | |
| | <hr/> |

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| | | |
|--|--------|--|
| Net cash used in financing activities of continuing operations | (50) | |
| ----- | | |
| Discontinued Operations: | | |
| ----- | | |
| Operating cash flows | (5) | |
| Investing cash flows | | |
| ----- | | |
| Net cash used in discontinued operations | (5) | |
| ----- | | |
| Effect of exchange rate changes on cash | | |
| ----- | | |
| Decrease in cash and cash equivalents | (19) | |
| Cash and cash equivalents at beginning of year | 315 | |
| ----- | | |
| Cash and cash equivalents at end of period | \$ 296 | |
| ===== | | |
| See accompanying notes to consolidated financial statements. | | |

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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 August 31, 2006, the company's domestic segment operated 632 Superstores and 5 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 August 31, 2006, the international segment conducted business through 949 retail stores and dealer outlets, which consisted of 541 company-owned stores, 298 dealer outlets, 92 Rogers Plus(R) stores and 18 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 December 31, 2006. Under the Amending Agreement, Rogers will pay to InterTAN, among other amounts, in each of 2007, 2008 and 2009 an amount equal to the average of the annual volume rebate attributable to the Rogers Plus(R) stores paid to InterTAN in 2005 and 2006. Exit costs related

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to the transition are expected to be inconsequential.

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 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.

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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 six months ended August 31, 2005, and restated the consolidated statement of cash flows for the six months ended August 31, 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

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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 six months ended August 31, 2005, compared with the revised cash flow activities to reflect the errors and cash flows from discontinued operations.

| (Amounts in millions) | Six Months Ended August 31, 2005 |
|--|-------------------------------------|
| Operating cash flows as previously reported..... | \$ (46.1) |
| Operating cash flows as revised..... | \$ 12.0 |
| Investing cash flows as previously reported..... | \$ (65.3) |
| Investing cash flows as revised..... | \$(273.7) |
| Financing cash flows as previously reported..... | \$(166.5) |
| Financing cash flows as revised..... | \$(212.2) |
| Discontinued operations cash flows as previously reported..... | \$ - |
| Discontinued operations cash flows as revised..... | \$ (18.4) |
| Decrease in cash and cash equivalents as previously reported..... | \$(277.7) |
| Decrease in cash and cash equivalents as revised..... | \$(492.0) |

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.

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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

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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 August 31, 2006, 3.5 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 Associate's payroll cost. Compensation cost for stock-based incentive plans is summarized in the table below.

| (Amounts in millions) | Three Months Ended August 31 | |
|--|---------------------------------|-------|
| | 2006 | 2005 |
| ----- | | |
| Compensation cost recognized: | | |
| Stock options..... | \$2.6 | \$3.4 |
| Nonvested stock and nonvested stock units..... | 5.1 | 3.1 |
| Phantom stock..... | 0.1 | - |
| Employee stock purchase plan..... | 0.2 | 0.1 |
| Other..... | - | 0.1 |
| | ----- | ----- |
| Total compensation cost recognized..... | \$8.0 | \$6.7 |
| | ===== | ===== |
| Tax benefit recognized..... | \$2.8 | \$2.4 |

(A) Stock Options: 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 stock volatility assumption is based on historical volatility of the company's stock. 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 life 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 Associates. The company evaluates historical exercise behavior for two separate groups based on the Associate's position in the company. During the first quarter of fiscal 2007, a stock option grant with a vesting period of five 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 life of the grant. An average of the award's weighted average vesting period and its contractual term was calculated and resulted in an expected life of 7 years. 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 fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average

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assumptions:

| | Three Months Ended August 31 | |
|--------------------------------|---------------------------------|------|
| | 2006 | 2005 |
| Expected dividend yield..... | 0.6% | 0.4% |
| Expected stock volatility..... | 52% | 60% |
| Risk-free interest rates..... | 6% | 4% |
| Expected lives (in years)..... | 5 | 5 |

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted was \$13.31 per share for the three months ended August 31, 2006, and \$14.94 per share for the six months ended August 31, 2006. The weighted average fair value of options granted was \$8.66 per share for the three months ended August 31, 2005, and \$8.58 per share for the six months ended August 31, 2005.

The total intrinsic value of options exercised was \$15.9 million for the three months ended August 31, 2006, and \$38.3 million for the six months ended August 31, 2006. The total intrinsic value of options exercised was \$10.9 million for the three months ended August 31, 2005, and \$17.6 million for the six months ended August 31, 2005. The tax benefits realized from stock options exercised were \$2.2 million for the three months ended August 31, 2006, and \$8.7 million for the six months ended August 31, 2006. The tax benefits realized from stock options exercised were \$1.3 million for the three months ended August 31, 2005, and \$2.4 million for the six months ended August 31, 2005.

The fair value of stock options that vested was \$8.6 million for the three months ended August 31, 2006, and \$10.8 million for the six months ended August 31, 2006. The fair value of stock options that vested was \$5.1 million for the three months ended August 31, 2005, and \$12.6 million for the six months ended August 31, 2005. Total unrecognized compensation cost related to unvested stock options at August 31, 2006, was \$31.9 million and is expected to be recognized over a weighted average period of 2 years.

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

| | Shares (in thousands) | Weighted Average Exercise Price | We 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) | | |
| Outstanding at May 31, 2006..... | 13,550 | \$17.55 | |
| Granted..... | 91 | \$27.16 | |
| Exercised..... | (1,414) | \$14.82 | |
| Forfeited or expired..... | (23) | | |
| Outstanding at August 31, 2006..... | 12,204 | \$17.94 | |
| Options exercisable at August 31, 2006..... | 8,795 | \$17.49 | |

(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

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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

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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 value on the grant date, which is expensed over the vesting period.

The weighted average fair value of nonvested stock granted was \$26.55 per share for the three months ended August 31, 2006, and \$24.03 per share for the six months ended August 31, 2006. The weighted average fair value of nonvested stock granted was \$16.95 per share for the three months and six months ended August 31, 2005. 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 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 to the named executive officers in the proxy statement immediately prior to that date 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 units granted was \$26.88 per share for the three months and six months ended August 31, 2006. The weighted average fair value of nonvested stock units granted was \$16.62 per share for the three months and six months ended August 31, 2005.

The fair value of nonvested stock and nonvested stock units that vested was \$0.7 million for the three months ended August 31, 2006, and \$0.8 million for the six months ended August 31, 2006. The fair value of nonvested stock and nonvested stock units that vested was \$0.4 million for the three months ended August 31, 2005, and \$2.2 million for the six months ended August 31, 2005. Total unrecognized compensation cost related to nonvested stock and nonvested stock units at August 31, 2006, was \$56.0 million and is expected to be recognized over a weighted average period of 3 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 |
|--------------------------|---|
|--------------------------|---|

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| | | |
|-------------------------------------|-------|---------|
| Nonvested at February 28, 2006..... | 3,825 | \$17.08 |
| Granted..... | 491 | \$25.44 |
| Vested..... | (10) | \$12.26 |
| Forfeited..... | (231) | \$16.95 |
| | ----- | |
| Nonvested at May 31, 2006..... | 4,075 | \$18.11 |
| Granted..... | 483 | \$26.57 |
| Vested..... | (64) | \$11.40 |
| Forfeited..... | (76) | \$18.13 |
| | ----- | |
| Nonvested at August 31, 2006..... | 4,418 | \$19.13 |
| | ===== | |

(C) Phantom Stock Program: The company issues phantom stock units through a long-term incentive program. An Associate does not receive rights of a shareholder, 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 August 31, 2006, 0.2 million phantom stock units were outstanding. No

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phantom stock units were granted during the three months and six months ended August 31, 2006, and the three months and six months ended August 31, 2005.

(D) Employee Stock Purchase Plan: The company has an employee stock purchase plan for all domestic segment employees meeting certain eligibility criteria. Under the plan, eligible employees may, subject to certain 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. At August 31, 2006, a total of 1.5 million shares remained available under the plan. The number of shares of common stock that were issued to or purchased on the open market on behalf of employees was 0.1 million for the three months and six months ended August 31, 2006. The number of shares of common stock that were issued to or purchased on the open market on behalf of employees was 0.1 million for the three months ended August 31, 2005, and 0.2 million for the six months ended August 31, 2005. The average price per share of common stock purchased under the plan was \$25.50 for the three months ended August 31, 2006, \$27.21 for the six months ended August 31, 2006, \$17.43 for the three months ended August 31, 2005, and \$16.77 for the six months ended August 31, 2005. The obligation for the company match is included in accrued expenses and other current liabilities on the consolidated balance sheets.

4. Comprehensive Income (Loss)

The components of the company's comprehensive income (loss) consist of the net earnings (loss) 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 income (loss), net of taxes, were as follows:

Three Months Ended

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| (Amounts in millions) | August 31 | |
|-----------------------------------|-----------|--------|
| | 2006 | 2005 |
| Net earnings (loss)..... | \$10.0 | \$ 1.3 |
| Foreign currency translation..... | (0.9) | 12.8 |
| Comprehensive income (loss)..... | \$ 9.1 | \$14.1 |

5. Net Earnings (Loss) Per Share

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

| (Shares in millions) | Three Months Ended August 31 | |
|--|---------------------------------|-------|
| | 2006 | 2005 |
| Weighted average common shares..... | 170.0 | 179.1 |
| Dilutive potential common shares: | | |
| Options..... | 3.2 | 2.5 |
| Nonvested stock and nonvested stock units..... | 1.5 | 0.2 |
| Weighted average common shares and potentially dilutive common equivalent shares..... | 174.7 | 181.8 |

For the three months and six months ended August 31, 2006, and the three months ended August 31, 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:

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| (Shares in millions) | At August 31 | |
|---------------------------------------|--------------|------|
| | 2006 | 2005 |
| Options to purchase common stock..... | 1.1 | 5.5 |

For the six months ended August 31, 2005, 15.7 million stock options and 5.4 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 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

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the following activity:

| (Amounts in millions) | Six Mo A 2006 |
|--|---------------------|
| ----- | |
| Accrued lease termination costs at beginning of period..... | \$110.0 |
| Provisions for closed locations..... | 1.2 |
| Changes in assumptions about future sublease income and terminations..... | 4.1 |
| Interest accretion..... | 4.6 |
| Cash payments, net of cash received on subleased locations..... | (16.7) |
| | ----- |
| Accrued lease termination costs at end of period..... | 103.2 |
| Less current portion of accrued lease termination costs..... | 30.3 |
| | ----- |
| Non-current portion of accrued lease termination costs..... | \$ 72.9 |
| | ===== |

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 \$400.3 million remained available at August 31, 2006. As of August 31, 2006, the company had repurchased 52.1 million shares of common stock at a cost of \$799.7 million, excluding commission fees, cumulatively since inception of the stock repurchase program.

The company's stock repurchase activity for the three months and six months ended August 31, 2006, was as follows:

| (Amounts in millions) | Three Months Ended August 31, 2006 |
|---|---------------------------------------|
| ----- | |
| Total number of shares repurchased..... | 2.6 |
| Cost, excluding commission fees..... | \$67.0 |

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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

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or normal retirement date.

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

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

| (Amounts in thousands) | Three Months Ended August 31 | | |
|-------------------------------------|---------------------------------|---------|-------|
| | 2006 | 2005 | |
| Service cost..... | \$ 657 | \$ 704 | \$ |
| Interest cost..... | 3,789 | 3,456 | |
| Expected return on plan assets..... | (4,775) | (4,507) | |
| Recognized prior service cost..... | 54 | 53 | |
| Recognized actuarial loss..... | 609 | 264 | |
| Loss due to settlement..... | 128 | - | |
| | ----- | | |
| Net pension expense (income)..... | \$ 462 | \$ (30) | \$ |
| | ===== | | ===== |

The company did not make a contribution to the defined benefit pension plan during the six months ended August 31, 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 six months ended August 31, 2006, were \$290,000.

9. Discontinued Operations

For the quarter ended August 31, 2006, the net loss from discontinued operations totaled \$1.3 million, which is net of \$0.5 million of income taxes, and related to a domestic segment operation that is held for sale. For the quarter ended August 31, 2006, this \$0.5 million of income tax benefit was offset by \$0.5 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 six months ended August 31, 2006, the net loss from discontinued operations totaled \$1.7 million, which is net of \$0.7 million of income taxes, and related to a domestic segment operation that is held for sale. For the first half of fiscal 2007,

this \$0.7 million of income tax benefit was offset by \$0.5 million of income tax expense associated with the discontinued bankcard operations as

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discussed above.

For the quarter ended August 31, 2005, the net loss from discontinued operations totaled \$2.5 million, which is net of \$1.4 million of income taxes, and 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 six months ended August 31, 2005, the net loss from discontinued operations totaled \$3.7 million, which is net of \$2.1 million of income taxes, and related to a domestic segment operation that was held for sale and MusicNow.

10. Segment Information

The company has two reportable segments: its domestic segment and its international segment. The company identified these segments based on its management reporting structure and the nature of the products and services offered by each segment. The domestic segment is primarily engaged in the business of selling brand-name 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.

Net sales by reportable segment were as follows:

| (Amounts in millions) | Three Months Ended August 31 | |
|----------------------------|---------------------------------|-----------|
| | 2006 | 2005 |
| Domestic segment..... | \$2,680.6 | \$2,414.0 |
| International segment..... | 158.6 | 143.0 |
| Net sales..... | \$2,839.2 | \$2,557.1 |

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

| (Amounts in millions) | Three Months Ended August 31 | |
|---|---------------------------------|-------|
| | 2006 | 2005 |
| Domestic segment..... | \$10.5 | \$4.4 |
| International segment..... | 0.9 | (0.5) |
| Net earnings (loss) from continuing operations..... | \$11.4 | \$3.9 |

Total assets by reportable segment were as follows:

| (Amounts in millions) | At August 31 2006 | At February 2006 |
|----------------------------|----------------------|---------------------|
| | | |
| Domestic segment..... | \$3,629.0 | \$3,594. |
| International segment..... | 500.9 | 474. |
| Total assets..... | \$4,129.9 | \$4,069. |

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11. Supplemental Consolidated Statements of Cash Flows Information

The following table summarizes supplemental cash flow information.

| (Amounts in millions) | Six Mo A 2006 |
|---|---------------------|
| ----- | |
| Supplemental schedule of non-cash investing and financing activities: | |
| Change in capital expenditure accrual..... | \$ 24.2 |
| Capital lease obligation..... | \$ - |
| | |
| 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 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

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provisions of SFAS No. 158 are effective for the company's fiscal year ending February 28, 2007. 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 has not yet determined the impact of adopting this standard.

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13. Subsequent Event

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 August 31, 2006, the domestic segment operated 632 Superstores and 5 other stores in 158 U.S. media markets.

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 August 31, 2006, the international segment conducted business through 949 retail stores and dealer outlets, which consisted of 541 company-owned stores, 298 dealer outlets, 92 Rogers Plus^(R) stores and 18 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 December 31, 2006. Under the Amending Agreement, Rogers will pay to InterTAN, among other amounts, in each of 2007, 2008 and 2009 an amount equal to the average of the annual volume rebate attributable to the Rogers Plus^(R) stores paid to InterTAN in 2005 and 2006. Exit costs related to the transition are expected to be inconsequential.

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 seven sections:

- o Executive Summary

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- o Critical Accounting Policies
- o Results of Operations
- o Recent Accounting Pronouncements
- o Financial Condition
- o Fiscal 2007 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.

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EXECUTIVE SUMMARY

Fiscal 2007 Second Quarter Performance

- o Net sales grew 11.0 percent, driven by a comparable store sales gain of 8.3 percent. Domestic segment Web-originated sales grew 74 percent over the same period last year.
- o Gross profit margin rate was flat compared with the same period last year. For the domestic segment, a modest decline in merchandise margin was offset by a margin contribution from net financing.
- o SG&A expenses as a percentage of sales declined 44 basis points from the same period last year, driven by a 31 basis point improvement in the domestic segment. The domestic segment improvement was driven by leverage of payroll as well as rent and occupancy expenses. The improvement in the international segment SG&A expense-to-sales ratio contributed 13 basis points to the consolidated improvement.
- o Earnings from continuing operations before income taxes were 0.7 percent of sales compared with 0.2 percent of sales in the same period last year.
- o We reported net earnings from continuing operations of 7 cents per diluted share compared with 2 cents per diluted share in the same period last year.

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 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 volatility of the stock price, expected dividend yield, and expected life of the option. Changes in the subjective assumptions can materially affect the fair

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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:

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- 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.

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 August 31, 2006 | | | Six |
|--|------------------------------------|---------------|--------------|----------|
| | Domestic | International | Consolidated | Domestic |
| Net sales..... | \$ 2,680.6 | \$ 158.6 | \$ 2,839.2 | \$5,166. |
| Gross profit..... | \$ 619.6 | \$ 56.2 | \$ 675.8 | \$1,214. |
| Selling, general and administrative expenses..... | \$ 608.4 | \$ 54.4 | \$ 662.8 | \$1,196. |
| Net earnings (loss) from continuing operations..... | \$ 10.5 | \$ 0.9 | \$ 11.4 | \$ 19. |

Three Months Ended August 31, 2005

Six

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| (Amounts in millions) | Domestic | International | Consolidated | Domestic |
|--|------------|---------------|--------------|----------|
| Net sales..... | \$ 2,414.0 | \$ 143.0 | \$ 2,557.1 | \$4,528. |
| Gross profit..... | \$ 557.8 | \$ 51.9 | \$ 609.6 | \$1,070. |
| Selling, general and administrative expenses..... | \$ 555.4 | \$ 52.7 | \$ 608.1 | \$1,083. |
| Net earnings (loss) from continuing operations..... | \$ 4.4 | \$ (0.5) | \$ 3.9 | \$ (1.5) |

Net Sales

Consolidated

For the second quarter of fiscal 2007, our net sales increased 11.0 percent to \$2.84 billion, and comparable store sales increased 8.3 percent from the same period last year. Net sales for the first six months of fiscal 2007 increased 14.0 percent to \$5.46 billion from \$4.78 billion for the first six months of last fiscal year. Comparable store sales increased 11.3 percent for the first six 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 second quarter of fiscal 2007, the domestic segment's net sales were \$2.68 billion, an increase of 11.0 percent over the same period last fiscal year. Comparable store sales increased 8.9 percent. For the quarter, our sales growth was driven by the addition of 16 net new Superstores over the past four quarters and by average ticket increases, which primarily resulted from sales growth in flat panel televisions. In addition, domestic segment Web-originated sales grew 74 percent, and domestic segment services revenues grew 100 percent over the same period last year. Services revenues are comprised of home theater installations and computer-related services.

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For the six months ended August 31, 2006, domestic segment sales were \$5.17 billion, an increase of 14.1 percent over the same period last fiscal year. Comparable store sales increased 11.9 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;
- 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

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for the periods ended August 31, 2006 and 2005 is shown below.

PERCENT OF DOMESTIC SEGMENT SALES BY CATEGORY(a)

| | Three Months Ended August 31 | |
|-----------------------------|---------------------------------|------|
| | 2006 | 2005 |
| Video..... | 42% | 41% |
| Information technology..... | 33 | 34 |
| Audio..... | 15 | 15 |
| Entertainment..... | 10 | 10 |
| Total..... | 100% | 100% |

(a)Excludes extended warranty revenues and installation revenue.

In the video category, we produced a low-double-digit comparable store sales increase in the second quarter. Total television comparable store sales increased by double digits, led by strong double-digit comparable store sales growth in flat panel displays. Comparable store sales of digital imaging products and accessories increased by double digits. Growth in the category was partially offset by double-digit declines in comparable store sales of camcorders and DVD hardware.

In the information technology category, we produced a high-single-digit comparable store sales increase in the second quarter, driven by a single-digit comparable store sales increase in PC hardware. Comparable store sales of notebook computers increased by double digits. Growth in the category was partially offset by single-digit decreases in comparable store sales of printers and monitors and a double-digit decrease in comparable store sales of desktop computers. Comparable store sales of PC services nearly doubled.

In the audio category, we produced a high-single-digit comparable store sales increase in the second quarter, primarily resulting from double-digit comparable store sales growth in portable digital audio products and portable digital audio accessories. Double-digit comparable store sales growth in mobile audio products reflects growth in navigation products. Comparable store sales growth in portable and mobile audio products was partially offset by a mid-single-digit comparable store sales decline in home audio products.

In the entertainment category, we produced a mid-single-digit comparable store sales increase in the second quarter, reflecting a double-digit comparable store sales increase in gaming products and PC software and a mid-single-digit increase in video software, partially offset by a double-digit comparable store sales decrease in music software.

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

DOMESTIC SEGMENT STORE MIX

| | Aug. 31, 2006 | Feb. 28, 2006 |
|------------------------------------|---------------|---------------|
| Superstores..... | 632 | 626 |
| Outlet and mall stores..... | 5 | 5 |
| Total domestic segment stores..... | 637 | 631 |

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In the first half of fiscal 2007, we relocated two Superstores and opened five new Superstores. One of the relocated Superstores replaced a store that was closed in February 2006. We opened two outlet stores and closed two mall stores. We also completed one remodel, which consisted of rebuilding a storm-damaged store.

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 \$107.7 million, or 4.0 percent of domestic segment sales, in the second quarter of fiscal 2007, compared with \$97.4 million, or 4.0 percent of domestic segment sales, in the same period last fiscal year. The extended warranty net sales were \$200.0 million for the first half of fiscal 2007, or 3.9 percent of domestic segment sales, compared with \$182.4 million, or 4.0 percent of domestic segment sales, for the first half 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 10.9 percent to \$158.6 million for the second quarter of fiscal 2007, compared with \$143.0 million for the second quarter of last fiscal year. The effect of fluctuations in foreign currency exchange rates accounted for approximately 9 percentage points of the international segment's second quarter net sales increase. Sales from our dealer relationships had a double-digit percentage increase for the second quarter in local currency, and the international segment added 13 net new retail stores during the past four quarters. Comparable store sales decreased 2.1 percent for the quarter in local currency as we cycled against the heavy advertising during the second quarter of fiscal 2006 related to the brand launch of The Source By Circuit CitySM.

For the six months ended August 31, 2006, the international segment's net sales increased 13.2 percent to \$290.0 million, compared with \$256.3 million for the six months ended August 31, 2005. The effect of fluctuations in foreign currency exchange rates accounted for approximately 9 percentage points of the international segment's year-over-year net sales increase. Comparable store sales decreased 0.1 percent in local currency for the first six months of fiscal 2007.

INTERNATIONAL SEGMENT STORE MIX

| | Aug. 31, 2006 | Feb. 28, 2006 |
|---|---------------|---------------|
| Company-owned stores..... | 541 | 540 |
| Dealer outlets..... | 298 | 300 |
| Rogers Plus(R) stores..... | 92 | 93 |
| Battery Plus(R) stores..... | 18 | 21 |
| | | |
| Total international segment stores..... | 949 | 954 |
| | | |

Gross Profit Margin

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Consolidated

The gross profit margin was 23.8 percent of net sales in the second quarter of fiscal 2007, unchanged from the same period last fiscal year. For the first six months of fiscal 2007, the gross profit margin was 24.1 percent of net sales, compared with 24.4 percent for the same period last fiscal year.

Domestic Segment

For the second quarter of fiscal 2007, the domestic segment's gross profit margin rate was even with the rate for the same period last fiscal year as a modest decline in merchandise margin was offset by a margin contribution from net financing as promotion periods shortened compared with last year.

For the first half of fiscal 2007, the domestic segment's gross profit margin was 23.5 percent of net sales, compared with 23.6 percent for the same period last fiscal year. The slight margin rate decline resulted from modest declines in merchandise margin and net financing.

International Segment

For the second quarter of fiscal 2007, the international segment gross profit margin rate decline of 81 basis points did not materially impact the consolidated gross profit margin rate. The decrease resulted primarily from a greater percentage of sales of products in the computer category and margin rate declines in video and personal electronics.

For the first half of fiscal 2007, the international segment's gross profit margin was 35.1 percent of net sales, compared with 37.8 percent for the same period last fiscal year. The decrease resulted primarily from margin rate declines within wireless communications, video and personal electronics categories. Also, a sales mix shift from higher-margin categories, such as batteries, to lower-margin categories, such as computers, contributed to the decline.

Selling, General and Administrative Expenses

Consolidated

| (Dollar amounts in millions) | Three Months Ended August 31 | | 2006 | | 2005 | | \$ |
|--|------------------------------|--------------|----------------|--------------|-----------------|------------|----|
| | \$ | % of Sales | \$ | % of Sales | \$ | % of Sales | |
| Store expenses..... | \$567.5 | 20.0% | \$520.2 | 20.3% | \$1,105. | | |
| General and administrative expenses..... | 85.3 | 3.0 | 78.9 | 3.1 | 173. | | |
| Stock-based compensation expense..... | 6.6 | 0.2 | 6.6 | 0.3 | 15. | | |
| Remodel expenses..... | 0.5 | - | - | - | 0. | | |
| Relocation expenses..... | 0.5 | - | 0.3 | - | 2. | | |
| Pre-opening expenses..... | 2.4 | 0.1 | 2.1 | 0.1 | 5. | | |
| Total | \$662.8 | 23.3% | \$608.1 | 23.8% | \$1,302. | | |

Selling, general and administrative expenses as a percentage of sales declined 44 basis points to 23.3 percent of net sales in the second quarter of this fiscal year. The domestic segment's expense-to-sales ratio decreased 31 basis points from the same period last year. The international segment contributed 13 basis points to the decrease in the consolidated expense-to-sales ratio.

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For the first half of fiscal 2007, selling, general and administrative expenses as a percentage of sales declined 103 basis points from the same period last fiscal year. The domestic segment's expense-to-sales ratio decreased 78 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.

Domestic Segment

| (Dollar amounts in millions) | Three Months Ended August 31 | | 2005 | | S |
|--|------------------------------|------------|---------|------------|----------|
| | 2006 | % of Sales | 2005 | % of Sales | |
| | \$ | | \$ | | \$ |
| Store expenses..... | \$524.2 | 19.6% | \$484.0 | 20.1% | \$1,021. |
| General and administrative expenses..... | 74.5 | 2.8 | 62.6 | 2.6 | 153. |
| Stock-based compensation expense..... | 6.4 | 0.2 | 6.4 | 0.3 | 14. |
| Remodel expenses..... | 0.5 | - | - | - | 0. |
| Relocation expenses..... | 0.5 | - | 0.3 | - | 2. |
| Pre-opening expenses..... | 2.4 | 0.1 | 2.1 | 0.1 | 5. |
| Total | \$608.4 | 22.7% | \$555.4 | 23.0% | \$1,196. |

For the three months ended August 31, 2006, the domestic segment's improvement primarily reflects leverage of payroll as well as rent and occupancy expenses. These improvements were partially offset by incremental store expenses related to Circuit City Direct, innovation activities and advertising as well as by general and administrative expenses related to information systems and innovation activities.

For the six months ended August 31, 2006, the domestic segment's improvement primarily reflects leverage of payroll as well as rent and occupancy expenses. These improvements were partially offset by incremental store expenses related to Circuit City Direct, innovation activities and advertising as well as by general and administrative expenses related to information systems and innovation activities.

International Segment

| (Dollar amounts in millions) | Three Months Ended August 31 | | 2005 | | S |
|--|------------------------------|------------|--------|------------|--------|
| | 2006 | % of Sales | 2005 | % of Sales | |
| | \$ | | \$ | | \$ |
| Store expenses..... | \$43.4 | 27.3% | \$36.2 | 25.3% | \$ 84. |
| General and administrative expenses..... | 10.9 | 6.9 | 16.4 | 11.4 | 20. |
| Stock-based compensation expense..... | 0.2 | 0.1 | 0.2 | 0.1 | 1. |
| Total | \$54.4 | 34.3% | \$52.7 | 36.8% | \$106. |

For the second quarter of fiscal 2007, the international segment's expense-to-sales ratio decreased 252 basis points from the same period last year. The international segment's general and administrative expenses in the

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second quarter of fiscal 2006 included expenses of \$9.6 million associated with the brand transition in Canada. Excluding the brand costs in fiscal 2006, the expense-to-sales ratio increased 420 basis points primarily due to increased expenses related to the increase in the number of stores open versus last year and increased advertising expense.

For the six months ended August 31, 2006, the international segment's expense-to-sales ratio decreased 534 basis points from the same period last fiscal year. The international segment's general and administrative expenses in the first half of fiscal 2006 included expenses of \$21.5 million associated with the brand transition in Canada. Excluding the brand costs in fiscal 2006, the expense-to-sales ratio increased 305 basis points

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primarily due to increased expenses related to the increase in the number of stores open versus last year and increased advertising expense.

Income Tax Provision

The effective income tax rate applicable to results from continuing operations was 38.3 percent for the six months ended August 31, 2006, and 39.8 percent for the six months ended August 31, 2005. The effective tax rate for the six months ended August 31, 2006, reflects an adjustment for a change in management's estimate regarding certain tax uncertainties, which was recorded as a discrete item for the second quarter. Absent this adjustment, we would have reported an effective tax rate applicable to results from continuing operations of 36.3 percent. The decrease in the effective tax rate, excluding the effect of the discrete item, resulted from increased tax-exempt earnings.

Net Earnings (Loss) from Continuing Operations

The net earnings from continuing operations were \$11.4 million, or 7 cents per share, in the three months ended August 31, 2006, compared with net earnings from continuing operations of \$3.9 million, or 2 cents per share, in the same period last fiscal year.

For the six months ended August 31, 2006, the net earnings from continuing operations were \$16.4 million, or 9 cents per share, compared with the net loss from continuing operations of \$8.0 million, or 4 cents per share, for the same period last fiscal year.

Net Loss from Discontinued Operations

For the quarter ended August 31, 2006, the net loss from discontinued operations totaled \$1.3 million, which is net of \$0.5 million of income taxes, and related to a domestic segment operation that is held for sale. For the quarter ended August 31, 2006, this \$0.5 million of income tax benefit was offset by \$0.5 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 six months ended August 31, 2006, the net loss from discontinued operations totaled \$1.7 million, which is net of \$0.7 million of income taxes, and related to a domestic segment operation that is held for sale. For the first half of fiscal 2007, this \$0.7 million of income tax benefit was offset by \$0.5 million of income tax expense associated with our discontinued bankcard operations as discussed above.

For the quarter ended August 31, 2005, the net loss from discontinued operations totaled \$2.5 million, which is net of \$1.4 million of income taxes, and related to a domestic segment operation that is held for sale and a domestic segment

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subsidiary, MusicNow, LLC, which was sold in October 2005. For the six months ended August 31, 2005, the net loss from discontinued operations totaled \$3.7 million, which is net of \$2.1 million of income taxes, and related to a domestic segment operation that was 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

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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.

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. In addition, SFAS No. 158 requires an employer to measure plan assets and obligations that determine its funded

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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 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 six months ended August 31, 2005, and restated the consolidated statement of cash flows for the six months ended August 31, 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.

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Cash Flows Summary

The following table summarizes our cash flows for the six months ended August 31, 2006 and 2005:

| (Amounts in millions) | Six Months Ended August 31 | |
|--|-------------------------------|------------|
| | 2006 | 2005 |
| ----- | | |
| Net cash (used in) provided by: | | |
| Operating activities..... | \$ (69.0) | \$ 12.0 |
| Investing activities..... | 105.2 | (273.7) |
| Financing activities..... | (50.9) | (212.2) |
| Discontinued operations..... | (5.1) | (18.4) |
| Effect of exchange rate changes on cash..... | - | 0.2 |
| | ----- | |
| Decrease in cash and cash equivalents..... | \$ (19.8) | \$ (492.0) |
| | ===== | |

Operating Activities

We used net cash from operating activities of \$69.0 million in the six months ended August 31, 2006, compared with net cash provided by operating activities of \$12.0 million in the six months ended August 31, 2005. The change was due primarily to increases in net accounts receivable and merchandise inventory, net of merchandise payable, and was partially offset by an increase in net earnings. The increase in accounts receivable during the six months ended August 31, 2006 was primarily due to an increase in vendor receivables. The decrease in accounts receivable during the six months ended August 31, 2005 was primarily due to a decrease in credit card receivables due to the timing of month-end settlements. During the six months ended August 31, 2006, the increase in merchandise inventory, net of merchandise payable, was \$16.1 million and was driven by increases in purchases across many product categories to support increased sales trends and improved customer encountered in-stock positions. During the six

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months ended August 31, 2005, merchandise inventory, net of merchandise payable, decreased \$21.2 million. These changes were partially offset by cash provided by net earnings, which were \$16.4 million for the six months ended August 31, 2006, compared with a net loss of \$11.8 million during the same period last fiscal year.

Investing Activities

For the six months ended August 31, 2006, net cash provided by investing activities was \$105.2 million, compared with net cash used by investing activities of \$273.7 million in the six months ended August 31, 2005. The change was due primarily to an increase in the proceeds from sales and maturities of investment securities and a decrease in purchases of investment securities.

Financing Activities

We used net cash from financing activities of \$50.9 million in the six months ended August 31, 2006, compared with \$212.2 million in the six months ended August 31, 2005. The change was due primarily to a decrease in cash used to repurchase common stock under the stock repurchase authorization. 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 \$400.3 million remained available at August 31, 2006. During the six months ended August 31, 2006, we used cash to repurchase 4.3 million shares of common stock at a total price of \$117.0 million, excluding commission fees. During the same period last fiscal year, we used cash to repurchase 11.8 million shares of common stock at a total price of \$196.3 million, excluding commission fees. As of August 31, 2006, we had repurchased a cumulative 52.1 million shares of common stock at a total price of \$799.7 million, excluding commission fees. Based on the market value of the common stock at August 31, 2006, the then remaining \$400.3 million of the \$1.2 billion authorization would allow for the repurchase of up to approximately 10 percent of the 174.0 million shares then outstanding.

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.

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Cash, Cash Equivalents and Short-term investments

At August 31, 2006, we had cash, cash equivalents and short-term investments of \$599.6 million, compared with \$838.0 million at February 28, 2006. During the first six months of fiscal 2007, we used cash to repurchase 4.3 million shares of common stock at a total price of \$117.0 million, excluding commission fees. In addition, during the first six months of fiscal 2006, we used cash of \$113.5 million to purchase property and equipment. At August 31, 2005, we had cash, cash equivalents and short-term investments of \$688.1 million. The year-over-year change in the cash balance primarily reflects the use of cash to repurchase common stock and purchase property and equipment, partially offset by cash provided by operations.

Net-owned Inventory

Merchandise inventory increased to \$1.85 billion at August 31, 2006, from \$1.70 billion at February 28, 2006, driven by an increase in domestic segment inventory of \$134.7 million due to an increase in inventory purchases to support increased sales trends and customer encountered in-stock positions. Net-owned inventory, calculated as merchandise inventory less merchandise payable, increased by \$18.8 million from February 28, 2006, to August 31, 2006, due to increases in inventory to support strong sales trends. Domestic segment

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net-owned inventory increased by \$7.4 million from February 28, 2006 to August 31, 2006.

Capital Expenditures

Capital expenditures, net of landlord reimbursements, were \$127.0 million in the six months ended August 31, 2006, compared with \$102.2 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 August 31, 2006, short-term borrowings were \$31.7 million and related to our international segment. At August 31, 2006, outstanding letters of credit were \$53.3 million, leaving \$415.0 million available for borrowing. We were in compliance with all covenants at August 31, 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.

FISCAL 2007 OUTLOOK

We expect to generate the following results in fiscal 2007:

- o consolidated net sales growth of 9 percent to 11 percent, including domestic segment comparable store sales growth of 7 percent to 9 percent
- o earnings from continuing operations before income taxes (EBT) as a percentage of sales of 2.0 percent to 2.4 percent

The outlook also includes the following expectations:

- o depreciation and amortization expense of approximately \$180 million
- o incremental expenses in information systems, Circuit City Direct and innovation activities, primarily related to expenses for investments, that will total approximately 100 basis points as a percentage of consolidated sales
- o expenses of \$30 million related to domestic segment store revitalization activities including Superstore relocations, remodels and refreshes
- o consolidated effective income tax rate applicable to results from continuing operations of 36.5 percent
- o reduction in domestic segment net-owned inventory of \$50 million to \$100 million from February 28, 2006, to February 28, 2007

Domestic segment Superstore openings and estimates are shown in the following table. The timing of store openings depends upon a number of factors and can change during the year. We expect approximately one

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third of the openings to be in the 20,000 square foot format. We also plan to remodel two locations, one of which was completed in the first quarter.

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 |

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| | | | | | |
|---|-------|---|----|-------|-------|
| Total expected Superstore openings..... | 5 | 2 | 12 | 13-16 | 32-35 |
| | ===== | | | | |

(a) First and second 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.

We anticipate that capital expenditures, net of landlord reimbursements, will total approximately \$290 million in fiscal 2007. Of the fiscal 2007 estimate,

- o \$139 million relates to store activities including new store construction, relocations, remodels, store refresh and category reset activities;
- o \$119 million relates to information systems;
- o \$21 million relates to distribution and other expenditures; and
- o \$11 million relates to the international segment.

The fiscal 2007 outlook is based on the following assumptions:

- o a continuation of current competitive and macroeconomic environments
- o continued sales growth in key product areas including flat panel televisions, notebook computers, digital imaging and portable digital audio players, as well as related accessories and services
- o continued growth in Web-originated sales
- o store traffic relatively unchanged from the prior year, an improvement in the sales conversion rate and an increase in the average sales dollars per ticket
- o return to annual profitability in the international segment
- o increased sales from domestic segment new store openings, relocations, store refreshes and category resets
- o continued improvement in the customer experience that increases the conversion rate
- o improved customer-encountered inventory in-stock levels

FORWARD-LOOKING STATEMENTS

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

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- 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 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 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 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;
 - 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 customer service initiatives;
 - o the imposition of new restrictions or regulations regarding the sale of products and/or services we sell, changes in tax rules and regulations applicable to, the imposition of new environmental restrictions, regulations or laws or the discovery of environmental conditions at current or future locations, or any failure to comply with such laws or any adverse change in such laws;
 - o 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;

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- o the timely production and delivery of private-label merchandise and level of consumer demand for those products;
- o reduced investment returns or other changes relative to the assumptions for our pension plans that impact our pension expense;
- o 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;

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- 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 holiday 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 "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 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 August 31, 2006, U.S. dollar purchase orders totaled approximately \$19.6 million. A 10 percent decline in the value of the Canadian dollar would result in an increase in product cost of approximately \$2.0 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.

ITEM 4. CONTROLS AND PROCEDURES

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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 August 31, 2006, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

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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 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.

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 August 31, 2006:

| (Amounts in millions except per share data) | Total Number of Shares Purchased | Average Price Paid per Share | Tot of Pur Part A |
|--|--|---------------------------------------|-------------------------------|
| June 1 - June 30, 2006..... | 0.8 | \$27.80 | 0 |
| July 1 - July 31, 2006..... | 1.8 | \$25.35 | 1 |
| August 1 - August 31, 2006..... | - | \$ - | - |
| Total fiscal 2007 second quarter..... | 2.6 | \$26.10 | 2 |

(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 August 31, 2006, \$400.3 million remained available for stock repurchases under the \$1.2 billion stock repurchase authorization.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The annual meeting of the company's shareholders was held June 27, 2006.

(b) At the annual meeting, the shareholders of the company elected Ronald M. Brill, Michael E. Foss, Mikael Salovaara and Philip J. Schoonover as directors for a three-year term and Barbara S. Feigin as director for a one-year term. The elections were approved by the following votes:

| Directors | For | Withheld |
|----------------------|-------------|------------|
| Ronald M. Brill | 158,346,745 | 1,330,344 |
| Michael E. Foss | 154,945,883 | 4,731,206 |
| Mikael Salovaara | 149,084,233 | 10,592,856 |
| Philip J. Schoonover | 158,393,940 | 1,283,149 |
| Barbara S. Feigin | 155,036,924 | 4,640,165 |

(c) At the annual meeting, the shareholders of the company voted to ratify the appointment of KPMG LLP as the company's independent auditors for fiscal year 2007. This ratification was approved by the following votes:

| For | Against | Abstain | Broker Non-Vote |
|-------------|-----------|---------|-----------------|
| 157,426,109 | 1,519,287 | 731,693 | 0 |

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.

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

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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

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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
Chief Accounting Officer

October 10, 2006

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EXHIBIT INDEX

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- 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