

FINANCIAL HIGHLIGHTS

	Years Ended February 28		
<i>(Dollar amounts in thousands except per share data)</i>	1999	1998	1997
CIRCUIT CITY STORES, INC.			
Net Sales and Operating Revenues	\$10,804,447	\$8,870,797	\$7,663,811
Net Earnings	\$ 142,924	\$ 104,311	\$ 136,414
Total Assets	\$ 3,445,266	\$3,231,701	\$3,081,173
Total Stockholders' Equity.....	\$ 1,905,130	\$1,730,039	\$1,614,856
Working Capital.....	\$ 1,430,710	\$1,240,523	\$1,326,482
CIRCUIT CITY GROUP			
Net Sales and Operating Revenues	\$ 9,338,149	\$7,996,591	\$7,153,562
Earnings Before Inter-Group Interest in the CarMax Group.....	\$ 166,438	\$ 138,534	\$ 145,732
Net Earnings	\$ 148,381	\$ 112,074	\$ 136,680
Net Earnings Per Share:			
Basic	\$ 1.50	\$ 1.14	\$ 1.40
Diluted	\$ 1.48	\$ 1.13	\$ 1.39
Number of Circuit City Superstores	537	500	443
CARMAX GROUP			
Net Sales and Operating Revenues	\$ 1,466,298	\$ 874,206	\$ 510,249
Net Loss.....	\$ 23,514	\$ 34,223	\$ 9,318
Net Loss Per Share.....	\$ 0.24	\$ 0.35	\$ 0.01
Number of CarMax Stores	30	18	7

See notes to consolidated and group financial statements.

THE CIRCUIT CITY STORES, INC. COMMON STOCK SERIES INCLUDE:

Circuit City Group Common Stock (NYSE:CC). Circuit City is a leading national retailer of brand-name consumer electronics, personal computers, major appliances and entertainment software. At the end of fiscal year 1999, the Circuit City business included 537 Superstores in more than 140 markets, 48 Circuit City Express mall stores and two consumer electronics-only stores. The Circuit City Group also includes an investment in Digital Video Express and a retained interest in the equity value of the CarMax Group.

CarMax Group Common Stock (NYSE:KMX). As the pioneer of the used-car superstore concept, CarMax is transforming auto retailing with a friendly offer that delivers low, "no-haggle" prices, a broad selection and high quality customer service. At the end of fiscal year 1999, CarMax operated 30 locations.

FORWARD-LOOKING STATEMENTS:

This report contains forward-looking statements, which are subject to risks and uncertainties, including, but not limited to, risks associated with the development of new business concepts. Additional discussion of factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations is contained in the company's SEC filings, including the Circuit City Stores, Inc. "Management's Discussion and Analysis" contained in this annual report.

IN THIS REPORT, WE USE THE FOLLOWING TERMS AND DEFINITIONS:

Circuit City Stores and Circuit City Stores, Inc. refer to the corporation, which includes the Circuit City retail stores and Circuit City-related operations, the CarMax retail stores and related operations, and the company's interest in Digital Video Express.

Circuit City refers to the retail operations bearing the Circuit City name and to all related operations such as product service and First North American National Bank.

Circuit City Group refers to Circuit City and Circuit City-related operations, the company's interest in Digital Video Express and to the retained interest in the equity value of the CarMax Group.

CarMax Group and CarMax refer to retail locations bearing the CarMax name and to all related operations such as First North American Credit Corporation.

MOVING FORWARD
WITH CONTINUED INNOVATION
AND SUPERIOR CUSTOMER SERVICE

Sam Wurtzel started a tradition
in 1949 when he identified a new product—
the television—and delivered it door-to-door.

We extended the tradition when we
developed the Circuit City Superstore, providing low prices
and knowledgeable sales assistance.

Through CarMax and Divx, we are bringing
new consumer benefits to the automotive
and home video industries as well.

By delivering superior customer service—
at Circuit City and in these new businesses—we believe
that we can produce outstanding returns for stockholders.

CHAIRMAN'S LETTER



Fiscal 1999 was a significant year in the progress of our businesses. Our Circuit City stores began to see an industry upturn driven by innovative digital video and audio technologies, increased household penetration of wireless communications products, continued strength in personal computers and steady growth in

major appliances. We are excited about our position in the industry as we look forward to the new technologies that should support growth well into the next decade. At CarMax, our used-car sales were challenged by a highly promotional new-car environment. Although our locations are producing industry-leading volumes and we met specific operating improvement objectives, the overall business did not meet our sales or earnings expectations. In the coming year, we must build from the consumer's enthusiasm for the CarMax offer as we continue refining our operations to improve financial performance. In the fall of 1998, Digital Video Express launched DVD players with the Divx feature and Divx movie discs nationwide. The Divx feature captured an estimated 25 percent share of the DVD market during the holidays. Added brand selections and continued growth in title availability will make DVD players with the Divx feature an even more attractive option for consumers in fiscal 2000.

As always, our Associates rose to the year's challenges. Each of our businesses faces unique competitive issues, but I believe that our Associates are up to the task. I thank everyone for their efforts throughout the year.

I also am pleased to acknowledge three senior management promotions made during the year. Our chief financial officer, Mike Chalifoux, was named an executive vice president. Mike joined Circuit City as controller in 1983. He was elected vice president and CFO in 1988 and promoted to senior vice president in 1990. He was elected to the board of directors in 1991 and added the title of corporate secretary in 1993. Gary Mierenfeld was named senior vice president of distribution and service. Gary joined us as vice president for distribution in 1993, bringing with him more than 23 years of retail experience. Mike Froning was named president of Circuit City's Southern division, succeeding Mario Ramirez, who became president of the West Coast

division. Mike joined us in 1988 as a manager trainee and became a store manager in 1989. He was named district manager in 1990 and general manager in 1995. These promotions reflect the outstanding leadership these individuals bring to our organization.

FINANCIAL RESULTS

Circuit City Stores, Inc. For the fiscal year ended February 28, 1999, Circuit City Stores, Inc. total sales rose 22 percent to \$10.80 billion from \$8.87 billion in fiscal 1998; net earnings were \$142.9 million compared with \$104.3 million.

Circuit City Group. For the Circuit City Group, total sales rose 17 percent to \$9.34 billion from \$8.00 billion in fiscal year 1998, and comparable store sales increased 8 percent. Earnings for the Circuit City business increased 48 percent in fiscal 1999 to \$235.0 million from \$159.2 million. Circuit City contributed \$2.34 per share to the Circuit City Group's earnings, an increase of 46 percent from \$1.60 per share in fiscal 1998. Including the impact from Divx and CarMax, net earnings for the Group were \$148.4 million, or \$1.48 per share, in fiscal 1999, versus \$112.1 million, or \$1.13 per share, in fiscal 1998.

CarMax Group. CarMax Group total sales rose 68 percent to \$1.47 billion from \$874.2 million; comparable store sales decreased 2 percent; and the net loss was \$23.5 million compared with \$34.2 million in fiscal 1998. The fiscal 1998 net loss includes \$7.0 million related to a write-down of assets. In fiscal 1999, the net loss attributed to the CarMax Group stock was \$5.5 million, or 24 cents per share, compared with \$7.8 million, or 35 cents per share, in fiscal 1998.

CIRCUIT CITY REVIEW

In fiscal 1999, the consumer electronics industry emerged from an extended period when the majority of sales were generated by products well along in their life cycles. In the absence of significant product introductions, numerous regional retailers, including many who had tried to copy our high-service offer, closed their doors. Today, our principal competitors are large specialty, discount or warehouse retailers with generally lower levels of service. These are intense competitors. But, as we now look towards an upturn driven by more complex digital technologies, we are pleased that Circuit City is the only consumer electronics specialty retailer with a nationwide presence and a long history of customer service.

Our strengths are evidenced by our fiscal 1999 sales. As Alan McCollough, Circuit City's president and chief operating officer, notes in his letter, we were the leading retailer in key categories that are contributing to industry growth. Our strength in products like direct broadcast satellites, digital camcorders and DVD players are a direct result of investments we have made for the past 20 years—investments in sales counselor training; in systems that streamline sales transactions and ensure timely delivery of inventory; and in state-of-the-art merchandising, including the recent addition of kiosks that expand our selection to include on-line custom orders direct from vendor inventories. These are examples of our commitment, not just to customer service, but also to continuous improvement.

With the introduction of digital technology into more product areas, the industry is poised for exciting growth. We believe that Circuit City can capture a significant share of this growth, but we also recognize that the market will remain intensely competitive. We must continuously perform at a high level, and we must always be alert to new modes of competition.

Today, electronic commerce represents less than 1 percent of all retail sales. However, it is one of the fastest growing retail channels in the nation. At Circuit City, we are committed to providing an electronic commerce offer that complements the service, selection and information available in our stores. This offer will take advantage of our nationwide store base and our distribution, delivery and service capabilities. It will build on the exceptional consumer awareness of the Circuit City name.

With a presence in virtually all of the nation's top 100 markets, our expansion will focus on smaller markets and "fill-in" stores in existing markets. Our primary focus will be on maximizing the sales opportunity in our existing stores. We continue to believe that we ultimately can operate approximately 800 Superstores in the U.S. In fiscal 2000, we expect to open 35 Superstores and remodel another 50 to include our most recent merchandising innovations.

It has been several years since the consumer electronics business has offered such outstanding prospects for growth. I am convinced that by holding firm to our high-service, product-knowledge-based sales strategy we have kept Circuit City poised to maximize this opportunity for our shareholders.

DIGITAL VIDEO EXPRESS REVIEW

Four years ago, we began to explore a business opportunity that would offer exceptional benefits to home video consumers. Digital Video Express has developed a highly convenient rental system for watching digital movies at home. The Divx system includes DVD players with the Divx feature and Divx discs. It provides consumers the high-quality video and sound of DVD at a more economical price than sell-through DVD and a much more convenient rental option than VHS tape or DVD. Although DVD players with the Divx feature arrived in stores late in the selling season, holiday results exceeded our expectations. We believe the results indicate that Divx is highly appealing to consumers who participate in the enormous video rental market and that Divx can expand the overall market for DVD by adding consumers who want the combination of quality, convenience and price that only Divx can deliver.

The market for at-home movie viewing is huge. In calendar 1998, consumers rented an estimated 3.6 billion videotapes and purchased an estimated 600 million. They purchased more than 200 million movies via pay-per-view. The VCR, today's primary mechanism for viewing movies at home, is present in approximately 90 million U.S. households. Movies can be delivered via cable to approximately 65 million households. The young and rapidly growing direct broadcast satellite business has already reached 9 million homes, and as of year-end 1998, consumers had purchased 1 million DVD players, the newest video delivery mechanism. Divx offers a unique combination of benefits not available in any of these existing options.

After passing key technological tests and securing agreements with consumer electronics manufacturers and major motion picture studios, we introduced the Divx concept in September 1997. The system was launched in two markets in June 1998 with Zenith-Inteq brand players. National rollout began in late September with the introduction of the RCA brand player. The addition of ProScan and Panasonic players gave us four brand selections by early December. Approximately 250 titles were available, plus more than 2,500 basic DVD titles, all of which can be played on Divx-equipped players. Divx-featured players and Divx discs were available in approximately 800 retail stores.

With product in place, sales exceeded our expectations. During

the fourth quarter of the calendar year, consumers bought almost 90,000 Divx-enabled DVD players and more than a half million Divx movie discs. During December alone, the seven primary Divx retailers sold more than 62,000 Divx-enhanced DVD players.

Our outlook for Divx is positive. Four manufacturers have announced plans to add the Divx feature to their DVD product line, giving us a total of eight brands in 1999. We are steadily increasing our title selection, adding 30 to 40 titles per month.

Through the end of the fiscal year, Circuit City had invested \$207 million in Divx. As the year ended, we remained in active discussions with potential financing and distribution alternatives for Divx, and we are optimistic that we will complete one or more of those transactions this year. In the event that we do not obtain additional financing, we believe the costs associated with Divx will not exceed the costs incurred in this past fiscal year.

CARMAX REVIEW

For CarMax, fiscal 1999 was a year of continued development. The financial results reflect only a modest reduction in losses and lower-than-anticipated sales, especially in some of our multi-store markets. Our comparable store sales declined throughout most of the year. All of our stores felt the impact of an intensely promotional new-car sales environment.

Nonetheless, consumers continue to show strong enthusiasm for the CarMax concept. At the end of fiscal 1999, we operated the number one used-car retail location in the nation, and nine of our locations ranked in the top 10. In addition, in surveys conducted over the past year, more than 96 percent of customers indicate that they will likely purchase their next car from CarMax and more than 96 percent rate their CarMax experience as good to excellent.

Despite this consumer approval, we have not met our sales and profit expectations. At the end of fiscal 1998, we initiated a profit improvement plan designed primarily to improve our gross profit margin through the elimination of centralized reconditioning, the addition of accessory sales, better inventory management, especially during the fall model changeover, and adjustments in pricing on extended service plans and financing. We successfully implemented this plan and exceeded our gross margin targets.

Unfortunately, we continued to see disappointing results from a number of the major metropolitan markets we entered in late fiscal 1998 and early fiscal 1999. Because of the lower store volumes in these markets, we have developed a hub/satellite storing plan that we believe will help reduce our rent and operating costs and allow us to more densely store major metropolitan markets. Austin Ligon, president of CarMax, discusses this hub/satellite strategy in more detail in his letter. We also continue to refine our advertising programs in an effort to drive increased awareness and store traffic.

In fiscal 2000, we are adjusting our expansion plan by delaying our entry into Los Angeles until the next fiscal year. We will focus on the addition of satellite stores and new-car franchises with the objective of improving profitability in the existing multi-store markets. The single-store Nashville market will likely be our only new market.

All our CarMax Associates are working hard to achieve the goals we set forth when we began our national rollout and first issued shares to the public. We continue to see enormous opportunity for improving the consumer experience in this \$650 billion retail segment and believe that our disciplined approach to the business will allow us to recognize that opportunity and produce improved results for our shareholders.

For more than 50 years, we have developed consumer concepts that revolve around exceptional consumer benefits and customer service. We believe that these concepts, delivered by an outstanding team of Associates, are the best way to generate growth and high returns for our shareholders. I thank our Associates, our investors, our customers and our suppliers for their continued support in helping us achieve these objectives.

Sincerely,



Richard L. Sharp
Chairman and Chief Executive Officer, Circuit City Stores, Inc.

April 6, 1999

PRESIDENT'S LETTER—CIRCUIT CITY



In fiscal 1999, the consumer electronics industry entered the early stages of a growth cycle driven by exciting new digital technologies. These technologies are giving consumers capabilities and performance options never before available. They are providing access to new sources for in-home entertainment, new and

faster methods of information gathering and more convenient transaction processes. And, the best is yet to come. At Circuit City, we believe that our longstanding commitments to extensive, product-knowledge-based training programs and industry-leading customer service, recent and ongoing improvements in our merchandise displays and the continued strength of our vendor relationships position us to take advantage of the opportunities in the digital future.

FISCAL 1999

In fiscal 1999, we once again demonstrated that Circuit City is the store to shop when the consumer needs a full explanation of product features and benefits. Last year, as in every year since 1994 when DIRECTV introduced direct broadcast satellite service, Circuit City led the industry in sales of DIRECTV satellite systems. Industry sources indicate that we increased our share of the personal computer market significantly in fiscal 1999. We led a highly successful introduction of cable modems into the retail marketplace through a cooperative effort with MediaOne in New England. As digital technology was expanded to the camcorder category, we were ahead of the competition with product availability and training for our sales counselors. As a result, industry sales figures indicate that we are the leading retailer of this product. And finally, during the holiday period, when consumer awareness of DVD players and movies reached a mass-market level, we led the industry in sales of DVD players. We firmly believe that our commitment to bringing the added value of the Divx feature to the consumer was a key element in our seizing a leadership position in this category.

And yet, we know that we cannot rest. We continue to look for opportunities to maximize our store volumes and operating efficiency. In fiscal 1999, these efforts included the addition of Computer Build-

to-Order Stations™ in all stores, an expanded assortment of computer-related products tested in approximately 30 stores, and continued improvement in inventory management across all product categories.

Computer Build-to-Order Stations. We introduced Computer Build-to-Order Stations in late summer. Using a touch screen, customers select from a broad range of features to design a computer that best meets their needs. The configure-to-order capabilities of the top four worldwide brands—IBM, NEC, Hewlett Packard and Compaq—are searched in real-time, allowing our customers to directly compare the available choices. Products can be delivered to the customer's home or sent to the store for pickup at the customer's convenience.

Superstore Remodels. In approximately 30 stores, we further expanded our home office selection with an increased assortment of computer software, peripherals, upgrades and accessories. We have continued to refine the displays and selections in these stores and anticipate remodeling another 50 stores in the coming fiscal year to enhance our presentation of all products including the audio and video categories.

Inventory Management. Effective inventory management means providing customers with an outstanding in-stock selection of products with the most desirable features at the best price while also managing across product transitions to ensure limited gross margin erosion from aging inventory. We started from a strong foundation, but nevertheless have made significant strides over the last three years. We began by carefully reviewing inventory in all stores and reducing the number of products with similar features and prices. This reduction streamlined the selection process for both customers and sales counselors. We then looked for opportunities, such as our Appliance and Computer Build-to-Order Stations™, which increase our selection without increasing the inventory we hold. Throughout this period, we have worked closely with the manufacturers to reduce the time between manufacture and retail sale of the product—a solution that benefits both them and us. As a result, we have been able to reduce per store inventory from \$3.0 million in fiscal 1996 to \$2.2 million at the end of fiscal 1999. We believe that we have additional opportunities for inventory improvement as we continue to work with our manufacturers on this objective.

MORE OPPORTUNITIES

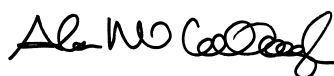
We believe that our sales results and the merchandising initiatives undertaken in fiscal 1999 only scratch the surface of the exciting opportunities emerging in our retail segment. Direct broadcast satellite systems now reach approximately 9 million households. Since the introduction of DVD only two years ago, DVD player sales to date have reached an estimated 1 million units. The success of both these products demonstrates the consumer's enthusiasm for high-quality video and audio when it is offered at an attractive price.

Additional products are on the horizon. During fiscal 1999, we were able to conduct live demonstrations of high-definition television in selected markets around the country. In every case, consumer enthusiasm for the product was unmistakable. The first production model digital televisions began to arrive in stores in late fall but are available only at relatively high price points and remain in short supply. We anticipate that additional product will arrive throughout the coming year, although sales will be constrained by prices and a limited amount of programming. We commend DIRECTV for their plans to offer HDTV, including HBO, in the coming year.

The industry also continues to work on the development of multi-functional set-top boxes that can deliver a variety of entertainment, information and transactional services to the home. Again, we have taken a lead in this product's development by working on several fronts to help create a competitive retail marketplace for digital cable set-top boxes by July 2000.

In summary, I believe that we are on the brink of an exciting new era in consumer electronics—an exciting era for our customers, our Associates and our stockholders. We are committed to the high standards of customer service that have made us the nation's leading retailer of new technologies in the past and to the ongoing refinements needed to keep us in that position in the future.

Sincerely,



W. Alan McCollough
President and Chief Operating Officer, Circuit City

April 6, 1999

PRESIDENT'S LETTER – CARMAX



In 1991, Circuit City began to examine opportunities that would take the company's growth beyond the geographic expansion potential that remained for the core Circuit City business. That search led us to another industry – the \$650 billion automotive retail segment. It is a segment where consumers are frequently dissatisfied, prices are negotiated and quality, for used cars, is often questionable. We saw an opportunity to create a more pleasant experience for both used- and new-car buyers. Our consumer research and our unit volumes clearly indicate that we have achieved that objective for many consumers. Nevertheless, we have not met our overall sales and profit targets in the time frame we initially set.

FISCAL 1999

Our fiscal 1999 results reflect the impact of storing decisions made in prior fiscal years as well as current industry trends. We have determined that most of our multi-store markets need more, but smaller, stores to achieve the market volumes and operating efficiency we require. In these markets, larger competitors and greater traffic congestion apparently limit the effective trade areas served by each CarMax. In addition, we competed with record-breaking rebates and financing rates on new cars. Research from Morgan Stanley Dean Witter shows that average incentives offered by the Big Three U.S. automakers doubled from almost \$850 in winter 1997 to approximately \$1,650 by the summer of 1998. As a result, unit sales of new cars, which were in the 15 million per year range through most of fiscal year 1998, significantly exceeded that mark throughout much of fiscal 1999.

Despite these disappointments, we have a number of accomplishments worth noting.

- First, the CarMax used-car concept has been highly successful in our single-store markets, consistently producing strong store volumes and profits while serving exceptionally large trade areas.
- Second, the multi-store Washington/Baltimore and Atlanta metro markets also have performed well. Our Laurel, Md., store is the number one used-car retail location in the nation. Our Norcross, Ga., store is producing market-leading used-car sales and ranks as the top volume location among all Chrysler-Plymouth-Jeep Five Star dealers in the U.S. Both of our Chrysler franchises carry the Five Star rating, DaimlerChrysler Corporation's highest award for customer service excellence.
- Third, we made further progress in our new-car franchise expansion, meeting our objectives by adding six franchise locations and 14 total franchises. We continue to seek either new franchise grants or franchises that can be improved by offering the CarMax buying experience. Our fiscal 1999 growth reflects that strategy. We acquired Nissan of Greenville and are operating the franchise at our Greenville, S.C., superstore. Mitsubishi granted us two franchises, which now operate at our Laurel, Md., and Dulles, Va., locations in the Washington/Baltimore market, and we acquired a Mitsubishi franchise that operates at our Town Center store in Atlanta, Ga. We also acquired a Laurel, Md., Toyota franchise that is currently operating in the existing premises until we complete a Toyota facility next door to our Laurel superstore. Finally, we acquired the Mauro Auto Mall, a nine-franchise, multi-showroom auto mall well situated between Chicago, Ill., and Milwaukee, Wisc. In addition to Jeep, Nissan, Toyota and Mitsubishi franchises, this acquisition allowed us to establish our first new-car Ford, Chevrolet, Cadillac, Subaru and BMW locations.

FISCAL 2000

During the second half of fiscal 1999, we began experimenting with a hub/satellite operating process in our Miami, Houston and Dallas/Ft. Worth markets. By sharing reconditioning, purchasing and business office operations with a nearby hub store, we have significantly reduced operating overhead for the locations designated as satellite

stores. The satellite stores provide the same used-car selection and sales offer available to the consumer at a hub store.

We believe that applying this concept to new locations will allow us to add profitable fill-in satellite locations on a four- to six-acre site with a 12,000-square-foot building. We believe that the satellite store concept will allow us to add highly productive selling locations in several high-density, high-cost trade areas. In fiscal 2000, we will focus on adding these stores in existing multi-store markets; some of the stores will be acquisitions of existing retail facilities. We also continue to look for opportunities to add new-car franchises in existing markets and are working hard to develop marketing programs that will increase consumer awareness and customer traffic in all markets. We are delaying entry into the Los Angeles market until fiscal 2001.

At CarMax, we believe that we have developed the preferred way for consumers to buy cars. However, we also recognize that we must introduce more consumers to our concept and continue to refine our operating skills so that we produce not just a profit, but a profit that generates acceptable returns for our shareholders. We continue to adjust our strategy wherever we identify opportunities. I want to thank all of our CarMax Associates as they work towards achievement of our sales and profit targets and the shareholders who have maintained their support as we continue to develop the CarMax business.

Sincerely,



W. Austin Ligon
President, CarMax

April 6, 1999

50

50 YEARS OF EXPERIENCE



1949 A CONCEPT BECOMES

REAL From a barber's chair, Sam Wurtzel witnessed the construction of the South's first television tower. Recognizing the benefits that television could bring to the consumer, he began selling this exciting new product door-to-door and opened his first store, called Wards, in Richmond, Va. Abraham Hecht joined him as a partner.



1959 THE FIRST MILESTONE

At the end of his first decade in business, Sam operated four Wards television and home appliance stores. Annual sales now totaled \$1 million.

1961 WARDS ISSUES STOCK

The first 110,000 shares of Ward's stock were issued in an over-the-counter offering at a split-adjusted price of 4 cents per share. Throughout the 1960s, Wards continued its growth, operating television and appliance stores and licensed departments, hardware departments and even a mass merchandising discount store. By 1968, the stock was listed on the American Stock Exchange.

1960 NATIONWIDE EXPANSION Wards began a cost-effective nationwide expansion by opening departments licensed to sell consumer electronics in mass merchandise discount stores. This expansion program gave the company a presence from the East Coast to the West Coast.



1967 MAKING LIFE BETTER

Wards helped bring the first microwave ovens to consumers. Today, more than 94 million households use this exciting product to make life a little easier.



1969 HOT GROWTH IN CONSUMER ELECTRONICS

In 1969, Wards grew rapidly. The acquisition of Custom Electronics, a retailer of audio and hi-fi equipment, gave the company a strong presence in the Washington, D.C., market and the Dixie Hi-Fi mail order business.

1945 1950 1955 1960 1965 1970

Over the years, our Associates have committed themselves to extraordinary performance. While delivering industry-leading customer service, they also are seeking new ways to excel. They have brought us through the last 50 years and are now setting the stage for the exciting years to come.

I am proud to be a part of this team, which reaches high and achieves much. I thank our Associates for their energy, their enthusiasm, their ideas and their commitment. They are the heart of our company's success.

—RICHARD L. SHARP



1974 ALL UNDER ONE ROOF

Wards embarked upon a strategy that gave birth to one of the most successful companies in contemporary retailing. The first Loading Dock, a 40,000-square-foot retail warehouse, displayed a vast selection of audio, video and major appliance products.



1975 LEADING THE WAY

Wards helped introduce the first televisions and now the first video cassette recorders. Within 10 years, approximately 20 million households owned this revolutionary product.

1981 CIRCUIT CITY GROWS

The Loading Dock and Circuit City concepts were combined and introduced as the Circuit City Superstore. The selection is vast; the service is high; and the prices are low. The Superstore became the foundation for the company's success.



1984 A NEW NAME—A NEW

EXCHANGE The company name was changed to Circuit City Stores, Inc., and the stock was listed for the first time on the New York Stock Exchange. Within two years, the company had closed all non-Circuit City operations to focus on expansion of the high-service Superstore.



1993 CUSTOMER SERVICE—

FOR AUTOS! Closing in on nationwide coverage and with a rich tradition of growth, Circuit City began looking for opportunities to extend that growth into the next decade. The first CarMax used-car superstore, offering extensive selection; low, no-haggle prices; and exceptional service and satisfaction opened in Richmond, Va.

1994 NEW CONSUMER ELECTRONICS

Circuit City again brought the consumer leading-edge technology, introducing direct broadcast satellite product. A well-trained sales force and effective product displays have made us the nation's leading retailer of DIRECTV.



1998 SERVING CONSUMERS IN THREE

INDUSTRIES Circuit City continues its growth, bringing the latest technologies to the consumer. The company became the first retailer to demonstrate a live consumer high-definition television broadcast. Total sales topped \$10 billion for the calendar year.

Auto buyers love "The CarMax Way." More than 96 percent of customers expect to return to CarMax for their next purchase.

Digital Video Express launched the Divx feature nationwide in late fall. Holiday sales exceeded expectations and helped make Circuit City the nation's leading DVD retailer for the holiday period.

1975

1980

1985

1990

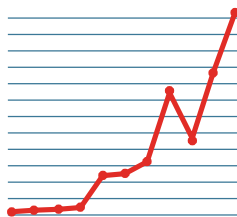
1995

2000



1977 CIRCUIT CITY IS BORN

The first Circuit City stores opened in Washington, D.C. The stores featured knowledgeable sales assistance, top brand names in audio and video products, an in-store service department and convenient product pick-up areas.



1990 A TOP PERFORMER

With a 9,287 percent return to stockholders, Circuit City was the top performing retailer on the New York Stock Exchange in the 1980s.

1991 LEADING-EDGE CATEGORY

Household penetration of personal computers began a rapid expansion and Circuit City responded. An in-depth selection of personal computer hardware is today a part of every Superstore.

1997 CARMAX IPO By 1997, CarMax operated six superstores and had added a new-car franchise at its first Atlanta store. In early 1997, two common stock series were created to track the performance of the separate Circuit City and CarMax businesses. In an initial public offering, nearly 22 million shares of CarMax Group Common Stock were sold.

1997 CUSTOMER

SERVICE—HOME MOVIES! Circuit City announced that it had participated in development of a system that gives consumers the most convenient way ever available for watching movies at home. Divx is a feature on a DVD player; it gives consumers digital-quality movies at a rental-like price.



1999 POISED FOR GROWTH After 50 years, Circuit City Stores, Inc. has a strong tradition of customer service. We believe this tradition, combined with a willingness to innovate and an eye for new opportunities, can create continued growth for stockholders for many years to come.

CIRCUIT CITY The best available offer

Fifty years ago, Sam Wurtzel founded a company called Wards. The company's founding coincided with the beginnings of the nation's first television broadcasts. Carrying televisions door-to-door, Sam gave consumers in Richmond, Va., their first demonstrations of this exciting new medium. Television has come a long way since 1949 and so has Wards.

Before changing its name to Circuit City Stores, Inc. in 1984, Wards operated a number of different retail formats. In the late 1970s, the first "Superstores" were introduced as The Loading Dock. These stores featured low prices and a vast array of consumer electronics and major appliances. Over the years, the look and the name of the stores have changed and the product selection has expanded. And yet, we still adhere to the core theme that enabled Sam to sell new technologies to his customers: provide a high level of knowledgeable service and a compelling demonstration of product features and benefits.

Today, we are on the brink of an exciting phase in consumer electronics development. Digital technology is expanding our product selection to include DVD players and software, digital high definition televisions, digital audio receivers and compact disc recorders. All of these products provide new benefits and value for the consumer. Circuit City can help lead the introduction of these technologies by continuing to provide an outstanding consumer experience.

A COMPELLING IN-STORE EXPERIENCE

The Circuit City Sales Counselor. The most critical part of our formula is the interaction between sales counselors and customers. Our sales counselors provide unparalleled assistance that includes knowledgeable product information and demonstrations. We invest heavily in sales training programs that cover product technologies, customer service and store operations. Our state-of-the-art video studio rapidly

produces training materials on these topics. Our Training Tracker system monitors the progress of new and experienced Associates through computerized proficiency tests. Finally, our incentive compensation plan rewards Associates for reaching sales and profit objectives through exceptional customer service.

Low Prices. Consumers get competitive low prices along with our high standards for service. As extra assurance, we offer Circuit City's Low Price Guarantee, which promises to refund 110 percent of the difference if a customer finds a lower price, including our own sale price, within 30 days of a purchase.

Selection. To meet a variety of consumer needs, we offer a merchandise mix that ranges from basic entry-level products to feature-rich new technologies. Our buyers carefully select products that give Circuit City customers the greatest value for their dollar. We further expand selection with Appliance Stations™ that allow customers to place special orders through on-line access to manufacturers' full product lines. In fiscal 1999, we introduced Computer Build-to-Order Stations™, that allow customers to configure computers to their personal specifications, selecting from the offerings of the world's leading manufacturers. Using real-time satellite links, our customers can view side-by-side comparisons of various models, features and prices and up-to-the-minute factory information.

Completing the Transaction. After the selection is complete, customers can quickly conclude their transaction. The sales counselor uses our point-of-sale system to rapidly obtain check and credit card approvals. For customers who need credit for their purchase, the sales counselor can submit an on-line application to First North American National Bank, our finance operation.



With Superstores in virtually all of the nation's top 100 markets, Circuit City is the only national retailer of consumer electronics, personal computers, major appliances and entertainment software. We combine exceptional sales assistance with competitive prices, a wide selection of products and a continuing commitment to bringing new technologies to America's consumers.



CIRCUIT CITY Delivering the offer every day

The POS system automatically notifies the warehouse to pull the product and have it waiting at the door. Trained warehouse Associates securely load products into the customer's vehicle. Sales counselors also can arrange for home delivery and installation, including weekend and evening deliveries in most major markets. Roadshop Associates install automotive electronics in our on-site installation centers.

AN ONGOING CUSTOMER RELATIONSHIP

Product Service. Our relationship with the customer continues after the product purchase. Our network of 36 service centers and more than 1,800 technicians provides convenient, factory-authorized repairs, including in-home repairs for large items such as big-screen televisions and major appliances. A third-party warranty provider delivers in-home service for personal computer products. Strong vendor relationships and a nationwide parts inventory speed turnaround on all repairs.

Customer Service Representatives. Should a customer have an issue that is unresolved through our stores or our product service centers, he or she has toll-free access to customer service representatives at our headquarters. These representatives can assist with a quick resolution.

MAKING IT WORK

The key to outstanding performance over the long term is the ability to deliver on our consumer promises every day. Circuit City achieves that objective through sales counselor training, ongoing refinements in product offerings and a commitment to service after the sale. We also have been aggressive in our behind-the-scenes use of technology to enhance customer service, operating control and efficiency.

Through continuous upgrades, system enhancements and improved data storage, our proprietary POS system enables us to sort the vast amounts of information created by a high-volume business.

The result is tighter inventory control and better merchandise buying decisions. The POS system provides for automatic inventory replenishment from regional distribution centers. In these centers, conveyor systems and laser bar-code scanners efficiently move merchandise and reduce labor costs and inventory loss. Our automated music software distribution center provides cost-effective delivery for this low-margin, but traffic-driving, category.

The POS system also is integrated into our Customer Service Information System. CSIS maintains a history of the customer's major Circuit City purchases so sales counselors and customers can match new selections with the customers' existing products. It also facilitates product returns and repairs even if a customer has misplaced a receipt. Finally, CSIS gives customer service representatives quick access to transaction records, allowing them to rapidly respond to customer issues.

MONITORING OURSELVES

For more than seven years, we have surveyed our customers to monitor our performance and pinpoint areas for improvement. Last year, we contacted more than 375,000 customers, measuring their satisfaction with literally every area of customer interaction. Additional research helps to establish benchmarks for comparing our performance with that of our competitors.

CONCLUSION

We believe that the attention Circuit City gives to the details and execution of a multi-faceted, high-service consumer offer positions us to benefit from the exciting growth being generated by our industry's new technologies. By combining our experience with the industry's innovations, we believe we can recognize the tremendous potential of this new digital age.



Circuit City leads the industry in sales of exciting new technologies, including digital camcorders and direct broadcast satellite systems. We believe these products and other innovative technologies like HDTV and multi-functional set-top boxes can create exceptional industry growth throughout the coming decade.



DIVX The best way to watch movies at home

In our Circuit City store operations and throughout the company, we are continuously looking for opportunities to bring new benefits to the consumer. Digital Video Express is one of these opportunities. Divx takes the digital-quality video and audio of DVD and adds a home movie-viewing capability that is affordable and more convenient than any available in the marketplace today. For the millions of consumers who are renting movies today and want to economically build a library of selected titles, Divx is indeed "the best way to watch movies at home."

SIMPLICITY, QUALITY AND CONVENIENCE

When shopping for DVD players, consumers now have a number of features to consider. They may decide between single disc and multi-disc players. They may choose DTS-compatible or Dolby Digital-only players. And now, they may choose players with or without the Divx feature. If they choose a player with the Divx feature, they gain access to a whole new way of home movie viewing.

Using a Divx-enhanced DVD Player. Purchasing and using a Divx-enhanced player is simple. Players can be purchased at approximately 800 retail outlets nationwide. After purchase, the customer takes the player home and connects it to his or her television and then to a phone line, in a manner similar to the phone connection for direct broadcast satellite systems. The customer then uses an on-screen menu to register the player through a connection with the Divx call center. With that simple phone call, the customer is ready to begin a dramatically improved home video experience.

Benefits of Divx. The Divx-equipped player will play basic DVD discs, Divx discs and audio CDs. DVD discs are the same size as an audio CD. They combine outstanding picture clarity and color

sharpness with the digital sound of a CD. Most basic DVD discs are available at sell-through prices in the \$20 to \$25 range and at a number of video rental outlets. Divx discs provide the same quality video and audio capabilities of a basic DVD but are targeted to the video rental market. They are available for a suggested retail price of \$4.49, which includes a two-day viewing period that is initiated at the customer's convenience.

For the \$4.49 price, consumers get high-quality digital picture and sound, plus a more convenient, flexible viewing time than offered by VHS or DVD rental or by pay-per-view. Consumers buy Divx discs whenever it is convenient to shop. Unlike video rentals, the Divx viewing period begins not when consumers leave the store, but when they first insert the disc into their player and push play. After that point, consumers have a 48-hour window in which they can watch the movie as many times as they want. Unlike pay-per-view, the consumer can rewind, scan or pause the movie or even finish watching it the next day. And, in contrast to video rental, the movie never has to be returned, which eliminates all late fees and allows consumers to build an inexpensive home library. Subsequent two-day viewing periods cost only about \$3.25, and favorite movies can be converted to unlimited viewing for play on any Divx-equipped player registered to their account. Consumers also can recycle or trade discs with friends, who can utilize the lower-price subsequent viewing periods. The consumer receives all of the benefits of Divx for only about one dollar more than the price of a VHS rental.

On a monthly basis, the Divx-enhanced DVD player uses the phone connection to automatically transfer viewing information to the Divx billing computer. Payment is made through the customer's



We launched DVD players with the Divx feature and Divx movie discs nationally in late fall. At year-end, Zenith, RCA, ProScan and Panasonic brand players were available in approximately 800 retail stores. In 1999, the selection of Divx-enhanced DVD players will continue to grow as JVC, Pioneer, Harman Kardon and Kenwood add the Divx feature to their product line-up.

Our title selection continues to grow as we add 30 to 40 new titles each month.



DIVX Off to an outstanding start

credit or debit card. This entire process takes place with no customer involvement, and the call never interferes with normal phone usage.

No phone connection is ever required during movie play.

Growing Title Selection. At fiscal year-end, more than 370 Divx titles were available, with up to 40 titles being added each month. Major movie studios are making new and catalog titles available for release on Divx discs. Discs can be purchased at any of the approximately 800 retail outlets nationwide or by ordering from DivxFlix, our on-line store at www.divx.com.

More Player Brands. The selection of Divx-enhanced DVD players also continues to grow. Divx was launched in two markets with the Zenith-Inteq brand players, and the nationwide launch began in early fall with the availability of RCA players from Thomson Consumer Electronics. Thomson expanded the market further with the introduction of ProScan players in time for the holidays. A Panasonic player was added in early December. By the end of fiscal 2000, we expect to have a total of eight brands in the marketplace as JVC, Pioneer, Harman Kardon and Kenwood add Divx-equipped players to their DVD lines.

BUILDING THE BUSINESS – BEHIND THE SCENES

As with all our businesses, we are deeply committed to ensuring that Divx works efficiently and effectively behind the scenes. And so, we have devoted significant resources not just to product development, but also to systems that support billing and customer service and the systems that support retailers carrying the product.

In April 1998, we opened our Customer Satisfaction Center in Rocky Mount, N.C. This center, which has the capacity for more than 500 customer service Associates, assists Divx customers with the

registration of their players and provides general help and troubleshooting on any customer issues.

In May 1998, we opened a distribution center in Jackson, Tenn. That center distributes discs to retailers and directly to customers ordering through DivxFlix.

In January, we launched an on-line retail distribution program, called divxwholesale.com for Divx discs. This program allows smaller retailers to quickly and efficiently order new Divx inventory.

Finally, we developed an interactive kiosk that can be tailored to the needs of individual retailers selling Divx-enhanced DVD players and Divx discs. These kiosks are designed to provide a full explanation of the Divx home movie system to consumers shopping in less service-intensive retail outlets.

CONCLUSION

Divx is off to an outstanding start. As we look into fiscal year 2000 and beyond, we believe this new business opportunity fits our long-standing formula for success: by offering consumers an option that improves their lifestyles, we can build a strong business that generates attractive returns for shareholders.



Divx is an exciting new digital system for home video.

- For \$4.49, consumers get the outstanding digital video and audio of DVD and a vastly more convenient rental option.
- The Divx price includes a two-day viewing period that begins not when the consumer leaves the store, but when he or she first plays the disc.
- Discs never have to be returned, eliminating late fees, and can be collected for later viewing.

CARMAX A new standard of service to car buyers

In 1991, we began looking at growth opportunities beyond the Circuit City business—opportunities for the 21st century. We believed the greatest potential lay in larger industries with no significant national competitor. Extensive research showed that this opportunity existed in the automotive retail segment. The research confirmed what we knew intuitively: that consumers wanted to buy cars the same way they bought other products. They wanted extensive selection; low, no-haggle prices; high-quality vehicles; and a trustworthy, friendly retailer. That is the CarMax offer. The industry-leading sales volumes generated by all our locations prove that we have created a truly different buying experience—that CarMax is providing a new standard of service to new- and used-car buyers.

THE DIFFERENCES THAT MAKE A DIFFERENCE

Broad Selection. CarMax locations generally offer from 300 to 600 used vehicles. The selection includes high demand brand names such as Ford, General Motors, Chrysler, Toyota, Honda, Nissan and Mitsubishi and specialty brands such as Lexus and BMW. A CarMax customer can look for a sport utility, truck, minivan, subcompact, mid-size or luxury car. Last year, we added a selection of electronic accessories with installation provided by Circuit City's automotive installation centers.

CarMax used cars are generally in the current model year through five years old with fewer than 60,000 miles and range in price from \$6,000 to \$30,000. For the most cost-conscious consumers, we also offer "ValuMax" vehicles, which are either older or have higher mileage and generally range in price from \$3,000 to \$18,000. Each of our new-vehicle franchises offers the manufacturer's full selection of makes and models. The majority of our used cars are bought locally,

primarily from individuals. These vehicles are reconditioned and sold within the local market, helping to ensure that our selection reflects the buying preferences of consumers in the market.

Vehicles are displayed by type and make on the superstore lot, or customers can conveniently sort through the selection via the AutoMation® computer system. This touch-screen system displays color photos, prices, features and specifications for inventory at each location. Customers also have access to inventory at other CarMax stores. Information can be obtained at the store or through the CarMax website.

Low, No-haggle Prices. At CarMax, each customer receives the same low price with no negotiation. The vast majority of our used cars are priced well below book prices. For new cars, our goal is to be competitive with the lowest available price in the market. Our low-price, no-haggle philosophy extends to every stage of the transaction including warranty prices, financing rates and vehicle documentation fees.

Competitively priced financing is available on site. The sales consultant simply enters basic credit information and submits an on-line finance application. Primary credit is provided by First North American Credit Corporation, our automotive finance operation, or Bank of America. The customer can select from the terms and rates provided. Sub-prime financing is available from other third-party lenders.

CarMax also brings a unique approach to the "trade-in" process. CarMax customers are given a written appraisal with a cash offer that is good for seven days or 300 miles; the price is not dependent on the purchase of another vehicle from CarMax. Customers may apply their appraisal voucher to a purchase, or we will simply buy their vehicle for cash. This straightforward, honest approach helps establish a positive relationship and provides CarMax a valuable source of vehicles for resale.



CarMax gives consumers the same low-price, high-service offer available at Circuit City and at other contemporary retailers.

The selection is large; prices are low, with no negotiating required; and the vehicle quality is exceptional.



CARMAX Committed to "The CarMax Way"

Quality. Consumers want a good price, but they also want a high-quality vehicle for that price. At CarMax, quality is guaranteed by the comprehensive CarMax Certified Quality InspectionSM that every used vehicle must pass. All CarMax vehicles are thoroughly reconditioned to meet the high mechanical, electrical, safety and cosmetic standards this inspection demands. ValMax vehicles pass the same mechanical, electrical and safety standards, providing a quality vehicle at an economical price.

Every used car also is backed by a five-day, 250-mile return guarantee and a limited warranty. CarMax's MaxCare[®] extended warranty programs provide comprehensive mechanical protection with flexible terms up to 72 months. All locations provide warranty service and factory-authorized service is available at all new-vehicle franchises.

Integrity. Our selection, low, no-haggle prices, and quality commitment are the first steps to gaining the consumer's trust. With these components of the offer in place, the sales consultant can focus solely on the customer's needs. The consultant assists throughout the buying process. He or she provides vehicle information, accompanies the customer on test drives, explains extended warranty availability and pricing, arranges for appraisals, submits an on-line financing application, completes paperwork and delivers the vehicle to the customer.

DELIVERING THE DIFFERENCES

Since we opened the first CarMax superstore, many competitors have tried to duplicate our offer. But, the high volumes generated by our stores clearly indicate that we are delivering a combination of selection, pricing, quality and service that exceeds our competitors. Our leadership lies in the people and the systems that back up our offer.

People. At CarMax, we have a great team of Associates who are committed to "The CarMax Way." "The CarMax Way" training program helps ensure that all Associates, whether they are sales consultants, buyers or technicians, are focused on our mission: to provide customers with great quality cars at great prices with exceptional customer service.

In addition, we invest significant funds in job-specific training. CarMax buyers, for example, undergo a 12-to-24 month training period, working side-by-side with experienced buyers. Because of the volume at CarMax superstores, buyers-in-training are able to appraise thousands of vehicles before making their first independent purchase.

Management Information Systems. Behind the scenes, sophisticated information systems work to streamline customer transactions, ensure appropriate inventory at each location, support buying decisions and track operating efficiency.

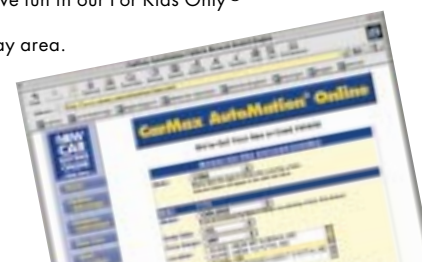
AutoMation is far more than an in-store inventory selection system. It also monitors test drives for each vehicle and each sales consultant, enabling us to identify issues related to specific inventory or needs for additional training. AutoMation tracks each vehicle through every stage of its CarMax life, from reconditioning through sale. It captures critical cost data that is used to help set the retail price and as a component of future purchase decisions. It also is used to identify opportunities for process improvement.

CONCLUSION

The CarMax consumer offer seems to truly meet the consumer's definition of an outstanding buying experience. Nevertheless, in many stores we have not met our sales and profit targets. We continue to refine our marketing and operating plans as we work hard to achieve our return on investment objectives.



At CarMax, we try to make vehicle buying as easy as possible. Customers can walk the lot or use AutoMation® to sort through our extensive inventory selection. They can even access inventory information via AutoMation® Online—CarMax's virtual showroom. The sales consultant stays with the customer throughout the process from vehicle selection, through appraisal of an existing vehicle, financing and delivery of the new purchase. While Mom and Dad shop, children can have fun in our For Kids Only® play area.



SELECTED FINANCIAL DATA

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
CONSOLIDATED SUMMARY OF EARNINGS										
<i>(Amounts in millions except per share data)</i>										
Net sales and operating revenues.....	\$10,804	\$8,871	\$7,664	\$7,029	\$5,583	\$4,130	\$3,270	\$2,790	\$2,367	\$2,078
Gross profit.....	\$ 2,445	\$2,044	\$1,761	\$1,635	\$1,385	\$1,106	\$ 924	\$ 809	\$ 690	\$ 600
Selling, general and administrative expenses.....	\$ 2,186	\$1,849	\$1,511	\$1,322	\$1,106	\$ 892	\$ 745	\$ 676	\$ 586	\$ 478
Earnings before income taxes.....	\$ 231	\$ 168	\$ 220	\$ 287	\$ 269	\$ 209	\$ 175	\$ 124	\$ 91	\$ 114
Net earnings.....	\$ 143	\$ 104	\$ 136	\$ 179	\$ 168	\$ 132	\$ 110	\$ 78	\$ 57	\$ 69
Net earnings (loss) per share:										
Circuit City Group:										
Basic.....	\$ 1.50	\$ 1.14	\$ 1.40	\$ 1.86	\$ 1.75	\$ 1.39	\$ 1.18	\$ 0.85	\$ 0.62	\$ 0.77
Diluted.....	\$ 1.48	\$ 1.13	\$ 1.39	\$ 1.84	\$ 1.74	\$ 1.37	\$ 1.16	\$ 0.84	\$ 0.61	\$ 0.76
CarMax Group.....	\$ (0.24)	\$ (0.35)	\$ (0.01)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CONSOLIDATED SUMMARY OF EARNINGS PERCENTAGES										
<i>(% to sales except effective tax rate)</i>										
Gross profit.....	22.6	23.0	23.0	23.3	24.8	26.8	28.3	29.0	29.1	28.9
Selling, general and administrative expenses.....	20.2	20.8	19.7	18.8	19.8	21.6	22.8	24.2	24.8	23.0
Earnings before income taxes.....	2.1	1.9	2.9	4.1	4.8	5.1	5.4	4.5	3.9	5.5
Effective tax rate.....	38.0	38.0	38.0	37.5	37.5	36.7	37.0	37.0	38.0	39.0
Net earnings.....	1.3	1.2	1.8	2.6	3.0	3.2	3.4	2.8	2.4	3.3
CONSOLIDATED SUMMARY BALANCE SHEETS										
<i>(Amounts in millions)</i>										
Total current assets.....	\$ 2,394	\$2,146	\$2,163	\$1,736	\$1,387	\$1,024	\$ 791	\$ 597	\$ 450	\$ 442
Property and equipment, net.....	\$ 1,006	\$1,049	\$ 886	\$ 774	\$ 593	\$ 438	\$ 371	\$ 319	\$ 355	\$ 250
Deferred income taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 79	\$ 88	\$ 68	\$ 51	\$ 41
Other assets.....	\$ 45	\$ 37	\$ 32	\$ 16	\$ 18	\$ 14	\$ 13	\$ 15	\$ 18	\$ 15
Total assets.....	\$ 3,445	\$3,232	\$3,081	\$2,526	\$2,004	\$1,555	\$1,263	\$ 999	\$ 874	\$ 748
Total current liabilities.....	\$ 964	\$ 906	\$ 837	\$ 831	\$ 706	\$ 546	\$ 373	\$ 279	\$ 261	\$ 222
Long-term debt, excluding current installments.....	\$ 426	\$ 424	\$ 430	\$ 399	\$ 179	\$ 30	\$ 82	\$ 85	\$ 94	\$ 94
Deferred revenue and other liabilities.....	\$ 112	\$ 145	\$ 166	\$ 214	\$ 242	\$ 268	\$ 232	\$ 187	\$ 152	\$ 126
Deferred income taxes.....	\$ 38	\$ 27	\$ 33	\$ 18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities.....	\$ 1,540	\$1,502	\$1,466	\$1,462	\$1,127	\$ 844	\$ 687	\$ 551	\$ 507	\$ 442
Total stockholders' equity.....	\$ 1,905	\$1,730	\$1,615	\$1,064	\$ 877	\$ 711	\$ 576	\$ 448	\$ 367	\$ 306
Total liabilities and stockholders' equity.....	\$ 3,445	\$3,232	\$3,081	\$2,526	\$2,004	\$1,555	\$1,263	\$ 999	\$ 874	\$ 748
CONSOLIDATED STATEMENTS OF CASH FLOWS										
<i>(Amounts in millions)</i>										
Depreciation and amortization.....	\$ 140	\$ 116	\$ 99	\$ 80	\$ 67	\$ 55	\$ 42	\$ 36	\$ 29	\$ 22
Cash flow from operations.....	\$ 254	\$ 195	\$ 14	\$ (55)	\$ 47	\$ 108	\$ 150	\$ 66	\$ 53	\$ 106
Capital expenditures.....	\$ 367	\$ 588	\$ 542	\$ 518	\$ 375	\$ 252	\$ 190	\$ 110	\$ 160	\$ 111
OTHER DATA										
Cash dividends per share paid on										
Circuit City Group common stock.....	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.12	\$ 0.10	\$ 0.08	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.04
Return on average stockholders' equity (%).....	7.9	6.2	10.2	18.5	21.1	20.6	21.5	19.2	16.8	25.9
Number of Associates at year-end.....	53,710	46,691	42,312	37,086	31,413	23,625	20,107	16,635	14,982	13,092
Number of Circuit City retail units at year-end.....	587	556	493	419	352	294	260	228	185	149
Number of CarMax retail units at year-end.....	30	18	7	4	2	1	-	-	-	-

Amounts for 1990–1991 assume change in accounting for extended warranties is retroactively applied.

See notes to consolidated and group financial statements.

REPORTED HISTORICAL INFORMATION*(Amounts in thousands except per share data)*

	1999	1998	1997	1996	1995
Net sales and operating revenues.....	\$10,804,447	\$8,870,797	\$7,663,811	\$7,029,123	\$5,582,947
Net earnings.....	\$ 142,924	\$ 104,311	\$ 136,414	\$ 179,375	\$ 167,875
Net earnings (loss) per share:					
Circuit City Group:					
Basic	\$ 1.50	\$ 1.14	\$ 1.40	\$ 1.86	\$ 1.75
Diluted	\$ 1.48	\$ 1.13	\$ 1.39	\$ 1.84	\$ 1.74
CarMax Group	\$ (0.24)	\$ (0.35)	\$ (0.01)	\$ -	\$ -
Total assets	\$ 3,445,266	\$3,231,701	\$3,081,173	\$2,526,022	\$2,004,055
Long-term debt, excluding current installments.....	\$ 426,585	\$ 424,292	\$ 430,290	\$ 399,161	\$ 178,605
Deferred revenue and other liabilities	\$ 112,085	\$ 145,107	\$ 166,295	\$ 214,001	\$ 241,866
Cash dividends per share paid on					
Circuit City Group common stock.....	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.12	\$ 0.10

*See notes to consolidated financial statements.***CIRCUIT CITY STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On January 24, 1997, shareholders of Circuit City Stores, Inc. approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group."

The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations.

The following discussion and analysis refers to Circuit City Stores, Inc., which includes the operations related to both the Circuit City Group and the CarMax Group. All financial statements reflect consummation of the CarMax Group stock offering on February 7, 1997. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for the Circuit City Group and for the CarMax Group.

RESULTS OF OPERATIONS**Sales Growth**

Total sales for Circuit City Stores, Inc. increased 22 percent in fiscal 1999 to \$10.80 billion. In fiscal 1998, total sales were \$8.87 billion, a 16 percent increase from \$7.66 billion in fiscal 1997.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

Fiscal	Circuit City Stores, Inc.	Circuit City Group		CarMax Group	
	Total	Total	Comparable	Total	Comparable
1999	22%	17%	8 %	68%	(2)%
1998	16%	12%	(1)%	71%	6 %
1997	9%	6%	(8)%	85%	23 %
1996	26%	23%	5 %	258%	12 %
1995	35%	34%	15 %	376%	43 %

THE CIRCUIT CITY GROUP. Industry sales in Circuit City's retail segments have varied significantly over the past five years, resulting in wide variations in the Group's sales growth. Geographic expansion and the addition of product categories such as personal computers were the primary contributors to the Circuit City Group's total sales growth early in the period. From mid-fiscal 1996 through fiscal 1998, a lack of significant product introductions resulted in lower average retails and weak sales throughout the industry. In fiscal 1999, the industry began to emerge from this period of declining sales. For Circuit City, the fiscal 1999 sales reflected strong sales across all major categories with especially strong sales in personal computers and new high technology areas such as DIRECTV; wireless communications; DVD players, especially players with the Divx feature; and digital camcorders. The addition of 37 Superstores also contributed to the total sales growth.

The industry weakness in fiscal 1997 and 1998 resulted in a highly competitive climate, and a significant number of regional competitors closed stores. Despite the improvement in fiscal 1999, the consumer electronics industry remains highly competitive. Circuit City's primary competitors are large specialty, discount or warehouse retailers with generally lower levels of service. Because of Circuit City's long history of providing exceptional customer service, management believes that the Circuit City locations can continue to maintain share in existing markets and build comparable shares in new markets.

The Circuit City Group sells two extended warranty programs on behalf of unrelated third parties that issue these plans for merchandise sold by the Group and other retailers. These third-party programs are sold in most major markets. In states where third-party warranty sales are not permitted, the Group sells a Circuit City extended warranty. Gross dollar sales from all extended warranty programs were 5.4 percent of the Group's total sales in fiscal year 1999, compared with 5.5 percent in fiscal 1998 and 6.0 percent in fiscal 1997. The lower percentages in fiscal years 1999 and 1998 reflect the impact of lower average retail prices on consumer demand for the related warranties in many categories and increased sales of some products that carry lower warranty penetration rates. Total extended warranty revenue, which is reported in the Group's total sales, was 4.6 percent of sales in fiscal years 1999 and 1998 and 5.1 percent of sales in fiscal year 1997. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. Third-party extended warranty revenue was 4.1 percent of the Group's total sales in fiscal year 1999 and 3.6 percent of the Group's total sales in fiscal years 1998 and 1997. The fiscal 1999 increase in third-party extended warranty revenue reflects the conversion of stores in 10 states to third-party warranty sales in June 1998.

THE CARMAX GROUP. The CarMax Group's fiscal 1999 total sales growth reflects the addition of 12 locations, three of which opened in the last week of the fiscal year, and a 2 percent decrease in comparable store sales. CarMax opened 10 used-car superstores in fiscal 1999. The Group grand-opened the Chicago, Ill., market with three stores that opened early in fiscal 1999 and one that opened late in fiscal 1998. The Group also entered San Antonio, Texas; and Greenville, S.C., and added stores in the Washington, D.C./Baltimore, Md.; Tampa, Fla.; and Dallas/Ft. Worth, Texas, markets. The Group also acquired franchise rights or was awarded new franchise points for six new-car stores, including the nine-franchise Mauro Auto Mall, now operating as the CarMax Auto Mall, in Kenosha, Wis.

CarMax's fiscal 1999 comparable store sales reflect used-car sales that were below expectations and continued strength in CarMax's new-car comparable store sales. The disappointing used-car sales resulted from an intensely price-competitive new-car industry, with which CarMax must compete, and insufficient customer traffic in a number of multi-store metropolitan markets. CarMax is producing strong store-level returns in single-store markets and in the multi-store Atlanta, Ga., and Washington D.C./Baltimore, Md., markets.

In larger, metropolitan markets, CarMax has begun testing a hub/satellite operating process. Under the hub/satellite process, a satellite store shares reconditioning, purchasing and business office operations with a nearby hub store. The consumer offer is identical in both the hub and satellite stores. The hub/satellite process significantly reduced overhead and operating costs for existing stores that were designated as satellite stores in fiscal 1999. Management believes this operating concept will allow it to efficiently open more but smaller stores in metropolitan markets. Prototypical satellite stores are expected to be approximately 12,000 square feet on four- to six-acre sites. CarMax opened one prototypical satellite store late in fiscal 1999. All other fiscal 1999

satellite stores are larger stores and are therefore classified by size, with "C" stores representing CarMax's largest store format. Going forward, management expects primarily to open smaller format "A" stores and satellite stores.

The fiscal 1998 sales growth reflects the addition of 11 locations, two of which opened in the last week of the fiscal year, and a 6 percent comparable store sales increase. The Group's used-car sales began to fall below management's expectations during the second half of fiscal 1998. New-car sales remained strong throughout that fiscal year. In June 1997, CarMax acquired its second Chrysler-Plymouth-Jeep franchise, which was relocated and opened in conjunction with the opening of the CarMax superstore in Stockbridge, Ga.

The fiscal 1997 sales growth includes the addition of three stores and a 23 percent comparable store sales increase for the two locations classified as comparable stores throughout the year and the two locations classified as comparable stores for a portion of the year.

Extended warranty sales prior to July 1997 include third-party contracts and CarMax's own extended warranty contracts. In most states, CarMax sells warranties on behalf of an unrelated third party and has no contractual liability to the customer under the warranty programs. In states where third-party warranty sales are not permitted, CarMax has sold its own extended warranty. CarMax expects to continue selling this warranty where state law restricts third-party warranty sales. Gross dollar sales from all extended warranty programs were 4.3 percent of the Group's total sales in fiscal 1999, 3.8 percent in fiscal 1998 and 3.5 percent in fiscal 1997. The fiscal 1999 increase reflects pricing adjustments and a higher penetration rate achieved by extending warranty coverage to more vehicles. Total extended warranty revenue, which is reported in the Group's total sales, was 2.0 percent of total sales in fiscal 1999, 1.5 percent in fiscal 1998 and 1.2 percent in fiscal 1997. Third-party extended warranty revenue was 1.9 percent of total sales in fiscal 1999, 1.4 percent in fiscal 1998 and 1.1 percent in fiscal 1997.

IMPACT OF INFLATION. Inflation has not been a significant contributor to the Company's results. For the Circuit City Group, the average retail price declined in virtually all product categories during the past two years. Although new product introductions could help reverse this trend in selected areas, management expects no significant short-term change overall. Because the Group purchases substantially all products in U.S. dollars, prices are not directly impacted by the value of the dollar in relation to other foreign currencies, including the Japanese yen.

For the CarMax Group, inflation has not been a significant contributor to the Group's results. The Group's profitability is based on achieving specific gross profit dollars per unit rather than on average retail prices. Because the wholesale market generally adjusts to reflect retail price trends, management believes that if the stores meet inventory turn objectives, then changes in average retail prices will have only a short-term impact on the Group's gross margin and thus profitability.

Digital Video Express

Digital Video Express has developed and is marketing a new digital video system for watching movies at home. Circuit City Stores, Inc. holds the majority interest in the business. The remaining

interest is held by the prominent Los Angeles law firm Ziffren, Brittenham, Branca & Fischer. The Company's investment in Divx is allocated to the Circuit City Group. Through the end of the fiscal year, the Company had invested \$207 million in Divx, \$120 million of which was invested in fiscal 1999. The investment in Divx impacts the Company's and the Circuit City Group's gross profit margin and selling, general and administrative expense ratio.

Cost of Sales, Buying and Warehousing

The gross profit margin was 22.6 percent of sales in fiscal 1999 compared with 23.0 percent in fiscal years 1998 and 1997. The fiscal 1999 gross profit margin reflects a lower gross profit margin for the Circuit City Group and the higher percentage of sales from the CarMax Group. The Circuit City Group's gross profit margin was reduced by the strength of the personal computer business, which carries lower gross margins; the continued highly competitive price environment; and costs associated with Divx. Better inventory management and increased sales of new technologies and more fully featured products partly offset these factors. Because the CarMax business produces lower gross margins than the Circuit City business, the increased sales contribution from CarMax reduces the Company's overall gross profit margin even though the CarMax Group's gross profit margin increased from fiscal 1998 to fiscal 1999. The Company's fiscal 1998 gross margin reflects better inventory management and a stronger sales performance in higher margin categories for the Circuit City Group, offset by the higher sales contribution from the CarMax Group.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 20.2 percent of sales in fiscal 1999 compared with 20.8 percent in fiscal 1998 and 19.7 percent in fiscal 1997. The fiscal 1999 decrease primarily reflects the sales leverage gained from the Circuit City Group's comparable store sales increase, partly offset by the impact of selling, general and administrative expenses related to Divx. CarMax's lower expense structure reduces the Company's overall expense-to-sales ratio. The higher ratio in fiscal 1998 compared with fiscal 1997, reflects the impact of lower comparable store sales for the Circuit City Group, a decline in profits from the Circuit City Group's finance operation and the expenses related to Divx. Operating profits generated by the Company's finance operations are recorded as a reduction to selling, general and administrative expenses.

Interest Expense

Interest expense was 0.3 percent of sales in fiscal years 1999 and 1998 compared with 0.4 percent in fiscal 1997. Interest expense was incurred on debt used to fund store expansion, working capital and the investment in Divx.

Net Earnings

Net earnings for Circuit City Stores, Inc. increased 37 percent to \$142.9 million in fiscal 1999. The increase reflects the 48 percent earnings increase achieved by the Circuit City business, partly offset by the investment in Digital Video Express and the CarMax Group losses. In fiscal 1998, net earnings were \$104.3 million, a decrease of 24 percent from \$136.4 million in fiscal 1997. Net earnings for all three fiscal years reflect the results of the Circuit

City business, the Company's investment in Digital Video Express and the losses incurred by the CarMax Group.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and requires that an entity recognize those items as either assets or liabilities and measure them at fair value. The Company does not expect SFAS No. 133 to have a material impact on its financial position, results of operations or cash flows.

In April 1998, the AICPA issued SOP 98-5 "Reporting on the Costs of Start-Up Activities." SOP 98-5 is effective for fiscal years beginning after December 15, 1998. It requires costs of start-up activities, including organization and pre-opening costs, to be expensed as incurred. The Company has determined that SOP 98-5 will not have a material impact on its financial position, annual results of operations or cash flows.

FINANCIAL CONDITION

Liquidity and Capital Resources

In fiscal 1999, net cash provided by operating activities was \$254.2 million compared with \$194.6 million in fiscal 1998 and \$14.2 million in fiscal 1997. The fiscal 1999 increase primarily reflects a decrease in net accounts receivable and higher earnings for the Circuit City business, partly offset by increased inventory for CarMax and the increased investment in Digital Video Express. The fiscal 1998 increase primarily reflects a reduction in inventory related to the Circuit City business, a smaller increase in net accounts receivable and a slight earnings increase for the Circuit City business, partly offset by the investment in Digital Video Express, greater automotive inventory to support a larger number of CarMax superstore openings and a higher loss from the CarMax business.

Most financial activities, including the investment of surplus cash and the issuance and repayment of short-term and long-term debt, are managed by the Company on a centralized basis. Interest-bearing loans, with terms determined by the board of directors, are used to manage cash between the Groups. These loans are reflected as inter-group receivables or payables on the financial statements of each Group.

Capital expenditures have been funded through sale-leaseback transactions, landlord reimbursements, proceeds from the CarMax Group equity offering and short- and long-term debt. Capital expenditures of \$367.0 million in fiscal 1999 reflect Circuit City and CarMax stores opened or remodeled during the year and a portion of the stores opening in fiscal 2000. The sale-leaseback and landlord reimbursement transactions completed in fiscal 1999 totaled \$273.6 million. Capital expenditures of \$588.1 million in fiscal 1998 and \$542.0 million in fiscal 1997 were largely incurred in connection with the Company's expansion programs. Sale-leaseback and landlord reimbursement transactions were \$297.1 million in fiscal 1998 and \$332.7 million in fiscal 1997.

During fiscal 1999, the CarMax Group acquired the Toyota franchise rights and the related assets of Laurel Automotive Group, Inc.; the franchise rights and the related assets of Mauro Auto Mall, Inc.; the franchise rights and the related assets of Nissan of Greenville, Inc.; and the Mitsubishi franchise rights and the related assets of Boomershine Automotive, Inc. for a total of \$49.6 million. The acquisitions were financed through cash payments totaling \$41.6 million and the issuance of two promissory notes totaling \$8.0 million. Costs in excess of the acquired net tangible assets, which are primarily inventory, have been recorded as goodwill and covenants not to compete.

Receivables generated by the consumer finance operations are funded through securitization transactions that allow the operations to sell their receivables while retaining a small interest in them. The Circuit City Group's finance operation has a master trust securitization facility for its private-label credit card that allows the transfer of up to \$1.38 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to \$1.75 billion in receivables related to the operation's bankcard programs. Receivables securitized under the master trust facilities totaled \$2.76 billion at February 28, 1999. In fiscal 1996, Circuit City Stores, Inc. initiated an asset securitization program on behalf of the CarMax Group. At the end of fiscal 1999, that program allowed for the transfer of up to \$575.0 million in auto loan receivables. At February 28, 1999, securitized receivables totaled \$539.0 million. Under the securitization programs, receivables are sold to an unaffiliated third party with the servicing retained. Management expects that these securitization programs can be expanded to accommodate future receivables growth.

In fiscal 1999, CarMax entered into a \$200.0 million one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement provides funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. As of February 28, 1999, CarMax had not yet used the financing facility; however, management expects the facility to be phased in during fiscal 2000 as various state regulatory requirements are met.

Capital Structure

Total assets at February 28, 1999, were \$3.45 billion, up \$213.6 million or 7 percent, since February 28, 1998. A \$107.1 million increase in inventory contributed to the rise in total assets.

Over the past three years, expansion for the Groups has been funded with internally generated cash, sale-leaseback transactions, proceeds from the CarMax equity offering, operating leases and long-term debt. Consumer receivables have been funded through securitization transactions. Late in fiscal 1997, Circuit

City Stores, Inc. raised a net of \$412.3 million through the initial public offering of 21.86 million shares of newly created CarMax Group Common Stock. In fiscal 1997, the CarMax Group used approximately \$187 million of the net proceeds to repay its allocated portion of Circuit City Stores, Inc. indebtedness. Management has used the remainder of the net proceeds to help finance the CarMax expansion. In fiscal 1997, the Company also entered into a five-year, \$130 million unsecured bank term loan agreement.

During the period from fiscal 1995 to fiscal 1999, stockholders' equity grew substantially. From fiscal 1998 to fiscal 1999, stockholders' equity increased 10 percent to \$1.91 billion. Capitalization for the past five years is illustrated in the "Capitalization" table below. Higher earnings for the Circuit City business, partly offset by the investment in Digital Video Express and losses from the CarMax Group, produced a return on equity of 7.9 percent in fiscal 1999 compared with 6.2 percent in fiscal 1998. The returns are below the Company's long-term objective but reflect the investments in the development and launch of the Divx system and the expansion of CarMax in fiscal years 1999 and 1998. In fiscal 1998, the challenging environment for Circuit City also contributed to the below-objective return.

Management believes that proceeds from sales of property and equipment and receivables, operating leases, equity issuances, CarMax's use of the renewable inventory financing facility and cash generated by operations will be sufficient to fund the capital expenditures of the Company. In fiscal 2000, management anticipates capital expenditures of approximately \$315 million. At the end of fiscal 1999, the Company maintained a multi-year \$150.0 million unsecured revolving credit agreement and \$370.0 million in seasonal lines that are renewed annually with various banks.

Management remains in discussions with potential financing partners for Divx, but has not obtained any acceptable commitments to date. The Company has provided guarantees relating to licensing agreements with motion picture distributors for use of their films by the Divx system. The licensing fees are based on varying percentages of consumer viewing and wholesale receipts and require minimum distributor compensation commencing from the operational date of each agreement through the following one to five years.

The Groups rely on the external debt or equity of Circuit City Stores, Inc. to provide working capital needed to fund net assets not otherwise financed through operating income, sale-leasebacks or the securitization of receivables. All significant financial activities of each Group are managed by the Company on a centralized basis and are dependent on the financial condition of the Company. These financial activities include the investment of surplus cash, issuance and repayment of debt, securitization of receivables and sale-leasebacks of real estate.

CAPITALIZATION

Fiscal	1999		1998		1997		1996		1995	
(Dollar amounts in millions)	\$	%	\$	%	\$	%	\$	%	\$	%
Long-term debt, excluding										
current installments.....	426.6	17	424.3	18	430.3	19	399.2	23	178.6	14
Other long-term liabilities	149.7	6	171.5	7	199.4	9	231.8	14	241.9	19
Total stockholders' equity.....	1,905.1	77	1,730.0	75	1,614.8	72	1,063.9	63	877.4	67
Total capitalization.....	2,481.4	100	2,325.8	100	2,244.5	100	1,694.9	100	1,297.9	100

MARKET RISK

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

Revolving Loans

Interest rates charged on the managed private-label and bankcard portfolios are primarily indexed to the prime rate, adjustable on a monthly basis, with the balance at a fixed annual percentage rate. Total principal outstanding at February 28 had the following APR structure:

<i>(Amounts in millions)</i>	1999	1998
Indexed to prime rate.....	\$2,714	\$2,523
Fixed APR.....	243	227
Total	<u>\$2,957</u>	<u>\$2,750</u>

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued either at floating rates based on LIBOR or at fixed rates. Certain of the fixed-rate issuances have been swapped to LIBOR. Receivables held by the Company for investment or sale are financed with working capital. At February 28, financings were as follows:

<i>(Amounts in millions)</i>	1999	1998
Floating-rate (including synthetic alteration) securitizations	\$2,568	\$2,211
Fixed-rate securitizations.....	187	290
Held by the Company:		
For investment.....	162	204
For sale	40	45
Total	<u>\$2,957</u>	<u>\$2,750</u>

Automobile Installment Loans

Total principal outstanding for fixed-rate automobile loans at February 28 was as follows:

<i>(Amounts in millions)</i>	1999	1998
Fixed APR.....	<u>\$592</u>	<u>\$297</u>

Financing for these receivables is achieved through bank conduit securitizations that, in turn, issue floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched to projected payoffs. Receivables held by the Company for investment or sale are financed with working capital.

Financings at February 28 and related interest rates were as follows:

<i>(Amounts in millions)</i>	1999	1998
Floating-rate securitizations		
synthetically altered to fixed	\$500	\$224
Floating-rate securitizations	39	44
Held by the Company:		
For investment.....	38	23
For sale	15	6
Total	<u>\$592</u>	<u>\$297</u>

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 1999 or 1998. Because programs are in place to manage interest rate exposure relating to the consumer loan portfolios, the Company expects to experience relatively little impact as interest rates fluctuate in the future. The Company also has the ability to adjust fixed-APR revolving cards and the index on floating-rate cards, subject to cardholder ratification, but does not currently anticipate the need to do so.

YEAR 2000 CONVERSION

The following disclosure is a Year 2000 readiness disclosure statement pursuant to the Year 2000 Readiness Disclosure Act. The Year 2000 issue arises because many computer programs use two digits rather than four to define the applicable year. Using two digits to define dates after January 1, 2000, could result in a system failure or miscalculations that cause disruption of operations including, among other things, a temporary inability to process transactions, process invoices or engage in similar normal business activities. In addition to computer systems, any equipment with embedded systems that involve date-sensitive functions are at risk if two digits have been used rather than four. Embedded systems are specialized microchips used to control, monitor or assist the operation of electrical equipment.

In fiscal 1997, the Company began a Year 2000 date conversion project to address necessary code changes, testing and implementation for its systems. This project includes internally developed information technology systems, purchased and leased software and hardware, embedded systems and electronic data interchange transaction processing. The Company has employed both internal and external resources to reprogram or replace and test the software for Year 2000 modifications. The Company has completed its remediation, forward-date testing and production implementation efforts for its internally developed and externally purchased systems. Replacement work and enterprise-level testing is scheduled to be completed by approximately July 1999.

With regard to embedded systems, the Company has identified approximately 200 distinct makes and models used for environmental controls, fire detection and monitoring, burglar detection and monitoring, elevators, office equipment and uninterruptible power supplies. As of February 28, 1999, approximately 98 percent of these embedded systems are believed to be Year 2000 compliant. The remaining 2 percent are expected to be compliant by June 1999, except for certain low-impact embedded systems that will be left untested because the cost of compliance testing is believed to far exceed the risk or cost of an outage.

The Company also has identified its key third-party business partners and is coordinating with them to address potential Year 2000 issues. Year 2000 questionnaires were sent to these entities to monitor their progress and to minimize any adverse consequences that might result if an entity is not Year 2000 compliant. Responses have been received from approximately 90 percent of these partners with no major potential problems identified. Risks and business impacts have been assigned to all vendor products and services. Current action statements and contingency plans have been developed by the Company's business areas for products and services believed to be at high or medium risk of non-compliance.

Since the project began, the Company has expensed \$14.0 million, including \$9.9 million in fiscal 1999. The remaining cost of the Year 2000 project is estimated at \$2.6 million. These costs principally have been incurred for the Circuit City Group and are in addition to the normal budget for information systems. The costs are being funded through operating cash flows. Because CarMax's computer systems were developed in recent years, the Company does not expect the CarMax Group to incur any material costs related to the Year 2000 issue.

With respect to Year 2000 risks, the Company believes it has identified all critical areas and is in the process of developing contingency plans and conducting end-to-end testing for those critical areas identified. Critical is defined as any business process or application failure that would result in a material financial, legal or operational impact. If the Company's remediation efforts and the remediation efforts of third parties fail (which the Company believes is the most reasonably likely worst case scenario), the Company's contingency plans include performing certain processes manually while working to assess and correct any errors in the current systems and possibly changing suppliers. These plans are intended to enable the Company to continue operating even if a degree of business interruption occurs at Year 2000. However, the Company believes that because of the widespread nature of potential Year 2000 issues, the contingency planning process is an ongoing one that will require further modifications as the Company obtains additional information.

The costs of the project and the dates on which the Company plans to complete its Year 2000 modifications are based on management's estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans and other factors. However, Year 2000 issues present a number of risks that are beyond the Company's reasonable control, such as the failure of utility companies to deliver electricity, the failure of telecommunications companies to provide voice and data services, the failure of financial institutions to process transactions and transfer funds, and the collateral effects on the Company of the effects of Year 2000 issues on the economy in general or on the Company's business partners and customers. Although the Company believes that its Year 2000 compliance program is designed to appropriately identify and address those Year 2000 issues that are subject to the Company's reasonable control, the Company can make no assurance that its efforts will be fully effective or that the Year 2000 issues will not have a material adverse effect on the Company's business, financial condition or results of operations.

FORWARD-LOOKING STATEMENTS

The provisions of the Private Securities Litigation Reform Act of 1995, which became law in December 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. The Company wishes to take advantage of the "safe harbor" provisions of the Act. Company statements that are not historical facts, including statements about management's expectations for fiscal 2000 and beyond, are forward-looking statements and involve various risks and uncertainties. Factors that could cause the Company's actual results to differ materially from management's projections, forecasts, estimates and expectations include, but are not limited to, the following:

- (a) changes in the amount and degree of promotional intensity exerted by current competitors and potential new competition from both retail stores and alternative methods or channels of distribution such as electronic and telephone shopping services and mail order;

- (b) changes in general U.S. or regional U.S. economic conditions including, but not limited to, consumer credit availability, consumer credit delinquency and default rates, interest rates, inflation, personal discretionary spending levels and consumer sentiment about the economy in general;

- (c) the presence or absence of new products or product features in the merchandise categories the Company sells and changes in the Company's actual merchandise sales mix;

- (d) significant changes in retail prices for products sold by any of the Company's businesses, including changes in prices for new and used cars and the relative consumer demand for new or used cars;

- (e) lack of availability or access to sources of supply for appropriate Circuit City or CarMax inventory;

- (f) the ability to retain and grow an effective management team in a dynamic environment or changes in the cost or availability of a suitable work force to manage and support the Company's service-driven operating strategies;

- (g) changes in availability or cost of capital expenditure and working capital financing, including the availability of long-term financing to support development of the Company's businesses and the availability of securitization financing for credit card and auto installment loan receivables;

- (h) changes in production or distribution costs or cost of materials for the Company's advertising;

- (i) availability of appropriate real estate locations for expansion;

- (j) the imposition of new restrictions or regulations regarding the sale of products or services the Company sells, changes in tax rules and regulations applicable to the Company, 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;

- (k) adverse results in significant litigation matters;

- (l) changes in levels of competition in the car business from either traditional competitors or new nontraditional competitors utilizing auto superstore or other formats;

(m) the inability of the CarMax business to reach expected mature sales and earnings potential;

(n) limited or lack of availability of new-car franchises within a suitable radius of existing and proposed CarMax stores or limited manufacturer approval of franchise acquisitions;

(o) availability of long-term financing to support Divx;

(p) the early stage of market development and absence of operating history for Divx and therefore lack of assurance that this business will achieve significant sales or profits;

(q) the early stage of Divx market development and therefore lack of assurance that the product support systems will work as expected on a large scale;

(r) ability to maintain and acquire additional long-term agreements for title releases on Divx discs, manufacturing of Divx discs and licensing of the proprietary Divx hardware architecture;

(s) developments or assertions by or against Divx, relating to intellectual property rights;

(t) difficulty securing long-term agreements for the distribution of Divx discs through retail outlets; and

(u) development of alternative and highly competitive means of distributing movies for in-home viewing.

The United States retail industry and the specialty retail industry in particular are dynamic by nature and have undergone significant changes over the past several years. The Company's ability to anticipate and successfully respond to continuing challenges is key to achieving its expectations.

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands except per share data)	Years Ended February 28					
	1999	%	1998	%	1997	%
NET SALES AND OPERATING REVENUES	\$10,804,447	100.0	\$8,870,797	100.0	\$7,663,811	100.0
Cost of sales, buying and warehousing	8,359,428	77.4	6,827,133	77.0	5,902,711	77.0
GROSS PROFIT	2,445,019	22.6	2,043,664	23.0	1,761,100	23.0
Selling, general and administrative expenses [NOTE 11]	2,186,177	20.2	1,848,559	20.8	1,511,294	19.7
Interest expense [NOTE 5]	28,319	0.3	26,861	0.3	29,782	0.4
TOTAL EXPENSES	2,214,496	20.5	1,875,420	21.1	1,541,076	20.1
Earnings before income taxes	230,523	2.1	168,244	1.9	220,024	2.9
Provision for income taxes [NOTE 6]	87,599	0.8	63,933	0.7	83,610	1.1
NET EARNINGS	\$ 142,924	1.3	\$ 104,311	1.2	\$ 136,414	1.8
Net earnings (loss) attributed to [NOTES 1 AND 2]:						
Circuit City Group common stock	\$ 148,381		\$ 112,074		\$ 136,680	
CarMax Group common stock	(5,457)		(7,763)		(266)	
	\$ 142,924		\$ 104,311		\$ 136,414	
Weighted average common shares [NOTES 2 AND 8]:						
Circuit City Group:						
Basic	99,152		98,027		97,311	
Diluted	100,406		99,204		98,472	
CarMax Group	22,604		22,001		21,860	
NET EARNINGS (LOSS) PER SHARE [NOTES 2 AND 8]:						
Circuit City Group:						
Basic	\$ 1.50		\$ 1.14		\$ 1.40	
Diluted	\$ 1.48		\$ 1.13		\$ 1.39	
CarMax Group	\$ (0.24)		\$ (0.35)		\$ (0.01)	

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	At February 28	
(Amounts in thousands except share data)	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 265,880	\$ 116,612
Net accounts receivable [NOTE 12]	574,316	598,035
Inventory.....	1,517,675	1,410,545
Prepaid expenses and other current assets	36,644	21,157
TOTAL CURRENT ASSETS	2,394,515	2,146,349
Property and equipment, net [NOTES 4 AND 5]	1,005,773	1,048,434
Other assets.....	44,978	36,918
TOTAL ASSETS	\$3,445,266	\$3,231,701
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 5 AND 10].....	\$ 2,707	\$ 1,301
Accounts payable	799,733	765,391
Short-term debt [NOTE 5]	8,016	5,976
Accrued expenses and other current liabilities	143,585	132,802
Deferred income taxes [NOTE 6]	9,764	356
TOTAL CURRENT LIABILITIES	963,805	905,826
Long-term debt, excluding current installments [NOTES 5 AND 10]	426,585	424,292
Deferred revenue and other liabilities	112,085	145,107
Deferred income taxes [NOTE 6]	37,661	26,437
TOTAL LIABILITIES	1,540,136	1,501,662
STOCKHOLDERS' EQUITY [NOTES 1 AND 7]:		
Circuit City Group common stock, \$0.50 par value; 175,000,000 shares authorized; 100,820,000 shares issued and outstanding (99,282,000 in 1998).....	50,410	49,641
CarMax Group common stock, \$0.50 par value; 175,000,000 shares authorized; 23,116,000 shares issued and outstanding (22,204,000 in 1998).....	11,558	11,102
Capital in excess of par value.....	575,686	530,763
Retained earnings.....	1,267,476	1,138,533
TOTAL STOCKHOLDERS' EQUITY	1,905,130	1,730,039
Commitments and contingent liabilities [NOTES 1, 9, 10, 12, 13 AND 14]		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,445,266	\$3,231,701

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net earnings.....	\$ 142,924	\$ 104,311	\$ 136,414
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	140,293	116,326	98,977
Loss (gain) on disposition of property and equipment	3,087	14,093	(1,540)
Provision for deferred income taxes	20,632	15,052	20,973
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Decrease in deferred revenue and other liabilities.....	(33,022)	(23,024)	(47,706)
Decrease (increase) in net accounts receivable	23,719	(66,061)	(207,579)
Increase in inventory, prepaid expenses and other current assets	(97,642)	(24,526)	(66,594)
Decrease (increase) in other assets	9,132	(4,969)	(15,869)
Increase in accounts payable, accrued expenses and other current liabilities.....	45,125	63,379	97,162
NET CASH PROVIDED BY OPERATING ACTIVITIES	254,248	194,581	14,238
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 3]	(41,562)	-	-
Purchases of property and equipment	(366,971)	(588,052)	(541,989)
Proceeds from sales of property and equipment	273,647	297,126	332,726
NET CASH USED IN INVESTING ACTIVITIES	(134,886)	(290,926)	(209,263)
FINANCING ACTIVITIES:			
(Payments on) proceeds from issuance of short-term debt, net.....	(960)	5,629	(91,740)
Proceeds from issuance of long-term debt	-	-	32,619
Principal payments on long-term debt	(1,301)	(6,187)	(1,436)
Issuances of Circuit City Group common stock, net.....	42,165	22,311	15,385
Issuances of CarMax Group common stock, net	3,983	2,353	412,335
Dividends paid on Circuit City Group common stock.....	(13,981)	(13,792)	(13,199)
NET CASH PROVIDED BY FINANCING ACTIVITIES	29,906	10,314	353,964
Increase (decrease) in cash and cash equivalents	149,268	(86,031)	158,939
Cash and cash equivalents at beginning of year	116,612	202,643	43,704
Cash and cash equivalents at end of year	\$ 265,880	\$ 116,612	\$ 202,643
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 31,858	\$ 26,697	\$ 29,925
Income taxes	\$ 53,528	\$ 47,936	\$ 73,113

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Shares Outstanding		Common Stock		Capital In Excess of Par Value	Retained Earnings	Total
	Circuit City Group	CarMax Group	Circuit City Group	CarMax Group			
(Amounts in thousands except per share data)							
BALANCE AT MARCH 1, 1996	97,380	—	\$48,690	\$ —	\$ 90,432	\$ 924,799	\$1,063,921
Net earnings	—	—	—	—	—	136,414	136,414
Exercise of common stock options [NOTE 7]	786	—	393	—	13,497	—	13,890
Shares issued under Employee Stock Purchase Plan [NOTE 7]	78	—	39	—	2,491	—	2,530
Shares issued under the 1994 Stock Incentive Plan [NOTE 7].....	255	—	127	—	7,455	—	7,582
Tax benefit from stock issued	—	—	—	—	3,080	—	3,080
Shares issued in the CarMax Group stock offering	—	21,860	—	10,930	401,405	—	412,335
Shares cancelled upon reacquisition by Company... ..	(321)	—	(160)	—	(9,654)	—	(9,814)
Unearned compensation—restricted stock	—	—	—	—	(1,883)	—	(1,883)
Cash dividends—Circuit City Group common stock (\$0.14 per share).....	—	—	—	—	—	(13,199)	(13,199)
BALANCE AT FEBRUARY 28, 1997	98,178	21,860	49,089	10,930	506,823	1,048,014	1,614,856
Net earnings	—	—	—	—	—	104,311	104,311
Exercise of common stock options [NOTE 7]	483	273	241	136	6,790	—	7,167
Shares issued under Employee Stock Purchase Plans [NOTE 7]	173	51	87	26	6,648	—	6,761
Shares issued under the 1994 Stock Incentive Plan [NOTE 7].....	605	20	302	10	20,214	—	20,526
Tax benefit from stock issued	—	—	—	—	8,013	—	8,013
Shares cancelled upon reacquisition by Company... ..	(157)	—	(78)	—	(4,470)	—	(4,548)
Unearned compensation—restricted stock	—	—	—	—	(13,255)	—	(13,255)
Cash dividends—Circuit City Group common stock (\$0.14 per share).....	—	—	—	—	—	(13,792)	(13,792)
BALANCE AT FEBRUARY 28, 1998	99,282	22,204	49,641	11,102	530,763	1,138,533	1,730,039
Net earnings	—	—	—	—	—	142,924	142,924
Exercise of common stock options [NOTE 7]	1,004	543	502	272	16,945	—	17,719
Shares issued under Employee Stock Purchase Plans [NOTE 7]	429	269	215	134	19,431	—	19,780
Shares issued under the 1994 Stock Incentive Plan [NOTE 7].....	360	100	180	50	14,588	—	14,818
Tax benefit from stock issued	—	—	—	—	9,523	—	9,523
Other	32	—	16	—	1,445	—	1,461
Shares cancelled upon reacquisition by Company... ..	(287)	—	(144)	—	(14,239)	—	(14,383)
Unearned compensation—restricted stock	—	—	—	—	(2,770)	—	(2,770)
Cash dividends—Circuit City Group common stock (\$0.14 per share).....	—	—	—	—	—	(13,981)	(13,981)
BALANCE AT FEBRUARY 28, 1999	100,820	23,116	\$50,410	\$11,558	\$575,686	\$1,267,476	\$1,905,130

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

On January 24, 1997, shareholders of Circuit City Stores, Inc. and its subsidiaries approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Circuit City Group held a 76.6 percent interest in the CarMax Group at February 28, 1999, a 77.3 percent interest at February 28, 1998, and a 77.5 percent interest at February 28, 1997.

Notwithstanding the attribution of the Company's assets and liabilities (including contingent liabilities) and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing their respective financial statements, holders of Circuit City Stock and holders of CarMax Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the change in the equity structure of the Company does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the Company's consolidated financial statements included herein should be read in conjunction with the financial statements of each Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) **PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Circuit City Group, including Divx, and the CarMax Group, which combined comprise all accounts of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

(B) **CASH AND CASH EQUIVALENTS:** Cash equivalents of \$216,129,000 at February 28, 1999, and \$71,750,000 at February 28, 1998, consist of highly liquid debt securities with original maturities of three months or less.

(C) **TRANSFERS AND SERVICING OF FINANCIAL ASSETS:** The Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective January 1, 1997. For transfers that qualify as sales, the Company recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under SFAS No. 125. Finance charge income, default

rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The resulting cash flow projections are present valued at a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 28, 1999 and 1998, cost approximates fair value.

(D) **FAIR VALUE OF FINANCIAL INSTRUMENTS:** The carrying value of the Company's financial instruments, excluding interest rate swaps held for hedging purposes, approximates fair value. Credit risk is the exposure created by the potential nonperformance of another material party to an agreement due to changes in economic, industry or geographic factors. The Company mitigates credit risk by dealing only with counterparties that are highly rated by several financial rating agencies. Accordingly, the Company does not anticipate material loss for nonperformance. The Company broadly diversifies all financial instruments along industry, product and geographic areas.

(E) **INVENTORY:** Inventory is stated at the lower of cost or market. Cost is determined by the average cost method for the Circuit City Group's inventory and by specific identification for the CarMax Group's vehicle inventory. Parts and labor used to recondition vehicles, as well as transportation and other incremental expenses associated with acquiring vehicles, are included in the CarMax Group's inventory.

(F) **PREPAID ROYALTIES AND EXECUTION FEES:** Prepaid royalties represent fixed minimum advance payments made to licensors for digital video disc distribution rights. Divx retains a licensor's share of distribution revenues until the share equals the advance paid to the licensor. Thereafter, any excess distribution revenue is paid to the licensor. Prepaid royalties are charged to operations as revenues are earned. Execution fees are one-time payments made to licensors at the time the related licensing agreements are executed and are amortized over the shorter of the initial terms of the licensing agreements or five years. Both the prepaid royalties and execution fees are stated at the lower of amortized cost or estimated net realizable value on a license-agreement basis.

(G) **PROPERTY AND EQUIPMENT:** Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives.

Property held under capital lease is stated at the lower of the present value of the minimum lease payments at the inception of the lease or market value and is amortized on a straight-line basis over the lease term or the estimated useful life of the asset, whichever is shorter.

(H) COMPUTER SOFTWARE COSTS: Effective March 1, 1998, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the capitalization criteria of the SOP have been met, external direct costs of materials and services used in the development of internal-use software and payroll and payroll-related costs for employees directly involved in the development of internal-use software are capitalized. Amounts capitalized are amortized on a straight-line basis over a period of three to five years.

(I) INTANGIBLE ASSETS: Amounts paid for acquired businesses in excess of the fair value of the net tangible assets acquired are recorded as goodwill, which is amortized on a straight-line basis over 15 years, and covenants not to compete, which are amortized on a straight-line basis over the life of the covenant not to exceed five years. Both goodwill and covenants not to compete are included in other assets on the accompanying consolidated balance sheets. The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future undiscounted operating cash flows derived from such intangible assets are less than the carrying value.

(J) PRE-OPENING EXPENSES: Expenses associated with the opening of new stores are deferred and amortized ratably over the period from the date of the store opening to the end of the fiscal year.

(K) INCOME TAXES: The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes, measured by applying currently enacted tax laws. The Company recognizes deferred tax assets if it is more likely than not that a benefit will be realized.

(L) DEFERRED REVENUE: The Circuit City Group sells its own extended warranty contracts and extended warranty contracts on behalf of unrelated third parties. The contracts extend beyond the normal manufacturer's warranty period, usually with terms (including the manufacturer's warranty period) between 12 and 60 months. All revenue from the sale of the Circuit City Group's own extended warranty contracts is deferred and amortized on a straight-line basis over the life of the contracts. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale.

The CarMax Group sells service contracts on behalf of unrelated third parties and, prior to July 1997, sold its own contracts at one location where third-party warranty sales were not permitted. Contracts usually have terms of coverage between 12 and 72 months. All revenue from the sale of the CarMax Group's own service contracts is deferred and amortized over the life of the contracts consistent with the pattern of repair experience of the industry. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale.

(M) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Operating profits generated by the Company's finance operations are recorded as a reduction to selling, general and administrative expenses.

(N) ADVERTISING EXPENSES: All advertising costs are expensed as incurred.

(O) NET EARNINGS (LOSS) PER SHARE: On December 15, 1997, the Company adopted SFAS No. 128, "Earnings per Share." All prior period earnings per share data presented has been restated to conform with the provisions of SFAS No. 128.

Basic net earnings per share for Circuit City Stock is computed by dividing net earnings attributed to Circuit City Stock, including the Circuit City Group's 100 percent interest in the losses of the CarMax Group for periods prior to the offering and the Circuit City Group's retained interest in the CarMax Group subsequent to the offering, by the weighted average number of shares of Circuit City Stock outstanding. Diluted net earnings per share for Circuit City Stock is computed by dividing net earnings attributed to Circuit City Stock, which includes the Circuit City Group's retained interest in CarMax, by the weighted average number of shares of Circuit City Stock outstanding and dilutive potential Circuit City Stock.

Net loss per share for CarMax Stock is computed by dividing the net loss attributed to CarMax Stock by the weighted average number of shares of CarMax Stock outstanding. Diluted net loss per share for CarMax Stock is not calculated since CarMax has a net loss for the periods presented.

(P) STOCK-BASED COMPENSATION: On March 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue applying the provisions of the Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees," and to provide the pro forma disclosures of SFAS No. 123.

(Q) DERIVATIVE FINANCIAL INSTRUMENTS: The Company enters into interest rate swap agreements to manage exposure to interest rates and to more closely match funding costs to the use of funding. Interest rate swaps relating to long-term debt are classified as held for purposes other than trading and are accounted for on a settlement basis. To qualify for this accounting treatment, the swap must synthetically alter the nature of a designated underlying financial instrument. Under this method, payments or receipts due or owed under the swap agreement are accrued through each settlement date and recorded as a component of interest expense. If a swap designated as a synthetic alteration were to be terminated, any gain or loss on the termination would be deferred and recognized over the shorter of the original contractual life of the swap or the related life of the designated long-term debt.

The Company also enters into interest rate swap agreements as part of its asset securitization programs. Swaps entered into by a seller as part of a sale of financial assets are considered proceeds at fair value in the determination of the gain or loss on the sale. If such a swap were terminated, the impact on the fair value of the financial asset created by the sale of the related receivables would be estimated and included in earnings.

(R) RISKS AND UNCERTAINTIES: Circuit City is a leading national retailer of brand-name consumer electronics, personal computers, major appliances and entertainment software. The diversity of Circuit City's products, customers, suppliers and geographic operations significantly reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply or markets. It is unlikely that any one event would have a severe impact on the Company's operating results.

Because of its investment in Divx, the Company is subject to additional risks and uncertainties. Divx was formed to develop and launch an enhancement for DVD players that provides significant copyright protection for movies released on Divx digital discs and sets a new standard for home video convenience. While management believes this product will gain widespread acceptance, there is no assurance that Divx ever will achieve significant sales of such product. Other risks include limited operating history, no assurance of successful operations, early state of market development, acquiring and maintaining licensing and manufacturing agreements, minimum compensation requirements under studio license agreements, competition from substitute products and services, rapid technological change, dependence on key personnel and vendors, development or assertions by or against Divx relating to intellectual property rights, and the uncertainty of availability of additional financing.

The CarMax Group is a used- and new-car retail business. The diversity of the CarMax Group's customers and suppliers reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base or sources of supply. However, due to the CarMax Group's limited overall size, management cannot assure that unanticipated events will not have a negative impact on the Company.

The preparation of financial statements in conformity with 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 could differ from those estimates.

(S) CORPORATE ALLOCATIONS: The Company manages corporate general and administrative costs and other shared services on a centralized basis. Allocations of these corporate activities and their related expenses to the Groups is based on methods that the Company believes to be reasonable.

The provision for federal income taxes is determined on a consolidated basis. The financial statement provision is reflected in each Group's financial statements in accordance with the Company's tax allocation policy. In general, this policy provides that the consolidated tax provision be allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to the respective Group. Tax benefits that cannot be used by the Group generating such attributes, but can be utilized on a consolidated basis, are allocated to the Group that generated such benefits.

(T) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 1999.

3. BUSINESS ACQUISITIONS

During fiscal 1999, CarMax acquired the franchise rights and the related assets of four new-car dealerships for an aggregate cost of \$49.6 million. The acquisitions were financed through available cash resources and the issuance of two promissory notes aggregating \$8.0 million. Costs in excess of the fair value of the net tangible assets acquired (primarily inventory) have been recorded as goodwill and covenants not to compete. These acquisitions were accounted for under the purchase method and the results of the operations of the acquired franchises have been included in the accompanying consolidated financial statements since the date of acquisition. Unaudited pro-forma information related to these acquisitions is not included as the impact of these acquisitions on the accompanying consolidated financial statements is not deemed to be material.

4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 is summarized as follows:

<i>(Amounts in thousands)</i>	1999	1998
Land and buildings (20 to 25 years).....	\$ 107,310	\$ 143,905
Land held for development.....	28,781	11,601
Construction in progress	179,664	237,205
Furniture, fixtures and equipment (3 to 8 years).....	705,660	615,564
Leasehold improvements (10 to 15 years).....	549,673	483,069
Capital leases, primarily buildings (20 years).....	12,471	12,471
	<u>1,583,559</u>	<u>1,503,815</u>
Less accumulated depreciation and amortization	<u>577,786</u>	<u>455,381</u>
Property and equipment, net	<u>\$1,005,773</u>	<u>\$1,048,434</u>

5. DEBT

Long-term debt at February 28 is summarized as follows:

<i>(Amounts in thousands)</i>	1999	1998
Term loans	\$405,000	\$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.0% to 7.0%	6,564	7,665
Obligations under capital leases [NOTE 10]	12,728	12,928
Note payable	5,000	—
Total long-term debt	<u>429,292</u>	<u>425,593</u>
Less current installments	<u>2,707</u>	<u>1,301</u>
Long-term debt, excluding current installments	<u>\$426,585</u>	<u>\$424,292</u>

In July 1994, the Company entered into a seven-year, \$100,000,000, unsecured bank term loan. The loan was restructured in August 1996 as a \$100,000,000, six-year unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.40 percent. At February 28, 1999, the interest rate on the term loan was 5.76 percent.

In May 1995, the Company entered into a five-year, \$175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.67 percent.

In June 1996, the Company entered into a five-year, \$130,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.29 percent.

The Company maintains a multi-year, \$150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.13 percent per annum. The agreement was entered into as of August 31, 1996, and terminates August 31, 2002. No amounts were outstanding under the revolving credit agreement at February 28, 1999 or 1998.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately \$10,740,000 at February 28, 1999, and \$10,879,000 at February 28, 1998.

In November 1998, CarMax entered into a four-year, unsecured \$5,000,000 promissory note. Principal is due annually with interest payable periodically at 8.25 percent.

In fiscal 1999, CarMax entered into a \$200,000,000 one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement will provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. During fiscal 1999, no inventory was financed by CarMax under this arrangement.

The scheduled aggregate annual principal payments on long-term obligations for the next five fiscal years are as follows: 2000 - \$2,707,000; 2001 - \$177,344,000; 2002 - \$132,485,000; 2003 - \$102,594,000; 2004 - \$1,507,000.

Under certain of the debt agreements, the Company must meet financial covenants relating to minimum tangible net worth, current ratios and debt-to-capital ratios. The Company was in compliance with all such covenants at February 28, 1999 and 1998.

Short-term debt is funded through committed lines of credit and informal credit arrangements, as well as the revolving agreement. Amounts outstanding and committed lines of credit available are as follows:

(Amounts in thousands)	Years Ended February 28	
	1999	1998
Average short-term debt outstanding	\$ 54,505	\$ 48,254
Maximum short-term debt outstanding	\$463,000	\$414,000
Aggregate committed lines of credit	\$370,000	\$410,000

The weighted average interest rate on the outstanding short-term debt was 5.1 percent during fiscal 1999, 5.7 percent during fiscal 1998 and 5.4 percent during fiscal 1997.

The Company capitalizes interest in connection with the construction of certain facilities and software developed or obtained for internal use. In fiscal 1999, interest capitalized amounted to \$5,423,000 (\$9,638,000 in fiscal 1998 and \$6,970,000 in fiscal 1997).

6. INCOME TAXES

The Company files a consolidated federal income tax return. The components of the provision for income taxes are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Current:			
Federal	\$59,134	\$46,475	\$55,673
State	7,833	2,406	6,964
	<u>66,967</u>	<u>48,881</u>	<u>62,637</u>
Deferred:			
Federal	20,013	12,801	19,839
State	619	2,251	1,134
	<u>20,632</u>	<u>15,052</u>	<u>20,973</u>
Provision for income taxes	<u>\$87,599</u>	<u>\$63,933</u>	<u>\$83,610</u>

The effective income tax rate differed from the Federal statutory income tax rate as follows:

	Years Ended February 28		
	1999	1998	1997
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	3.0	3.0	3.0
Effective income tax rate	<u>38.0%</u>	<u>38.0%</u>	<u>38.0%</u>

In accordance with SFAS No. 109, the tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at February 28, 1999 and 1998, are as follows:

(Amounts in thousands)	1999		1998
Deferred tax assets:			
Deferred revenue	\$ 8,332	\$ 1,360	
Inventory capitalization	2,578	4,976	
Accrued expenses	27,080	42,554	
Other	5,430	3,638	
Total gross deferred tax assets	<u>43,420</u>	<u>52,528</u>	
Deferred tax liabilities:			
Depreciation and amortization	48,035	45,118	
Gain on sales of receivables	14,990	11,439	
Other prepaid expenses	12,062	10,569	
Other	15,758	12,195	
Total gross deferred tax liabilities	<u>90,845</u>	<u>79,321</u>	
Net deferred tax liability	<u>\$47,425</u>	<u>\$26,793</u>	

Based on the Company's historical and current pretax earnings, management believes the amount of gross deferred tax assets will be realized through future taxable income; therefore, no valuation allowance is necessary.

7. CAPITAL STOCK AND STOCK INCENTIVE PLANS

(A) PREFERRED STOCK: In conjunction with the Company's Shareholders Rights Plan as amended and restated, preferred stock purchase rights were distributed as a dividend at the rate of one right for each share of Circuit City Stock and CarMax Stock. The rights are exercisable only upon the attainment of, or the commencement of a tender offer to attain, a specified ownership interest in the Company by a person or group. When exercisable, each Circuit City right would entitle shareholders to buy one four-hundredth of a share of Cumulative Participating Preferred Stock, Series E, \$20 par value, at an exercise price of \$250 per share subject to adjustment. Each CarMax right, when exercisable, would entitle shareholders to buy one four-hundredth of a share of Cumulative Participating Preferred Stock, Series F, \$20 par value, at an exercise price of \$100 per share subject to adjustment. A total of 1,000,000 shares of such preferred stock, which have preferential dividend and liquidation rights, have been designated. No such shares are outstanding. In the event that an acquiring person or group acquires the specified ownership percentage of the Company's common stock (except pursuant to a cash tender offer for all outstanding shares determined to be fair by the board of directors) or engages in certain transactions with the Company after the rights become exercisable, each right will be converted into a right to purchase, for half the current market price at that time, shares of the related Group stock valued at two times the exercise price.

The Company also has 1,000,000 shares of undesignated preferred stock authorized of which no shares are outstanding.

(B) VOTING RIGHTS: The holders of both series of common stock and any series of preferred stock outstanding and entitled to vote together with the holders of common stock will vote together as a single voting group on all matters on which common shareholders generally are entitled to vote other than a matter on which the common stock or either series thereof or any series of preferred stock would be entitled to vote as a separate voting group. On all matters on which both series of common stock would vote together as a single voting group, (i) each outstanding share of Circuit City Stock shall have one vote and (ii) each outstanding share of CarMax Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Stock to a share of Circuit City Stock. If shares of only one series of common stock are outstanding, each share of that series shall be entitled to one vote. If either series of common stock is entitled to vote as a separate voting group with respect to any matter, each share of that series shall, for purposes of such vote, be entitled to one vote on such matter.

(C) RESTRICTED STOCK: The Company has issued restricted stock under the provisions of the 1994 Stock Incentive Plan whereby management and key employees are granted restricted shares of Circuit City Stock or CarMax Stock. Shares are awarded in the name of the employee, who has all the rights of a stockholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire three to seven years from the date

of grant. In fiscal 1999, certain members of management of the Circuit City Group were granted 131,350 restricted shares of Circuit City Stock that vest seven years from the date of grant. These awards provide accelerated vesting if certain performance factors are met. Total restricted stock awards of 360,346 shares of Circuit City Stock and 100,000 shares of CarMax Stock were granted to eligible employees in fiscal 1999. The market value at the date of grant of these shares has been recorded as unearned compensation and is a component of stockholders' equity. Unearned compensation is expensed over the restriction periods. In fiscal 1999, a total of \$9,167,700 was charged to operations (\$5,073,100 in fiscal 1998 and \$3,790,200 in fiscal 1997). As of February 28, 1999, 966,053 restricted shares of Circuit City Stock and 120,000 restricted shares of CarMax Stock were outstanding.

(D) EMPLOYEE STOCK PURCHASE PLANS: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. Under the Circuit City Plan and, starting in April 1997, under the CarMax Plan, eligible employees may purchase shares of Circuit City Stock or CarMax Stock, subject to certain limitations, at 85 percent of market value. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of \$7,500 per year. At February 28, 1999, a total of 683,015 shares remained available under the Circuit City Plan and 138,693 shares remained available under the CarMax Plan. During fiscal 1999, 429,355 shares of Circuit City Stock were issued to or purchased on the open market for employees (450,698 shares in fiscal 1998 and 499,338 shares in fiscal 1997), and 268,532 shares of CarMax Stock were issued to or purchased on the open market on behalf of employees (92,775 in fiscal 1998). The average price per share of Circuit City Stock was \$43.38 in fiscal 1999, \$36.78 in fiscal 1998 and \$32.68 in fiscal 1997. The average price per share of CarMax Stock was \$7.56 in fiscal 1999 and \$12.73 in fiscal 1998. The purchase price discount is charged to operations and totaled \$2,984,500 in fiscal 1999, \$2,670,400 in fiscal 1998 and \$2,433,600 in fiscal 1997.

(E) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, incentive and nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of Circuit City Stock or CarMax Stock. The exercise price for incentive stock options for employees and nonqualified options for outside directors is equal to, or greater than, the market value at the date of grant; for nonqualified options granted under the 1988 Plan for employees, it is at least 85 percent of the market value at the date of grant (100 percent under the 1994 Plan). Options generally are exercisable over a period of from one to 10 years from the date of grant. In fiscal 1998, options that were outstanding as of February 28, 1997, to purchase shares of stock of the corporate entity comprising the CarMax Group were converted into options to purchase CarMax Stock.

A summary of the status of the Company's stock options and changes during the years ended February 28, 1999, 1998 and 1997 are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 1999.

TABLE 1

(Shares in thousands)	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Circuit City Group:						
Outstanding at beginning of year.....	4,994	\$32.00	4,828	\$29.76	3,563	\$18.63
Granted.....	540	42.33	726	35.21	2,159	43.38
Exercised.....	(1,004)	17.53	(483)	15.00	(786)	17.67
Cancelled.....	(83)	33.59	(77)	29.42	(108)	21.90
Outstanding at end of year.....	<u>4,447</u>	<u>\$36.49</u>	<u>4,994</u>	<u>\$32.00</u>	<u>4,828</u>	<u>\$29.76</u>
Options exercisable at end of year.....	<u>1,483</u>	<u>\$24.03</u>	<u>1,754</u>	<u>\$19.68</u>	<u>1,629</u>	<u>\$17.24</u>
CarMax Group:						
Outstanding at beginning of year.....	4,822	\$ 1.49	4,769	\$ 0.51	4,278	\$ 0.22
Granted.....	205	8.63	413	13.04	961	1.68
Exercised.....	(543)	0.22	(273)	0.22	—	—
Cancelled.....	(104)	10.54	(87)	6.36	(470)	0.27
Outstanding at end of year.....	<u>4,380</u>	<u>\$ 1.77</u>	<u>4,822</u>	<u>\$ 1.49</u>	<u>4,769</u>	<u>\$ 0.51</u>
Options exercisable at end of year.....	<u>1,566</u>	<u>\$ 0.96</u>	<u>762</u>	<u>\$ 0.37</u>	<u>—</u>	<u>\$ —</u>

TABLE 2

(Shares in thousands) Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Circuit City Group:					
\$15.69 to 20.13.....	474	2.0	\$18.34	474	\$18.34
22.50 to 29.13.....	701	2.1	23.49	617	23.63
29.50 to 38.00.....	1,748	5.2	31.97	392	31.55
38.38 to 48.56.....	524	7.1	42.40	—	—
59.00.....	<u>1,000</u>	3.1	59.00	<u>—</u>	<u>—</u>
Total.....	<u>4,447</u>	4.1	<u>\$36.49</u>	<u>1,483</u>	<u>\$24.03</u>
CarMax Group:					
\$ 0.22.....	3,692	3.0	\$ 0.22	1,476	\$ 0.22
4.00 to 9.19.....	448	5.0	7.84	23	9.17
12.94 to 16.31.....	<u>240</u>	5.2	14.34	<u>67</u>	14.39
Total.....	<u>4,380</u>	3.3	<u>\$ 1.77</u>	<u>1,566</u>	<u>\$ 0.96</u>

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the Circuit City Group's and the CarMax Group's net earnings or loss and net earnings or loss per share would have been changed to the pro forma amounts indicated in the next column. In accordance with the transition provisions of SFAS No. 123, the pro forma amounts reflect options with grant dates subsequent to March 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented because compensation cost is reflected over the options' vesting periods and compensation cost of options granted prior to March 1, 1995, is not considered. The pro forma effect on fiscal year 1999 may not be representative of the pro forma effects on net earnings or loss for future years.

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Circuit City Group:			
Net earnings-as reported.....	\$148,381	\$112,074	\$136,680
Net earnings-pro forma.....	142,479	107,399	133,326
Basic net earnings per share-as reported.....	\$ 1.50	\$ 1.14	\$ 1.40
Basic net earnings per share-pro forma.....	1.44	1.10	1.37
Diluted net earnings per share-as reported.....	\$ 1.48	\$ 1.13	\$ 1.39
Diluted net earnings per share-pro forma.....	1.42	1.08	1.35
CarMax Group:			
Net loss-as reported.....	\$ 5,457	\$ 7,763	\$ 266
Net loss-pro forma.....	5,537	7,824	268
Net loss per share-as reported....	\$ 0.24	\$ 0.35	\$ 0.01
Net loss per share-pro forma	0.24	0.36	0.01

For the purpose of computing the pro forma amounts indicated above, the fair value of each option on the date of grant is estimated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model are as follows:

	1999	1998	1997
Circuit City Group:			
Expected dividend yield.....	0.4%	0.4%	0.4%
Expected stock volatility	33%	33%	33%
Risk-free interest rates	6%	6%	6%
Expected lives (in years).....	5	4	4

CarMax Group:

Expected dividend yield.....	—	—	—
Expected stock volatility	50%	50%	40%
Risk-free interest rates	6%	6%	6%
Expected lives (in years).....	3	3	4

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the Circuit City Group is \$15 in fiscal 1999, \$13 in fiscal 1998 and \$8 in fiscal 1997; and for the CarMax Group, \$3 in fiscal 1999, \$6 in fiscal 1998 and \$0.70 in fiscal 1997.

8. NET EARNINGS (LOSS) PER SHARE

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

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Circuit City Group:			
Weighted average common shares.....	99,152	98,027	97,311
Dilutive potential common shares:			
Options	850	842	889
Restricted stock	404	335	272
Weighted average common shares and dilutive potential common shares	100,406	99,204	98,472
Income available to common shareholders	\$148,381	\$112,074	\$136,680
Basic net earnings per share	\$ 1.50	\$ 1.14	\$ 1.40
Diluted net earnings per share	\$ 1.48	\$ 1.13	\$ 1.39
CarMax Group:			
Weighted average common shares.....	22,604	22,001	21,860
Loss available to common shareholders	\$ 5,457	\$ 7,763	\$ 266
Net loss per share.....	\$ 0.24	\$ 0.35	\$ 0.01

Certain options were not included in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 1,000,000 shares of Circuit City Stock at \$59.00 per share were outstanding and not included in the calculation at the end of fiscal 1999; 1,510,000 shares ranging from \$35.47 to \$59.00 per share at the end of fiscal 1998; and 1,076,000 shares ranging from \$32.25 to \$59.00 per share at the end of fiscal 1997.

The CarMax Group had no diluted net loss per share because the Group had a net loss for the periods presented.

9. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 80,000 shares of Circuit City Stock at February 28, 1999 and 1998. Contributions required were \$10,306,000 in fiscal 1999, \$11,642,000 in fiscal 1998 and \$6,603,000 in fiscal 1997. The following tables set forth the Plan's financial status and amounts recognized in the consolidated balance sheets as of February 28:

(Amounts in thousands)	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year.....	\$ 89,124	\$70,576
Service cost	11,004	8,584
Interest cost	6,202	5,260
Actuarial loss	9,526	7,782
Benefits paid	(3,290)	(3,078)
Benefit obligation at end of year	\$112,566	\$89,124
Change in plan assets:		
Fair value of plan assets at beginning of year ...	\$ 84,251	\$62,928
Actual return on plan assets	4,411	12,759
Employer contributions.....	10,306	11,642
Benefits paid	(3,290)	(3,078)
Fair value of plan assets at end of year	\$ 95,678	\$84,251
Reconciliation of funded status:		
Funded status.....	\$(16,888)	\$(4,873)
Unrecognized actuarial loss (gain)	9,720	(3,189)
Unrecognized transition asset	(606)	(808)
Unrecognized prior service benefit	(560)	(665)
Net amount recognized.....	\$ (8,334)	\$(9,535)

The components of net pension expense are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Service cost	\$11,004	\$ 8,584	\$ 9,389
Interest cost	6,202	5,260	4,701
Expected return on plan assets	(7,794)	(5,133)	(3,929)
Amortization of prior service cost	(105)	(105)	(105)
Amortization of transitional asset	(202)	(202)	(202)
Recognized actuarial loss	—	17	1,240
Net pension expense	<u>\$ 9,105</u>	<u>\$ 8,421</u>	<u>\$11,094</u>

Assumptions used in the accounting for the pension plan were:

	Years Ended February 28		
	1999	1998	1997
Weighted average discount rate	6.8%	7.0%	7.5%
Rate of increase in compensation levels	5.0%	5.0%	5.5%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

10. LEASE COMMITMENTS

The Company conducts a substantial portion of its business in leased premises. The Company's lease obligations are based upon contractual minimum rates. For certain locations, amounts in excess of these minimum rates are payable based upon specified percentages of sales. Rental expense and sublease income for all operating leases are summarized as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Minimum rentals	\$302,724	\$248,383	\$184,618
Rentals based on sales volume	1,247	730	2,322
Sublease income	(20,875)	(12,879)	(11,121)
Net	<u>\$283,096</u>	<u>\$236,234</u>	<u>\$175,819</u>

The Company computes rent based on a percentage of sales volumes in excess of defined amounts in certain store locations. Most of the Company's other leases are fixed-dollar rental commitments, with many containing rent escalations based on the Consumer Price Index. Most provide that the Company pay taxes, maintenance, insurance and certain other operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 25 years; however, most of the leases have options providing for additional lease terms of five years to 25 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the Company, as of February 28, 1999, were:

(Amounts in thousands)	Capital Leases	Operating Lease Commitments	Operating Sublease Income
Fiscal			
2000	\$ 1,662	\$ 296,674	\$ (14,684)
2001	1,681	293,961	(12,817)
2002	1,725	289,553	(11,605)
2003	1,726	285,710	(10,624)
2004	1,768	283,422	(9,123)
After 2004	16,464	3,289,107	(55,144)
Total minimum lease payments	25,026	<u>\$4,738,427</u>	<u>\$(113,997)</u>
Less amounts representing interest	12,298		
Present value of net minimum capital lease payments [NOTE 5]	<u>\$12,728</u>		

In fiscal 1999, the Company entered into sale-leaseback transactions with unrelated parties at an aggregate selling price of \$235,500,000 (\$218,768,000 in fiscal 1998 and \$201,694,000 in fiscal 1997). The Company does not have continuing involvement under the sale-leaseback transactions.

11. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Advertising expense, which is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings, amounted to \$467,661,000 (4.3 percent of net sales and operating revenues) in fiscal 1999, \$400,346,000 (4.5 percent of net sales and operating revenues) in fiscal 1998 and \$354,270,000 (4.6 percent of net sales and operating revenues) in fiscal 1997.

12. SECURITIZATIONS

(A) **CREDIT CARD SECURITIZATIONS:** The Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by its wholly owned finance operation. Proceeds from securitization transactions were \$224.6 million for fiscal 1999, \$331.4 million for fiscal 1998 and \$551.1 million for fiscal 1997.

Receivables relating to the securitization facilities consist of the following at February 28:

<i>(Amounts in thousands)</i>	1999	1998
Managed receivables	\$2,957,132	\$2,749,793
Receivables/residual interests held by the Company:		
For sale	(39,948)	(44,622)
For investment	(161,996)	(203,921)
Net receivables sold	\$2,755,188	\$2,501,250
Net receivables sold with recourse	\$ 322,000	\$ 726,000
Program capacity	\$3,127,000	\$3,075,000

Private-label credit card receivables are financed through securitization programs employing a master trust structure. As of February 28, 1999, this securitization program had a capacity of \$1.38 billion. The agreement has no recourse provisions.

During fiscal 1998, a bank card master trust securitization facility was established and issued two series from the trust. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on \$322 million of the receivables sold. The finance charges from the transferred receivables are used to fund interest costs, charge-offs, servicing fees and other related costs. The Company believes that as of February 28, 1999, no liability existed under these recourse provisions. The bank card securitization program has a total program capacity of \$1.75 billion.

The net gain on sales of receivables totaled \$2.3 million for fiscal 1999, \$21.8 million for fiscal 1998 and \$3.2 million for fiscal 1997. The finance operation's servicing revenue, including gains on sales of receivables, totaled \$200.6 million for fiscal 1999, \$195.7 million for fiscal 1998 and \$197.0 million for fiscal 1997. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to \$27.3 million at February 28, 1999, \$25.0 million at February 28, 1998, and \$3.2 million at February 28, 1997, and are included in net accounts receivable. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

In determining the fair value of retained interests, the Company estimates future cash flows from finance charge collections, reduced by net defaults, servicing cost and interest cost. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile also may qualify for promotional financing.

The private-label card programs, excluding promotional balances, range from 21 percent to 24 percent APR, with default rates varying based on portfolio composition, but generally aggregating from 6 percent to 10 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 9 percent to 12 percent.

The bank card APRs are based on the prime rate and generally range from 7 percent to 22 percent, with default rates varying by portfolio composition, but generally aggregating from 8 percent to 12 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 5 percent to 8 percent.

Interest cost paid by the master trusts varies between series and ranges from 5.0 percent to 6.3 percent.

(B) AUTOMOBILE LOAN SECURITIZATION: In fiscal 1996, the Company entered into a securitization agreement to finance the consumer installment credit receivables generated by its automobile loan finance operation. Proceeds from the automobile loan securitization transaction were \$271 million during fiscal 1999, \$123 million during fiscal 1998 and \$58 million during fiscal 1997.

Receivables relating to the securitization facility consist of the following at February 28:

<i>(Amounts in thousands)</i>	1999	1998
Managed receivables	\$589,032	\$291,294
Receivables held by the Company:		
For sale	(14,690)	(5,816)
For investment*	(35,342)	(17,478)
Net receivables sold	\$539,000	\$268,000
Program capacity	\$575,000	\$300,000

**Held by a bankruptcy remote special purpose company*

The finance charges from the transferred receivables are used to fund interest costs, charge-offs and servicing fees. A restructuring of the facility during fiscal 1997 resulted in the recourse provisions being eliminated.

The net gain on sales of receivables totaled \$7.9 million for fiscal 1999, \$3.7 million for fiscal 1998 and \$3.1 million for fiscal 1997. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to \$14.7 million at February 28, 1999, \$6.8 million at February 28, 1998, and \$3.1 million at February 28, 1997, and are included in net accounts receivable. The finance operation's servicing revenue, including gains on sales of receivables, totaled \$28.2 million for fiscal 1999, \$11.2 million for fiscal 1998 and \$8.7 million for fiscal 1997. The servicing fee specified in the auto loan securitization agreement adequately compensates the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

In determining the fair value of retained interests, the Company estimates future cash flows from finance charge collections, reduced by net defaults, servicing cost and interest cost. The Company employs a risk-based pricing strategy that increases the stated APR for accounts that have a higher predicted risk of default. Accounts with a lower risk profile also may qualify for promotional financing.

The APRs range from 6 percent to 12 percent fixed, with default rates varying based on credit quality, but generally aggregating 0.75 percent to 1.25 percent. Weighted average life of the receivables is expected to be in the 18 month to 20 month range.

Interest cost depends on the time at which accounts were originated, but is in the range of 5 percent to 7 percent.

13. INTEREST RATE SWAPS

In October 1994, the Company entered into five-year interest rate swap agreements with notional amounts totaling \$300 million relating to a public issuance of securities by the master trust. As part of this issuance, \$344 million of five-year, fixed-rate certificates were issued to fund consumer credit receivables. The credit card finance operation is servicer for the accounts, and as such, receives its monthly cash portfolio yield after deducting interest, charge-offs and other related costs. The underlying receivables are based on a floating rate. The swaps were put in place to better match funding costs to the receivables being securitized. As a result, the master trust pays fixed-rate interest, and the Company utilizes the swaps to convert the fixed-rate obligation to a floating-rate, LIBOR-based obligation. These swaps were entered into as part of the sales of receivables and are included in the gain on sales of receivables.

Concurrent with the funding of the \$175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating \$175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 28, 1999, would result in a loss of \$2.2 million and at February 28, 1998, would result in a loss of \$1.9 million.

The Company enters into amortizing swaps relating to the auto loan receivable securitization to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. In November 1995, the Company entered into a 50-month amortizing swap with a notional amount of \$75 million and, in October 1996, entered into a 40-month amortizing swap with a notional amount of \$64 million. The Company entered into four 40-month amortizing swaps with notional amounts totaling approximately \$162 million during fiscal 1998 and four 40-month amortizing swaps with notional amounts totaling approximately \$387 million in fiscal 1999. These swaps were entered into as part of sales of receivables and are included in the gain on sales of receivables. The remaining total notional amount of all swaps related to the auto loan receivable securitization was approximately \$499 million at February 28, 1999, \$224 million at February 28, 1998, and \$114 million at February 28, 1997.

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

(A) **INVESTMENT IN DIVX:** In May 1995, the Company agreed to invest \$30.0 million in Divx, a partnership that has developed and is marketing a new home digital video system. That commitment was increased to \$130.0 million in September 1997. Although that commitment was fulfilled during fiscal 1999, the Company continues to fund the operations of Divx as management continues to explore various financing options. As of February 28, 1999, the Company owned approximately 75 percent of the partnership. The Company has been allocated 100 percent of the losses since inception. The Company allocates its investment in Divx to the Circuit City Group. As of February 28, 1999, the Company had funded approximately \$207 million for the operations of Divx.

(B) **LICENSING AGREEMENTS:** Divx has entered into licensing agreements with motion picture distributors for use of their feature-length films for the Divx system. The Company guarantees Divx's performance under these commitments. The licensing fees are based on varying percentages of consumer viewing and wholesale receipts and require minimum distributor compensation commencing from the operational date of each agreement through the following one to five years. As of February 28, 1999, the minimum compensation due from Divx to the distributors is \$101.0 million (\$26.0 million in fiscal 2000, \$32.0 million in fiscal 2001, \$20.5 million in fiscal 2002, \$14.5 million in fiscal 2003 and \$8.0 million in fiscal 2004).

(C) **LEGAL PROCEEDINGS:** In the normal course of business, the Company is involved in various legal proceedings. Based upon the Company's evaluation of the information presently available, management believes that the ultimate resolution of any such proceedings will not have a material adverse effect on the Company's financial position, liquidity or results of operations.

15. OPERATING SEGMENT INFORMATION

The Company conducts business in three operating segments: Circuit City, Divx and CarMax. These segments are identified and managed by the Company based on the different products and services offered by each. Circuit City refers to the retail operations bearing the Circuit City name and to all related operations such as its finance operation. This segment is engaged in the business of selling brand-name consumer electronics, personal computers, major appliances and entertainment software. Divx primarily is engaged in the business of selling specially encrypted

DVD at wholesale. CarMax refers to the used- and new-car retail locations bearing the CarMax name and to all related operations

such as its finance operation. Financial information for these segments for fiscal 1999, 1998 and 1997 is shown in Table 3.

TABLE 3

1999

<i>(Amounts in thousands)</i>	Circuit City	Divx	CarMax	Elimination	Total Segments
Revenues from external customers	\$9,335,298	\$ 2,851	\$1,466,298	\$ —	\$10,804,447
Intersegment revenues.....	8,872	6,830	—	(15,702)	—
Interest expense.....	21,926	—	6,393	—	28,319
Depreciation and amortization	119,724	10,566	10,003	—	140,293
Earnings (loss) before income taxes.....	379,630	(110,558)	(38,549)	—	230,523
Provision for income taxes (income tax benefit).....	144,646	(42,012)	(15,035)	—	87,599
Net earnings (loss).....	234,984	(68,546)	(23,514)	—	142,924
Total assets	\$2,813,635	\$ 60,433	\$ 571,198	\$ —	\$ 3,445,266

1998

<i>(Amounts in thousands)</i>	Circuit City	Divx	CarMax	Elimination	Total Segments
Revenues from external customers	\$7,996,591	\$ —	\$ 874,206	\$ —	\$ 8,870,797
Interest expense.....	25,072	—	1,789	—	26,861
Depreciation and amortization	110,282	1,467	4,577	—	116,326
Earnings (loss) before income taxes.....	257,632	(33,284)	(56,104)	—	168,244
Provision for income taxes (income tax benefit).....	98,462	(12,648)	(21,881)	—	63,933
Net earnings (loss).....	159,170	(20,636)	(34,223)	—	104,311
Total assets	\$2,752,402	\$ 30,977	\$ 448,322	\$ —	\$ 3,231,701

1997

<i>(Amounts in thousands)</i>	Circuit City	Divx	CarMax	Elimination	Total Segments
Revenues from external customers	\$7,153,562	\$ —	\$ 510,249	\$ —	\$ 7,663,811
Interest expense.....	23,503	—	6,279	—	29,782
Depreciation and amortization	97,006	307	1,664	—	98,977
Earnings (loss) before income taxes.....	248,567	(12,614)	(15,929)	—	220,024
Provision for income taxes (income tax benefit).....	95,014	(4,793)	(6,611)	—	83,610
Net earnings (loss).....	153,553	(7,821)	(9,318)	—	136,414
Total assets	\$2,699,907	\$ 4,692	\$ 427,187	\$(50,613)	\$ 3,081,173

Net earnings (loss) and total assets for Circuit City exclude the Inter-Group Interest in the CarMax Group.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>(Amounts in thousands except per share data)</i>	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Net sales and operating										
revenues	\$2,271,090	\$1,856,904	\$2,517,154	\$2,020,572	\$2,612,896	\$2,144,219	\$3,403,307	\$2,849,102	\$10,804,447	\$8,870,797
Gross profit.....	\$ 504,514	\$ 418,278	\$ 571,672	\$ 472,429	\$ 592,105	\$ 481,753	\$ 776,728	\$ 671,204	\$ 2,445,019	\$2,043,664
Net earnings (loss)										
attributed to:										
Circuit City Stock	\$ 13,269	\$ 12,749	\$ 32,147	\$ 27,879	\$ 15,945	\$ 14,012	\$ 87,020	\$ 57,434	\$ 148,381	\$ 112,074
CarMax Stock	\$ (736)	\$ (275)	\$ (685)	\$ (393)	\$ (1,701)	\$ (2,075)	\$ (2,335)	\$ (5,020)	\$ (5,457)	\$ (7,763)
Net earnings (loss)										
per share:										
Circuit City Stock:										
Basic.....	\$ 0.13	\$ 0.13	\$ 0.32	\$ 0.28	\$ 0.16	\$ 0.14	\$ 0.87	\$ 0.58	\$ 1.50	\$ 1.14
Diluted.....	\$ 0.13	\$ 0.13	\$ 0.32	\$ 0.28	\$ 0.16	\$ 0.14	\$ 0.86	\$ 0.58	\$ 1.48	\$ 1.13
CarMax Stock	\$ (0.03)	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.07)	\$ (0.09)	\$ (0.10)	\$ (0.23)	\$ (0.24)	\$ (0.35)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
of Circuit City Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Circuit City Stores, Inc. and subsidiaries as of February 28, 1999 and 1998 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the fiscal years in the three-year period ended February 28, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit

also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Circuit City Stores, Inc. and subsidiaries as of February 28, 1999 and 1998 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 28, 1999 in conformity with generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
April 2, 1999

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

On January 24, 1997, shareholders of Circuit City Stores, Inc. approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group."

The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations.

The following discussion and analysis relates to the Circuit City Group. Reported earnings reflect the Circuit City Group's 100 percent interest in the losses of the CarMax Group prior to the consummation of the offering on February 7, 1997, and the lower Inter-Group Interest since that time. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for Circuit City Stores, Inc. and for the CarMax Group.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the Circuit City Group increased 17 percent in fiscal 1999 to \$9.34 billion. In fiscal 1998, total sales were \$8.00 billion, a 12 percent increase from \$7.15 billion in fiscal 1997.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

Fiscal	Circuit City Group		Industry*
	Total	Comparable	
1999	17%	8 %	5 %
1998	12%	(1)%	(3)%
1997	6%	(8)%	(8)%
1996	23%	5 %	6 %
1995	34%	15 %	11 %

* The industry sales rates are derived from Electronic Industries Alliance, Recording Industry Association of America and Company estimates of audio, video, home office, telecommunications, appliance and music software sales.

The fiscal 1999 total sales increase reflects an 8 percent comparable store sales increase, which was in part caused by an acceleration in industry growth, and the continued geographic expansion of the Group's Circuit City Superstores. In fiscal 1999, the Group opened 37 Superstores. The Group entered a number of one- and two-store markets; added stores to existing markets, including the New York metropolitan market that was entered in fiscal 1998; replaced three Superstores; and closed two consumer electronics-only stores. In addition, the Group remodeled 30 stores to reflect its most recent merchandising initiatives.

The Group operates four Circuit City Superstore formats with square footage and merchandise assortments tailored to volume expectations for specific trade areas. The "D" format serves the most populous trade areas. At the end of fiscal 1999, selling space for the "D" format stores averaged about 23,000 square feet and total square footage for all "D" stores averaged 43,042. The "C" format constitutes the largest percentage of the store base. At the end of fiscal 1999, selling space in the "C" format stores averaged about 15,000 square feet with total square footage for all "C" stores averaging 34,036. The "B" format often is located in smaller markets or in smaller trade areas within larger metropolitan markets. At the end of fiscal 1999, selling space in these stores averaged approximately 12,500 square feet with an average total square footage of 26,651. The "B" stores offer a broad merchandise assortment that maximizes return on investment in lower volume areas. The "A" format serves the least populated trade areas. Selling space for all "A" stores averaged approximately 9,500 square feet at the end of fiscal 1999, and total square footage averaged 19,558. These stores feature a layout, staffing level and merchandise assortment that creates high productivity in the smallest markets.

The Group also operates 48 mall-based Circuit City Express stores. These stores are located in regional malls and are approximately 2,000 to 3,000 square feet in size.

STORE MIX

Fiscal	Retail Units at Year-End				
	1999	1998	1997	1996	1995
Superstore					
"D" Superstore	118	114	95	61	12
"C" Superstore	294	289	278	259	257
"B" Superstore	82	72	54	46	37
"A" Superstore	43	25	16	12	6
Electronics-Only	2	4	5	5	5
Circuit City Express	48	52	45	36	35
Total	587	556	493	419	352

Industry sales in Circuit City's retail segments have varied significantly over the past five years, resulting in wide variations in the Group's sales growth. Geographic expansion and the addition of product categories such as personal computers were the primary contributors to the Circuit City Group's total sales growth early in the period. From mid-fiscal 1996 through fiscal 1998, a lack of significant product introductions resulted in lower average retails and weak sales throughout the industry. In fiscal 1999, the industry began to emerge from this period of declining sales. For Circuit City, the fiscal 1999 sales reflected strong sales across all major categories with especially strong sales in personal computers and in new high technology areas such as DIRECTV, wireless communications, DVD players, especially players with the Divx feature, and digital camcorders. The continued Superstore additions also contributed to the total sales growth.

The industry weakness in fiscal 1997 and 1998 resulted in a highly competitive climate, and a significant number of regional competitors closed stores. Despite the improvement in fiscal

1999, the consumer electronics industry remains highly competitive. Circuit City's primary competitors are large specialty, discount or warehouse retailers with generally lower levels of service. Because of Circuit City's long history of providing exceptional customer service, management believes that the Circuit City locations can continue to maintain share in existing markets and build comparable shares in new markets.

SALES BY MERCHANDISE CATEGORIES

Fiscal	1999	1998	1997	1996	1995
TV	18%	18%	18%	17%	19%
VCR/Camcorders	13%	13%	14%	13%	14%
Audio	16%	17%	18%	19%	22%
Home Office	27%	25%	24%	26%	20%
Appliance	15%	15%	15%	14%	15%
Other	11%	12%	11%	11%	10%
Total	100%	100%	100%	100%	100%

The Group sells two extended warranty programs on behalf of unrelated third parties that issue these plans for merchandise sold by the Group and other retailers. These third-party programs are sold in most major markets. In states where third-party warranty sales are not permitted, the Group sells a Circuit City extended warranty. Gross dollar sales from all extended warranty programs were 5.4 percent of the Group's total sales in fiscal year 1999, compared with 5.5 percent in fiscal 1998 and 6.0 percent in fiscal 1997. The lower percentages in fiscal years 1999 and 1998 reflect the impact of lower average retail prices on consumer demand for the related warranties in many categories and increased sales of some products that carry lower warranty penetration rates. Total extended warranty revenue, which is reported in the Group's total sales, was 4.6 percent of sales in fiscal years 1999 and 1998 and 5.1 percent of sales in fiscal year 1997. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. Third-party extended warranty revenue was 4.1 percent of the Group's total sales in fiscal year 1999 and 3.6 percent of the Group's total sales in fiscal years 1998 and 1997. The fiscal 1999 increase in third-party extended warranty revenue reflects the conversion of stores in 10 states to third-party warranty sales in June 1998.

SUPERSTORE SALES PER TOTAL SQUARE FOOT

Fiscal	
1999	\$514
1998	\$478
1997	\$499
1996	\$577
1995	\$584

SUPERSTORE SALES PER TOTAL SQUARE FOOT. Over the last five years, the Group has significantly increased the percentage of store square footage devoted to selling space. In fiscal 1995, the Group introduced the larger format "D" stores in some markets. These stores are intended to generate high sales volumes in specific trade areas but lower sales per total square foot than smaller Superstores. These stores and the declines in comparable store sales produced lower Superstore sales per total square foot in the period from fiscal 1996 through fiscal 1998. The fiscal 1999 sales

per square foot increase primarily reflects the comparable store sales increase.

IMPACT OF INFLATION. Inflation has not been a significant contributor to the Group's results. In fact, during the past two years, the average retail price has declined in virtually all of the Group's product categories. Although new product introductions could help reverse this trend in selected areas, management expects no significant short-term change overall. Because the Group purchases substantially all products in U.S. dollars, prices are not directly impacted by the value of the dollar in relation to other foreign currencies, including the Japanese yen.

Digital Video Express

Digital Video Express has developed and is marketing a new digital video system for watching movies at home. Circuit City Stores, Inc. holds the majority interest in the business. The remaining interest is held by the prominent Los Angeles law firm Ziffren, Brittenham, Branca & Fischer. The Company's investment in Divx is allocated to the Circuit City Group. Through the end of fiscal 1999, the Company had invested \$207 million in Divx, \$120 million of which was invested in fiscal 1999. The investment in Divx impacts the Circuit City Group's gross profit margin and selling, general and administrative expense ratio.

Cost of Sales, Buying and Warehousing

The gross profit margin was 24.3 percent of sales in fiscal 1999, 24.6 percent in fiscal 1998 and 24.0 percent in fiscal 1997. The lower gross margin in fiscal 1999 reflects the strength of the personal computer business, which carries lower gross margins; the continued highly competitive price environment for the Circuit City business; and costs associated with Divx. Better inventory management and increased sales of new technologies and more fully featured products partly offset these factors. The Group gradually has reduced its assortment in a variety of product categories to more closely match consumer demand and has carefully managed product transitions, especially in the personal computer business. As a result, mark-downs have decreased, reducing their impact on the gross margin. Excluding Divx, the gross margin for the Circuit City business was 24.4 percent of sales in fiscal 1999. Because Divx was not selling any product in fiscal 1998 and fiscal 1997, it had no impact on gross margins in those periods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 21.2 percent of sales in fiscal 1999 compared with 21.5 percent in fiscal 1998 and 20.4 percent in fiscal 1997. The improved ratio in fiscal 1999 primarily reflects the expense leverage gained from the comparable store sales increase, partly offset by selling, general and administrative expenses related to Divx. Operating profits generated by the Group's finance operation are recorded as a reduction to the selling, general and administrative expenses. Excluding Divx, the expense ratio for the Circuit City business was 20.1 percent in fiscal 1999, 21.1 percent in fiscal 1998 and 20.2 percent in fiscal 1997.

Interest Expense

Interest expense was 0.2 percent of sales in fiscal 1999 and 0.3 percent of sales in fiscal 1998 and 1997. Interest expense was incurred

on allocated debt used to fund store expansion, working capital and the investment in Divx.

Income Taxes

The Group's effective income tax rate was 38.1 percent in fiscal year 1999, 38.3 percent in fiscal year 1998 and 38.2 percent in fiscal 1997. The shifts in the tax rate reflect the state tax impact of variations in taxable income produced by the Group's separate legal operating entities.

Earnings before the Inter-Group Interest in the CarMax Group

Earnings before the Inter-Group Interest in the CarMax Group increased 20 percent to \$166.4 million in fiscal 1999. In fiscal 1998, earnings before the Inter-Group Interest in the CarMax Group were \$138.5 million, a 5 percent decrease from \$145.7 million in fiscal 1997. The results for all three years include the Company's investment in Digital Video Express. Excluding the Company's investment in Divx, earnings for the Circuit City Group before the Inter-Group Interest in the CarMax Group increased 48 percent to \$235.0 million in fiscal 1999 compared with \$159.2 million in fiscal 1998 and \$153.6 million in fiscal 1997.

Net Loss Related to the Inter-Group Interest in the CarMax Group

The CarMax Group has incurred losses since its startup in fiscal 1994. The net loss attributed to the Circuit City Group's Inter-Group Interest in the CarMax Group was \$18.1 million in fiscal 1999, \$26.5 million in fiscal 1998 and \$9.1 million in fiscal 1997.

Net Earnings

Net earnings for the Circuit City Group were \$148.4 million in fiscal 1999, \$112.1 million in fiscal 1998 and \$136.7 million in fiscal 1997. Net earnings per share were \$1.48 in fiscal 1999, \$1.13 in fiscal 1998 and \$1.39 in fiscal 1997. The improved results in fiscal 1999 primarily reflect the renewed strength in the Company's Circuit City business, which was partly offset by the increased investment in Divx and the losses incurred by the CarMax Group. The lower earnings in fiscal year 1998 compared with fiscal year 1997 reflect the challenging industry environment faced by the Circuit City business at that time, the Company's higher investment in Digital Video Express and increased losses incurred by the CarMax Group.

Operations Outlook

Management expects that industry growth will be the primary contributor to sales and earnings growth for the Circuit City business during the coming decade. Management anticipates that growth in the household penetration of products such as DIRECTV, wireless communications, digital camcorders, DVD players and personal computers will be the major contributors to this growth. Management also believes that the introductions of digital and high-definition televisions and multi-functional set top boxes will help drive industry sales to new levels. Management expects to focus its attention on maximizing store volumes in the existing Circuit City Superstores. These efforts will include the remodeling of approximately 50 Superstores in fiscal 2000 to include the Group's new merchandising initiatives.

Circuit City has established its presence in virtually all of the nation's top 100 markets and will continue adding to the existing

store base as attractive market opportunities arise. Management believes that the Group has the opportunity to operate approximately 800 Superstores within the United States. In fiscal 2000, the Group will continue to expand its Superstore concept into new trade areas, adding approximately 35 stores that are either new-market entries or fill-in locations in existing Circuit City markets, including approximately seven additional stores in the New York metropolitan area. Management anticipates that the industry's growth, ongoing expansion and continued strong operating controls will enable the Circuit City business to generate earnings growth of 20 percent to 25 percent in fiscal 2000.

Management continues to be encouraged by the long-term profit potential of the Company's investment in Digital Video Express. The early sales results exceeded management's expectations, as DVD players with the Divx feature captured a 20 percent to 25 percent share of DVD player sales during the last quarter of the fiscal year. Titles are available from major studios. Divx expects eight player brands to be available in calendar 1999. At February 28, 1999, approximately 370 titles were available on Divx discs and Divx plans to add 30 to 40 titles each month in fiscal 2000. Management remains in active discussions with potential financing and distribution partners for Divx and is optimistic that the Company will complete one or more transactions in fiscal 2000. However, in the event that additional financing is not obtained, management does not expect the costs associated with Divx in fiscal 2000 to exceed those incurred in fiscal 1999.

Management expects that CarMax's financial performance will improve to a modest loss or to break-even in fiscal 2000. The CarMax results will be partly reflected in the Circuit City Group's Inter-Group Interest.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a review of recent accounting pronouncements.

FINANCIAL CONDITION

In fiscal 1999, net cash provided by operating activities was \$336.2 million compared with \$280.7 million provided by operating activities in fiscal 1998 and \$39.7 million provided by operating activities in fiscal 1997. The fiscal 1999 increase primarily reflects a decrease in net accounts receivable and the improvement in net earnings for the Circuit City business, partly offset by the higher investment in Digital Video Express. The fiscal 1998 increase reflects a reduction in inventory, a smaller increase in net accounts receivable and a slight earnings increase for the Circuit City business, partly offset by the investment in Digital Video Express.

Most financial activities, including the investment of surplus cash and the issuance and repayment of short-term and long-term debt, are managed by the Company on a centralized basis. Allocated debt of the Circuit City Group consists of (1) Company debt, if any, that has been allocated in its entirety to the Circuit City Group and (2) a portion of the Company's debt that is allocated between the Groups. This pooled debt bears interest at a rate based on the average pooled debt balance. Expenses related to increases in pooled debt are reflected in the weighted average interest rate of the pooled debt.

In addition to the allocation of cash and debt, interest-bearing loans, with terms determined by the board of directors, are used to manage cash between the Groups. These loans are reflected as inter-group payables or receivables on the financial statements of each Group. During fiscal 1998, an inter-group note was issued by the Circuit City Group on behalf of the CarMax Group as a temporary financing vehicle for CarMax inventory. At the end of fiscal 1999 and 1998, the Circuit City Group maintained no inter-group notes, payables or receivables with the CarMax Group. At February 28, 1997, the Circuit City Group had an inter-group payable totaling \$48.1 million.

Capital expenditures for the Circuit City Group have been funded through sale-leaseback transactions, landlord reimbursements and allocated short- and long-term debt. Capital expenditures of \$228.7 million during fiscal 1999 primarily reflect Superstores opened or remodeled during the fiscal year and a portion of the Superstores opening in fiscal 2000. Sale-leaseback and landlord reimbursement transactions completed in fiscal 1999 totaled \$134.3 million. Capital expenditures of \$353.8 million in fiscal 1998 and \$451.6 million in fiscal 1997 largely were incurred in connection with the Superstore expansion program. Sale-leaseback and landlord reimbursement transactions were \$199.0 million in fiscal 1998 and \$316.3 million in fiscal 1997.

The Group's finance operation primarily funds its credit card programs through securitization transactions that allow the operation to sell its receivables while retaining a small interest in them. For its private-label credit card, the finance operation has a master trust securitization facility that allows the transfer of up to \$1.38 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to \$1.75 billion in receivables related to the operation's bankcard programs. Securitized receivables totaled \$2.76 billion at February 28, 1999. Under the securitization programs, receivables are sold to an unaffiliated third party with the servicing retained. Management expects that both securitization programs can be expanded to accommodate future receivables growth.

Late in fiscal 1997, Circuit City Stores, Inc. raised a net of \$412.3 million through the initial public offering of 21.86 million shares of newly created CarMax Group Common Stock. At the end of fiscal 1999, the Circuit City Group retained a 76.6 percent interest in the equity of the CarMax Group. As of February 28, 1999, the Circuit City Group's equity in the CarMax Group was \$260.8 million.

Management believes that proceeds from sales of property and equipment and receivables, future increases in Circuit City Stores, Inc. debt allocated to the Circuit City Group, equity issuances and cash generated by operations will be sufficient to fund the capital expenditures and operations of the Circuit City business. In fiscal 2000, the Group anticipates capital expenditures of approximately \$265 million, primarily related to the Circuit City business.

Management remains in discussions with potential financing partners for Divx, but has not obtained any acceptable commitments to date. The Company has provided guarantees relating to licensing agreements with motion picture distributors for use of their films by the Divx system. The licensing fees are based on varying percentages of consumer viewing and wholesale receipts and require minimum distributor compensation commencing from the operational date of each agreement through the following one to five years.

MARKET RISK

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

Interest rates charged on the managed private-label and bankcard portfolios are primarily indexed to the prime rate, adjustable on a monthly basis, with the balance at a fixed annual percentage rate. Total principal outstanding at February 28 had the following APR structure:

<i>(Amounts in millions)</i>	1999	1998
Indexed to prime rate.....	\$2,714	\$2,523
Fixed APR.....	243	227
Total	<u>\$2,957</u>	<u>\$2,750</u>

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued either at floating rates based on LIBOR or at fixed rates. Certain of the fixed-rate issuances have been swapped to LIBOR. Receivables held by the Company for investment or sale are financed with working capital. At February 28, financings were as follows:

<i>(Amounts in millions)</i>	1999	1998
Floating-rate (including synthetic alteration) securitizations	\$2,568	\$2,211
Fixed-rate securitizations.....	187	290
Held by the Company:		
For investment.....	162	204
For sale	40	45
Total	<u>\$2,957</u>	<u>\$2,750</u>

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 1999 or 1998. Because programs are in place to manage interest rate exposure relating to the consumer loan portfolios, the Company expects to experience relatively little impact as interest rates fluctuate in the future. The Company also has the ability to adjust fixed-APR revolving cards and the index on floating-rate cards, subject to cardholder ratification, but does not currently anticipate the need to do so.

YEAR 2000 CONVERSION

Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a discussion of the Year 2000 issue and its impact on the Group's financial statements.

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management's expectations for fiscal year 2000 and beyond, are forward-looking statements and involve various risks and uncertainties. Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a review of possible risks and uncertainties.

CIRCUIT CITY GROUP STATEMENTS OF EARNINGS

(Amounts in thousands except per share data)	Years Ended February 28					
	1999	%	1998	%	1997	%
NET SALES AND OPERATING REVENUES	\$9,338,149	100.0	\$7,996,591	100.0	\$7,153,562	100.0
Cost of sales, buying and warehousing.....	7,065,396	75.7	6,026,434	75.4	5,435,923	76.0
GROSS PROFIT	2,272,753	24.3	1,970,157	24.6	1,717,639	24.0
Selling, general and administrative expenses [NOTES 3 AND 11].....	1,981,755	21.2	1,720,737	21.5	1,458,183	20.4
Interest expense [NOTES 3 AND 5].....	21,926	0.2	25,072	0.3	23,503	0.3
TOTAL EXPENSES	2,003,681	21.4	1,745,809	21.8	1,481,686	20.7
Earnings before income taxes and Inter-Group Interest in the CarMax Group	269,072	2.9	224,348	2.8	235,953	3.3
Provision for income taxes [NOTES 3 AND 6]	102,634	1.1	85,814	1.1	90,221	1.3
EARNINGS BEFORE INTER-GROUP INTEREST IN THE CARMAX GROUP	166,438	1.8	138,534	1.7	145,732	2.0
Net loss related to Inter-Group Interest in the CarMax Group [NOTES 1 AND 2]	18,057	0.2	26,460	0.3	9,052	0.1
NET EARNINGS	\$ 148,381	1.6	\$ 112,074	1.4	\$ 136,680	1.9
Weighted average common shares [NOTES 2 AND 8]:						
Basic	99,152		98,027		97,311	
Diluted	100,406		99,204		98,472	
NET EARNINGS PER SHARE [NOTES 2 AND 8]:						
Basic	\$ 1.50		\$ 1.14		\$ 1.40	
Diluted	\$ 1.48		\$ 1.13		\$ 1.39	

See accompanying notes to group financial statements.

CIRCUIT CITY GROUP BALANCE SHEETS

(Amounts in thousands)	At February 28	
	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 248,201	\$ 90,200
Net accounts receivable [NOTE 12]	476,952	537,169
Merchandise inventory.....	1,292,215	1,266,575
Prepaid expenses and other current assets	36,024	19,798
TOTAL CURRENT ASSETS	2,053,392	1,913,742
Property and equipment, net [NOTES 4 AND 5]	801,827	834,347
Inter-Group Interest in the CarMax Group [NOTE 2]	260,758	278,239
Other assets.....	18,849	35,290
TOTAL ASSETS	\$3,134,826	\$3,061,618
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 5 AND 10]	\$ 1,457	\$ 1,301
Accounts payable	739,895	714,171
Short-term debt [NOTE 5]	3,411	5,591
Accrued expenses and other current liabilities	135,029	129,198
Deferred income taxes [NOTE 6]	2,090	—
TOTAL CURRENT LIABILITIES	881,882	850,261
Long-term debt, excluding current installments [NOTES 5 AND 10]	286,865	396,906
Deferred revenue and other liabilities	107,070	139,841
Deferred income taxes [NOTE 6]	33,536	26,278
TOTAL LIABILITIES	1,309,353	1,413,286
GROUP EQUITY	1,825,473	1,648,332
Commitments and contingent liabilities [NOTES 1, 9, 10, 12, 14 AND 15]		
TOTAL LIABILITIES AND GROUP EQUITY	\$3,134,826	\$3,061,618

See accompanying notes to group financial statements.

CIRCUIT CITY GROUP STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net earnings	\$ 148,381	\$ 112,074	\$ 136,680
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss related to Inter-Group Interest in the CarMax Group	18,057	26,460	9,052
Depreciation and amortization	130,290	111,749	97,313
Loss (gain) on sales of property and equipment	3,087	2,593	(1,540)
Provision for deferred income taxes	9,348	16,919	19,307
Decrease in deferred revenue and other liabilities	(32,771)	(23,859)	(48,863)
Decrease (increase) in net accounts receivable	60,217	(33,545)	(195,791)
(Increase) decrease in merchandise inventory, prepaid expenses and other current assets	(41,866)	34,441	(42,676)
Decrease (increase) in other assets	9,941	(5,032)	(14,178)
Increase in accounts payable, accrued expenses and other current liabilities	31,555	38,907	80,373
NET CASH PROVIDED BY OPERATING ACTIVITIES	336,239	280,707	39,677
INVESTING ACTIVITIES:			
Purchases of property and equipment	(228,672)	(353,800)	(451,561)
Proceeds from sales of property and equipment	134,315	199,028	316,276
NET CASH USED IN INVESTING ACTIVITIES	(94,357)	(154,772)	(135,285)
FINANCING ACTIVITIES:			
(Decrease) increase in allocated short-term debt, net	(2,180)	5,244	(73,690)
(Decrease) increase in inter-group payable	-	(48,147)	48,147
(Decrease) increase in allocated long-term debt, net	(109,885)	(33,573)	109,702
Equity issuances, net	42,165	22,311	15,385
Dividends paid	(13,981)	(13,792)	(13,199)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(83,881)	(67,957)	86,345
Increase (decrease) in cash and cash equivalents	158,001	57,978	(9,263)
Cash and cash equivalents at beginning of year	90,200	32,222	41,485
Cash and cash equivalents at end of year	\$ 248,201	\$ 90,200	\$ 32,222

See accompanying notes to group financial statements.

CIRCUIT CITY GROUP STATEMENTS OF GROUP EQUITY

(Amounts in thousands)

BALANCE AT MARCH 1, 1996	\$1,063,921
Net earnings.....	136,680
Equity issuances, net	15,385
Cash dividends.....	(13,199)
Inter-Group Interest adjustment resulting from the offering [NOTE 2].....	323,910
BALANCE AT FEBRUARY 28, 1997	1,526,697
Net earnings.....	112,074
Equity issuances, net	22,311
Cash dividends.....	(13,792)
Inter-Group Interest adjustment [NOTE 2]	1,042
BALANCE AT FEBRUARY 28, 1998	1,648,332
Net earnings.....	148,381
Equity issuances, net	42,165
Cash dividends.....	(13,981)
Inter-Group Interest adjustment [NOTE 2]	576
BALANCE AT FEBRUARY 28, 1999	\$1,825,473

See accompanying notes to group financial statements.

NOTES TO CIRCUIT CITY GROUP FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

On January 24, 1997, shareholders of Circuit City Stores, Inc. and its subsidiaries approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group." The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations. The Circuit City Group held a 76.6 percent interest in the CarMax Group at February 28, 1999, a 77.3 percent interest at February 28, 1998, and a 77.5 percent interest at February 28, 1997.

The Circuit City Group financial statements give effect to the management and allocation policies adopted by the board of directors as described under "Corporate Activities." The Circuit City Group financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical financial position, results of operations and cash flows of the Circuit City Group, (ii) an allocated portion of the Company's cash equivalents and debt, including the related effects upon results of operations and cash flows, (iii) an allocated portion of the Company's corporate general and administrative costs and (iv) the Inter-Group Interest held by the Circuit City Group in the CarMax Group.

Notwithstanding the attribution of the Company's assets and liabilities (including contingent liabilities) and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing their respective financial statements, holders of Circuit City Stock and holders of CarMax Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the change in the equity structure of the Company does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the Circuit City Group financial statements included herein should be read in conjunction with the Company's consolidated financial statements and the CarMax Group financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) **CASH AND CASH EQUIVALENTS:** Allocated cash equivalents of \$201,379,000 at February 28, 1999, and \$55,215,000 at February 28, 1998, consist of highly liquid debt securities with original maturities of three months or less.

(B) **TRANSFERS AND SERVICING OF FINANCIAL ASSETS:** The Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective January 1, 1997. For transfers that qualify as sales, the Company recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under SFAS No. 125. Finance charge income, default rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The resulting cash flow projections are present valued at a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 28, 1999 and 1998, cost approximates fair value.

(C) **FAIR VALUE OF FINANCIAL INSTRUMENTS:** The Company enters into financial instruments on behalf of the Circuit City Group. The carrying value of the Circuit City Group's financial instruments, excluding interest rate swaps held for hedging purposes, approximates fair value. Credit risk is the exposure to the potential nonperformance of another material party to an agreement due to changes in economic, industry or geographic factors and is mitigated by dealing only with counterparties that are highly rated by several financial rating agencies. Accordingly, the Circuit City Group does not anticipate material loss for nonperformance. All financial instruments are broadly diversified along industry, product and geographic areas.

(D) **MERCHANDISE INVENTORY:** Inventory is stated at the lower of cost or market. Cost is determined by the average cost method.

(E) **PREPAID ROYALTIES AND EXECUTION FEES:** Prepaid royalties represent fixed minimum advance payments made to licensors for digital video disc distribution rights. Divx retains a licensor's share of distribution revenues until the share equals the advance paid to the licensor. Thereafter, any excess distribution revenue is paid to the licensor. Prepaid royalties are charged to operations as revenues are earned. Execution fees are one-time payments made to licensors at the time the related licensing agreements are executed and are amortized over the shorter of the initial terms of the licensing agreements or five years. Both the prepaid royalties and execution fees are stated at the lower of amortized cost or estimated net realizable value on a license-agreement basis.

(F) **PROPERTY AND EQUIPMENT:** Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives.

Property held under capital lease is stated at the lower of the present value of the minimum lease payments at the inception of the lease or market value and is amortized on a straight-line basis over the lease term or the estimated useful life of the asset, whichever is shorter.

(G) COMPUTER SOFTWARE COSTS: Effective March 1, 1998, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the capitalization criteria of the SOP have been met, external direct costs of materials and services used in the development of internal-use software and payroll and payroll-related costs for employees directly involved in the development of internal-use software are capitalized. Amounts capitalized are amortized on a straight-line basis over a period of three to five years.

(H) PRE-OPENING EXPENSES: Expenses associated with the opening of new stores are deferred and amortized ratably over the period from the date of the store opening to the end of the fiscal year.

(I) INCOME TAXES: Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes, measured by applying currently enacted tax laws. A deferred tax asset is recognized if it is more likely than not that a benefit will be realized.

(J) DEFERRED REVENUE: The Circuit City Group sells its own extended warranty contracts and extended warranty contracts on behalf of unrelated third parties. The contracts extend beyond the normal manufacturer's warranty period, usually with terms (including the manufacturer's warranty period) between 12 and 60 months. All revenue from the sale of the Circuit City Group's own extended warranty contracts is deferred and amortized on a straight-line basis over the life of the contracts. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale.

(K) INTER-GROUP INTEREST: Prior to the offering, the Circuit City Group held a 100 percent Inter-Group Interest in the CarMax Group. The Circuit City Group held a 76.6 percent Inter-Group Interest in the CarMax Group at February 28, 1999, a 77.3 percent Inter-Group Interest at February 28, 1998, and a 77.5 percent Inter-Group Interest at February 28, 1997. For purposes of these group financial statements, the Circuit City Group accounts for the Inter-Group Interest in a manner similar to the equity method of accounting. Accordingly, the Circuit City Group's Inter-Group Interest in the Company's equity value that is attributed to the CarMax Group is reflected as "Inter-Group Interest in the CarMax Group" on the Circuit City Group balance sheets. Similarly, the net losses of the CarMax Group attributed to the Circuit City Group's Inter-Group Interest are reflected as "Net loss related to Inter-Group Interest in the CarMax Group" on the Circuit City Group statements of earnings. All amounts corresponding to the Circuit City Group's Inter-Group Interest in the

CarMax Group in these group financial statements represent the Circuit City Group's proportional interest in the businesses, assets and liabilities and income and expenses of the CarMax Group.

The carrying value of the Circuit City Group's Inter-Group Interest in the CarMax Group has been decreased proportionally for the net loss of the CarMax Group. In addition, in the event of any dividend or other distribution on CarMax Stock, an amount that is proportionate to the aggregate amount paid in respect to shares of CarMax Stock would be transferred to the Circuit City Group from the CarMax Group with respect to its Inter-Group Interest and would reduce the related book value.

(L) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Operating profits generated by the finance operation are recorded as a reduction to selling, general and administrative expenses.

(M) ADVERTISING EXPENSES: All advertising costs are expensed as incurred.

(N) NET EARNINGS PER SHARE: On December 15, 1997, the Company adopted SFAS No. 128, "Earnings per Share." All prior period earnings per share data presented has been restated to conform with the provisions of SFAS No. 128.

Basic net earnings per share is computed by dividing net earnings attributed to Circuit City Stock, including the Circuit City Group's 100 percent interest in the losses of the CarMax Group for periods prior to the offering and the Circuit City Group's retained interest in the CarMax Group subsequent to the offering, by the weighted average number of common shares outstanding. Diluted net earnings per share is computed by dividing net earnings attributed to Circuit City Stock, which includes the Circuit City Group's retained interest in CarMax, by the weighted average number of common shares outstanding and dilutive potential common shares.

(O) STOCK-BASED COMPENSATION: On March 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue applying the provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide the pro forma disclosures of SFAS No. 123.

(P) DERIVATIVE FINANCIAL INSTRUMENTS: The Company enters into interest rate swap agreements to manage exposure to interest rates and to more closely match funding costs to the use of funding. Interest rate swaps relating to long-term debt are classified as held for purposes other than trading and are accounted for on a settlement basis. To qualify for this accounting treatment, the swap must synthetically alter the nature of a designated underlying financial instrument. Under this method, payments or receipts due or owed under the swap agreement are accrued through each settlement date and recorded as a component of interest expense. If a swap designated as a synthetic alteration were to be terminated, any gain or loss on the termination would be deferred and recognized over the shorter of the original contractual life of the swap or the related life of the designated long-term debt.

The Company also enters into interest rate swap agreements as part of its asset securitization programs. Swaps entered into by a seller as part of a sale of financial assets are considered proceeds at fair value in the determination of the gain or loss on the sale. If

such a swap were terminated, the impact on the fair value of the financial asset created by the sale of the related receivables would be estimated and included in earnings.

(Q) RISKS AND UNCERTAINTIES: Circuit City is a leading national retailer of brand-name consumer electronics, personal computers, major appliances and entertainment software. The diversity of Circuit City's products, customers, suppliers and geographic operations significantly reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply or markets. It is unlikely that any one event would have a severe impact on Circuit City's operating results.

Because of the Company's investment in Divx, the Circuit City Group is subject to additional risks and uncertainties. Divx was formed to develop and launch an enhancement for DVD players that provides significant copyright protection for movies released on Divx digital discs and sets a new standard for home video convenience. While management believes this product will gain widespread acceptance, there is no assurance that Divx ever will achieve significant sales of such product. Other risks include limited operating history, no assurance of successful operations, early state of market development, acquiring and maintaining licensing and manufacturing agreements, minimum compensation requirements under studio license agreements, competition from substitute products and services, rapid technological change, dependence on key personnel and vendors, development or assertions by or against Divx relating to intellectual property rights, and the uncertainty of availability of additional financing.

Because of the Inter-Group Interest, the Circuit City Group also is subject to risks and uncertainties related to the CarMax Group. The diversity of the CarMax Group's customers and suppliers reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base or sources of supply. However, due to the CarMax Group's limited overall size, management cannot assure that unanticipated events will not have a negative impact on the Circuit City Group.

The preparation of financial statements in conformity with 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 could differ from those estimates.

(R) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 1999.

3. CORPORATE ACTIVITIES

The Circuit City Group's financial statements reflect the application of the management and allocation policies adopted by the board of directors to various corporate activities, as described below:

(A) FINANCIAL ACTIVITIES: Most financial activities are managed by the Company on a centralized basis. Such financial activities include the investment of surplus cash and the issuance and repayment of short-term and long-term debt. Allocated invested surplus cash of the Circuit City Group consists of (i) Company cash equivalents, if any, that have been allocated in their entirety

to the Circuit City Group and (ii) a portion of the Company's cash equivalents that are allocated between the Groups. Allocated debt of the Circuit City Group consists of (i) Company debt, if any, that has been allocated in its entirety to the Circuit City Group and (ii) a portion of the Company's pooled debt, which is debt allocated between the Groups. The pooled debt bears interest at a rate based on the average pooled debt balance. Expenses related to increases in pooled debt are reflected in the weighted average interest rate of such pooled debt as a whole.

(B) CORPORATE GENERAL AND ADMINISTRATIVE COSTS: Corporate general and administrative costs and other shared services generally have been allocated to the Circuit City Group based upon utilization of such services by the Group. Where determinations based on utilization alone have been impractical, other methods and criteria were used that management believes are equitable and provide a reasonable estimate of the costs attributable to the Group.

(C) INCOME TAXES: The Circuit City Group is included in the consolidated federal income tax return and certain state tax returns filed by the Company. Accordingly, the provision for federal income taxes and related payments of tax are determined on a consolidated basis. The financial statement provision and the related tax payments or refunds are reflected in each Group's financial statements in accordance with the Company's tax allocation policy for such Groups. In general, this policy provides that the consolidated tax provision and related tax payments or refunds will be allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to the respective Group. Tax benefits that cannot be used by the Group generating such attributes, but can be utilized on a consolidated basis, are allocated to the Group that generated such benefits. As a result, the allocated Group amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if the Groups had filed separate tax returns.

4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 is summarized as follows:

<i>(Amounts in thousands)</i>	1999	1998
Land and buildings (20 to 25 years).....	\$ 59,823	\$ 109,115
Construction in progress	103,309	97,980
Furniture, fixtures and equipment (3 to 8 years).....	654,156	584,110
Leasehold improvements (10 to 15 years).....	534,015	478,679
Capital leases, primarily buildings (20 years).....	12,471	12,471
	<u>1,363,774</u>	<u>1,282,355</u>
Less accumulated depreciation and amortization	561,947	448,008
Property and equipment, net	<u>\$ 801,827</u>	<u>\$ 834,347</u>

5. DEBT

Long-term debt of the Company at February 28 is summarized as follows:

(Amounts in thousands)	1999	1998
Term loans	\$405,000	\$405,000
Industrial Development Revenue		
Bonds due through 2006 at various		
prime-based rates of interest ranging		
from 5.0% to 7.0%	6,564	7,665
Obligations under capital leases [NOTE 10]	12,728	12,928
Note payable	5,000	—
Total long-term debt	429,292	425,593
Less current installments	2,707	1,301
Long-term debt, excluding		
current installments	\$426,585	\$424,292
Portion of long-term debt allocated		
to the Circuit City Group	\$288,322	\$398,207

In July 1994, the Company entered into a seven-year, \$100,000,000, unsecured bank term loan. The loan was restructured in August 1996 as a \$100,000,000, six-year unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.40 percent. At February 28, 1999, the interest rate on the term loan was 5.76 percent.

In May 1995, the Company entered into a five-year, \$175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.67 percent.

In June 1996, the Company entered into a five-year, \$130,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.29 percent.

The Company maintains a multi-year, \$150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.13 percent per annum. The agreement was entered into as of August 31, 1996, and terminates August 31, 2002. No amounts were outstanding under the revolving credit agreement at February 28, 1999 or 1998.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately \$10,740,000 at February 28, 1999, and \$10,879,000 at February 28, 1998.

Under certain of the debt agreements, the Company must meet financial covenants relating to minimum tangible net worth, current ratios and debt-to-capital ratios. The Company was in compliance with all such covenants at February 28, 1999 and 1998.

Short-term debt of the Company is funded through committed lines of credit and informal credit arrangements, as well as the revolving credit agreement. Amounts outstanding and committed lines of credit available are as follows:

(Amounts in thousands)	Years Ended February 28	
	1999	1998
Average short-term debt outstanding	\$ 54,505	\$ 48,254
Maximum short-term debt outstanding	\$463,000	\$414,000
Aggregate committed lines of credit	\$370,000	\$410,000

The weighted average interest rate on the outstanding short-term debt was 5.1 percent during fiscal 1999, 5.7 percent during fiscal 1998 and 5.4 percent during fiscal 1997.

Interest expense allocated by the Company to the Circuit City Group, excluding interest capitalized, was \$21,926,000 in fiscal 1999, \$25,072,000 in fiscal 1998 and \$23,503,000 in fiscal 1997. The Circuit City Group capitalizes interest in connection with the construction of certain facilities and software developed or obtained for internal use. In fiscal 1999, interest capitalized amounted to \$2,749,000 (\$4,759,000 in fiscal 1998 and \$6,072,000 in fiscal 1997).

6. INCOME TAXES

The components of the provision for income taxes on earnings before income taxes and Inter-Group Interest in the CarMax Group are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Current:			
Federal	\$ 82,907	\$63,576	\$62,649
State	10,379	5,319	8,265
	93,286	68,895	70,914
Deferred:			
Federal	9,068	14,060	18,150
State	280	2,859	1,157
	9,348	16,919	19,307
Provision for income taxes	\$102,634	\$85,814	\$90,221

The effective income tax rate differed from the Federal statutory income tax rate as follows:

	Years Ended February 28		
	1999	1998	1997
Federal statutory income			
tax rate	35.0%	35.0%	35.0%
State and local income taxes,			
net of Federal benefit	3.1	3.3	3.2
Effective income tax rate	38.1%	38.3%	38.2%

In accordance with SFAS No. 109, the tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at February 28, 1999 and 1998 are as follows:

<i>(Amounts in thousands)</i>	1999	1998
Deferred tax assets:		
Deferred revenue	\$ 8,202	\$ 1,129
Inventory capitalization.....	7,198	7,783
Accrued expenses.....	24,110	36,448
Other	5,246	3,638
Total gross deferred tax assets	44,756	48,998
Deferred tax liabilities:		
Depreciation and amortization	43,600	43,630
Gain on sales of receivables.....	10,337	9,489
Other prepaid expenses	12,062	10,569
Other	14,383	11,588
Total gross deferred tax liabilities.....	80,382	75,276
Net deferred tax liability	\$35,626	\$26,278

Based on the Company's historical and current pretax earnings, management believes the amount of gross deferred tax assets will be realized through future taxable income; therefore, no valuation allowance is necessary.

7. CAPITAL STOCK AND STOCK INCENTIVE PLANS

(A) PREFERRED STOCK: In conjunction with the Company's Shareholders Rights Plan as amended and restated, preferred stock purchase rights were distributed as a dividend at the rate of one right for each share of Circuit City Stock. The rights are exercisable only upon the attainment of, or the commencement of a tender offer to attain, a specified ownership interest in the Company by a person or group. When exercisable, each Circuit City Group right would entitle shareholders to buy one four-hundredth of a share of Cumulative Participating Preferred Stock, Series E, \$20 par value, at an exercise price of \$250 per share subject to adjustment. A total of 500,000 shares of such preferred stock, which have preferential dividend and liquidation rights, have been designated. No such shares are outstanding. In the event that an acquiring person or group acquires the specified ownership percentage of the Company's common stock (except pursuant to a cash tender offer for all outstanding shares determined to be fair by the board of directors) or engages in certain transactions with the Company after the rights become exercisable, each right will be converted into a right to purchase, for half the current market price at that time, shares of the related Group stock valued at two times the exercise price.

The Company also has 1,000,000 shares of undesignated preferred stock authorized of which no shares are outstanding and an additional 500,000 shares of preferred stock designated as Series F which are related to similar rights held by CarMax Group shareholders.

(B) VOTING RIGHTS: The holders of both series of common stock and any series of preferred stock outstanding and entitled to vote together with the holders of common stock will vote together as a single voting group on all matters on which common

shareholders generally are entitled to vote other than a matter on which the common stock or either series thereof or any series of preferred stock would be entitled to vote as a separate voting group. On all matters on which both series of common stock would vote together as a single voting group, (i) each outstanding share of Circuit City Stock shall have one vote and (ii) each outstanding share of CarMax Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Stock to a share of Circuit City Stock. If shares of only one series of common stock are outstanding, each share of that series shall be entitled to one vote. If either series of common stock is entitled to vote as a separate voting group with respect to any matter, each share of that series shall, for purposes of such vote, be entitled to one vote on such matter.

(C) RESTRICTED STOCK: The Company has issued restricted stock under the provisions of the 1994 Stock Incentive Plan whereby management and key employees are granted restricted shares of Circuit City Stock. Shares are awarded in the name of the employee, who has all the rights of a stockholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire three to seven years from the date of grant. In fiscal 1999, certain members of management of the Circuit City Group were granted 131,350 restricted shares of Circuit City Stock that vest seven years from the date of grant. These awards provide accelerated vesting if certain performance factors are met. Total restricted stock awards of 360,346 shares of Circuit City Stock were granted to eligible employees in fiscal 1999. The market value at the date of grant of these shares has been recorded as unearned compensation and is a component of group equity. Unearned compensation is expensed over the restriction periods. In fiscal 1999, a total of \$8,741,100 was charged to operations (\$4,995,400 in fiscal 1998 and \$3,790,200 in fiscal 1997). As of February 28, 1999, 966,053 restricted shares of Circuit City Stock were outstanding.

(D) EMPLOYEE STOCK PURCHASE PLAN: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. Under the Circuit City Plan, eligible employees may purchase shares of Circuit City Stock, subject to certain limitations, at 85 percent of market value. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of \$7,500 per year. At February 28, 1999, a total of 683,015 shares remained available under the Circuit City Plan. During fiscal 1999, 429,355 shares were issued to or purchased on the open market for employees (450,698 shares in fiscal 1998 and 499,338 in fiscal 1997). The average price per share was \$43.38 in fiscal 1999, \$36.78 in fiscal 1998 and \$32.68 in fiscal 1997. The purchase price discount is charged to Circuit City Group operations and totaled \$2,716,400 in fiscal 1999, \$2,509,500 in fiscal 1998 and \$2,433,600 in fiscal 1997.

(E) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, incentive and nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of Circuit City Stock. The exercise price for incentive stock options for employees and nonqualified options for outside directors is equal to, or greater than, the market value at the date of grant; for nonqualified options granted under the

TABLE 1

(Shares in thousands)	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year.....	4,994	\$32.00	4,828	\$29.76	3,563	\$18.63
Granted.....	540	42.33	726	35.21	2,159	43.38
Exercised.....	(1,004)	17.53	(483)	15.00	(786)	17.67
Cancelled.....	(83)	33.59	(77)	29.42	(108)	21.90
Outstanding at end of year.....	<u>4,447</u>	\$36.49	<u>4,994</u>	\$32.00	<u>4,828</u>	\$29.76
Options exercisable at end of year.....	<u>1,483</u>	\$24.03	<u>1,754</u>	\$19.68	<u>1,629</u>	\$17.24

TABLE 2

(Shares in thousands) Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$15.69 to 20.13.....	474	2.0	\$18.34	474	\$18.34
22.50 to 29.13.....	701	2.1	23.49	617	23.63
29.50 to 38.00.....	1,748	5.2	31.97	392	31.55
38.38 to 48.56.....	524	7.1	42.40	—	—
59.00.....	1,000	3.1	59.00	—	—
Total.....	<u>4,447</u>	4.1	\$36.49	<u>1,483</u>	\$24.03

1988 Plan for employees, it is at least 85 percent of the market value at the date of grant (100 percent under the 1994 Plan). Options generally are exercisable over a period of from one to 10 years from the date of grant.

A summary of the status of the Circuit City Group's stock options and changes during the years ended February 28, 1999, 1998 and 1997 are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 1999.

The Circuit City Group applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the Circuit City Group's net earnings and net earnings per share would have been reduced to the pro forma amounts indicated in the next column. In accordance with the transition provisions of SFAS No. 123, the pro forma amounts reflect options with grant dates subsequent to March 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented because compensation cost is reflected over the options' vesting periods and compensation cost of options granted prior to March 1, 1995, is not considered. The pro forma effect on fiscal year 1999 may not be representative of the pro forma effects on net earnings for future years.

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Net earnings-as reported.....	\$148,381	\$112,074	\$136,680
Net earnings-pro forma.....	142,479	107,399	133,326
Basic net earnings per share-as reported.....	\$ 1.50	\$ 1.14	\$ 1.40
Basic net earnings per share-pro forma.....	1.44	1.10	1.37
Diluted net earnings per share-as reported.....	\$ 1.48	\$ 1.13	\$ 1.39
Diluted net earnings per share-pro forma.....	1.42	1.08	1.35

For the purpose of computing the pro forma amounts indicated above, the fair value of each option on the date of grant is estimated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model are as follows:

	1999	1998	1997
Expected dividend yield.....	0.4%	0.4%	0.4%
Expected stock volatility.....	33%	33%	33%
Risk-free interest rates.....	6%	6%	6%
Expected lives (in years).....	5	4	4

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the Circuit City Group is \$15 in fiscal 1999, \$13 in fiscal 1998 and \$8 in fiscal 1997.

8. NET EARNINGS PER SHARE

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

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Weighted average common shares.....	99,152	98,027	97,311
Dilutive potential common shares:			
Options	850	842	889
Restricted stock	404	335	272
Weighted average common shares and dilutive potential common shares	100,406	99,204	98,472
Income available to common shareholders	\$148,381	\$112,074	\$136,680
Basic net earnings per share	\$ 1.50	\$ 1.14	\$ 1.40
Diluted net earnings per share	\$ 1.48	\$ 1.13	\$ 1.39

Certain options were not included in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 1,000,000 shares of Circuit City Stock at \$59.00 per share were outstanding and not included in the calculation at the end of fiscal 1999; 1,510,000 shares ranging from \$35.47 to \$59.00 per share at the end of fiscal 1998; and 1,076,000 shares ranging from \$32.25 to \$59.00 per share at the end of fiscal 1997.

9. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 80,000 shares of Circuit City Stock at February 28, 1999 and 1998.

Eligible employees of the Circuit City Group participate in the Company's plan. Pension costs for these employees have been allocated to the Circuit City Group based on its proportionate share of the projected benefit obligation. The following tables set forth the Circuit City Group's share of the Plan's financial status and amounts recognized in the balance sheets as of February 28:

(Amounts in thousands)	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 88,166	\$70,055
Service cost	10,479	8,365
Interest cost	6,135	5,221
Actuarial loss	8,511	7,603
Benefits paid	(3,290)	(3,078)
Benefit obligation at end of year	\$110,001	\$88,166

(Amounts in thousands)	1999	1998
Change in plan assets:		
Fair value of plan assets at beginning of year...	\$ 83,009	\$62,033
Actual return on plan assets	4,342	12,574
Employer contributions	10,064	11,480
Benefits paid	(3,290)	(3,078)
Fair value of plan assets at end of year	\$ 94,125	\$83,009

Reconciliation of funded status:

Funded status	\$(15,876)	\$(5,157)
Unrecognized actuarial loss (gain)	8,657	(3,187)
Unrecognized transition asset	(598)	(797)
Unrecognized prior service benefit	(552)	(656)
Net amount recognized	\$ (8,369)	\$(9,797)

The components of net pension expense are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Service cost	\$10,479	\$ 8,365	\$ 9,227
Interest cost	6,135	5,221	4,667
Expected return on plan assets	(7,675)	(5,060)	(3,874)
Amortization of prior service cost	(104)	(104)	(104)
Amortization of transitional asset	(199)	(199)	(199)
Recognized actuarial loss	—	—	1,223
Net pension expense	\$ 8,636	\$ 8,223	\$10,940

Assumptions used in the accounting for the pension plan were:

	Years Ended February 28		
	1999	1998	1997
Weighted average discount rate	6.8%	7.0%	7.5%
Rate of increase in compensation levels	5.0%	5.0%	5.5%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

10. LEASE COMMITMENTS

The Circuit City Group conducts a substantial portion of its business in leased premises. The Circuit City Group's lease obligations are based upon contractual minimum rates. For certain locations, amounts in excess of these minimum rates are payable based upon specified percentages of sales. Rental expense and sublease income for all operating leases are summarized as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Minimum rentals	\$273,185	\$236,962	\$178,599
Rentals based on sales volume ...	1,247	730	2,322
Sublease income	(14,857)	(12,879)	(11,121)
Net	\$259,575	\$224,813	\$169,800

The Circuit City Group computes rent based on a percentage of sales volumes in excess of defined amounts in certain store locations. Most of the Circuit City Group's other leases are fixed-dollar rental commitments, with many containing rent escalations based on the Consumer Price Index. Most provide that the Circuit City Group pay taxes, maintenance, insurance and certain other operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 25 years; however, most of the leases have options providing for additional lease terms of five years to 25 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the Circuit City Group, as of February 28, 1999, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
2000	\$ 1,662	\$ 265,709	\$ (14,684)
2001	1,681	263,649	(12,817)
2002	1,725	260,494	(11,605)
2003	1,726	256,873	(10,624)
2004	1,768	254,586	(9,123)
After 2004	16,464	2,837,569	(55,144)
Total minimum lease payments.....	25,026	\$4,138,880	\$(113,997)
Less amounts representing interest	12,298		
Present value of net minimum capital lease payments [NOTE 5]	\$12,728		

In fiscal 1999, the Company entered into sale-leaseback transactions on behalf of the Circuit City Group with unrelated parties at an aggregate selling price of \$103,750,000 (\$120,670,000 in fiscal 1998 and \$185,244,000 in fiscal 1997). Neither the Company nor the Circuit City Group has continuing involvement under the sale-leaseback transactions.

11. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Advertising expense, which is included in selling, general and administrative expenses in the accompanying statements of earnings, amounted to \$417,619,000 (4.5 percent of net sales and operating revenues) in fiscal 1999, \$370,725,000 (4.6 percent of net sales and operating revenues) in fiscal 1998 and \$342,777,000 (4.8 percent of net sales and operating revenues) in fiscal 1997.

12. SECURITIZATIONS

On behalf of the Circuit City Group, the Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by its wholly owned finance operation. Proceeds from securitization transactions were \$224.6 million for fiscal 1999, \$331.4 million for fiscal 1998 and \$551.1 million for fiscal 1997.

Receivables relating to the securitization facilities consist of the following at February 28:

(Amounts in thousands)	1999	1998
Managed receivables	\$2,957,132	\$2,749,793
Receivables/residual interests held by the Circuit City Group:		
For sale	(39,948)	(44,622)
For investment.....	(161,996)	(203,921)
Net receivables sold.....	\$2,755,188	\$2,501,250
Net receivables sold with recourse	\$ 322,000	\$ 726,000
Program capacity.....	\$3,127,000	\$3,075,000

Private-label credit card receivables are financed through securitization programs employing a master trust structure. As of February 28, 1999, this securitization program had a capacity of \$1.38 billion. The agreement has no recourse provisions.

During fiscal 1998, a bank card master trust securitization facility was established and issued two series from the trust. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on \$322 million of the receivables sold. The finance charges from the transferred receivables are used to fund interest costs, charge-offs, servicing fees and other related costs. The Company believes that as of February 28, 1999, no liability existed under these recourse provisions. The bank card securitization program has a total program capacity of \$1.75 billion.

The net gain on sales of receivables totaled \$2.3 million for fiscal 1999, \$21.8 million for fiscal 1998 and \$3.2 million for fiscal 1997. The finance operation's servicing revenue, including gains on sales of receivables, totaled \$200.6 million for fiscal 1999, \$195.7 million for fiscal 1998 and \$197.0 million for fiscal 1997. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to \$27.3 million at February 28, 1999, \$25.0 million at February 28, 1998, and \$3.2 million at February 28, 1997, and are included in net accounts receivable. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

In determining the fair value of retained interests, the Company estimates future cash flows from finance charge collections, reduced by net defaults, servicing cost, and interest cost. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have a higher predicted risk of default. Accounts with a lower risk profile also may qualify for promotional financing.

The private-label card programs, excluding promotional balances, range from 21 percent to 24 percent APR, with default rates varying based on portfolio composition, but generally aggregating from 6 percent to 10 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 9 percent to 12 percent.

The bank card APRs are based on the prime rate and generally range from 7 percent to 22 percent, with default rates varying by portfolio composition, but generally aggregating from 8 percent to 12 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 5 percent to 8 percent.

Interest cost paid by the master trusts varies between series and ranges from 5.0 percent to 6.3 percent.

13. OPERATING SEGMENT INFORMATION

The Circuit City Group conducts business in two operating segments: Circuit City and Divx. These segments are identified and managed by the Group based on the different products and services offered by each. Circuit City refers to the retail operations bearing the Circuit City name and to all related operations such as its finance operation. This segment is engaged in the business of selling brand-name consumer electronics, personal computers, major appliances and entertainment software. Divx primarily is engaged in the business of selling specially encrypted DVD at wholesale. Financial information for these segments for fiscal 1999, 1998 and 1997 is shown in Table 3.

14. INTEREST RATE SWAPS

In October 1994, the Company entered into five-year interest rate swap agreements with notional amounts totaling \$300 million relating to a public issuance of securities by the master trust. As

part of this issuance, \$344 million of five-year, fixed-rate certificates were issued to fund consumer credit receivables. The finance operation is servicer for the accounts, and as such, receives its monthly cash portfolio yield after deducting interest, charge-offs and other related costs. The underlying receivables are based on a floating rate. The swaps were put in place to better match funding costs to the receivables being securitized. As a result, the master trust pays fixed-rate interest, and the Company utilizes the swaps to convert the fixed-rate obligation to a floating-rate, LIBOR-based obligation. These swaps were entered into as part of the sales of receivables and are included in the gain on sales of receivables.

Concurrent with the funding of the \$175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating \$175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 28, 1999, would result in a loss of \$2.2 million and at February 28, 1998, would result in a loss of \$1.9 million.

TABLE 3

1999

(Amounts in thousands)

	Circuit City	Divx	Elimination	Total Segments
Revenues from external customers	\$9,335,298	\$ 2,851	\$ —	\$9,338,149
Intersegment revenues	8,872	6,830	(15,702)	—
Interest expense	21,926	—	—	21,926
Depreciation and amortization	119,724	10,566	—	130,290
Earnings (loss) before income taxes	379,630	(110,558)	—	269,072
Provision for income taxes (income tax benefit)	144,646	(42,012)	—	102,634
Net earnings (loss)	234,984	(68,546)	—	166,438
Total assets	\$2,813,635	\$ 60,433	\$ —	\$2,874,068

1998

(Amounts in thousands)

	Circuit City	Divx	Elimination	Total Segments
Revenues from external customers	\$7,996,591	\$ —	\$ —	\$7,996,591
Interest expense	25,072	—	—	25,072
Depreciation and amortization	110,282	1,467	—	111,749
Earnings (loss) before income taxes	257,632	(33,284)	—	224,348
Provision for income taxes (income tax benefit)	98,462	(12,648)	—	85,814
Net earnings (loss)	159,170	(20,636)	—	138,534
Total assets	\$2,752,402	\$ 30,977	\$ —	\$2,783,379

1997

(Amounts in thousands)

	Circuit City	Divx	Elimination	Total Segments
Revenues from external customers	\$7,153,562	\$ —	\$ —	\$7,153,562
Interest expense	23,503	—	—	23,503
Depreciation and amortization	97,006	307	—	97,313
Earnings (loss) before income taxes	248,567	(12,614)	—	235,953
Provision for income taxes (income tax benefit)	95,014	(4,793)	—	90,221
Net earnings (loss)	153,553	(7,821)	—	145,732
Total assets	\$2,699,907	\$ 4,692	\$ —	\$2,704,599

Net earnings (loss) and total assets for Circuit City exclude the Inter-Group Interest in the CarMax Group.

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

15. COMMITMENTS AND CONTINGENT LIABILITIES

(A) **INVESTMENT IN DIVX:** In May 1995, the Company agreed to invest \$30.0 million in Divx, a partnership that has developed and is marketing a new home digital video system. That commitment was increased to \$130.0 million in September 1997. Although that commitment was fulfilled during fiscal 1999, the Company continues to fund the operations of Divx as management continues to explore various financing options. As of February 28, 1999, the Company owned approximately 75 percent of the partnership. The Company has been allocated 100 percent of the losses since

inception. The Company allocates its investment in Divx to the Circuit City Group. As of February 28, 1999, the Company had funded approximately \$207 million for the operations of Divx.

(B) **LICENSING AGREEMENTS:** Divx has entered into licensing agreements with motion picture distributors for use of their feature-length films for the Divx system. The Company guarantees Divx's performance under these commitments. The licensing fees are based on varying percentages of consumer viewing and wholesale receipts and require minimum distributor compensation commencing from the operational date of each agreement through the following one to five years. As of February 28, 1999, the minimum compensation due from Divx to the distributors is \$101.0 million (\$26.0 million in fiscal 2000, \$32.0 million in fiscal 2001, \$20.5 million in fiscal 2002, \$14.5 million in fiscal 2003 and \$8.0 million in fiscal 2004).

(C) **LEGAL PROCEEDINGS:** In the normal course of business, the Company is involved in various legal proceedings. Based upon the Circuit City Group's evaluation of the information presently available, management believes that the ultimate resolution of any such proceedings will not have a material adverse effect on the Circuit City Group's financial position, liquidity or results of operations.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>(Amounts in thousands except per share data)</i>	First Quarter 1999		Second Quarter 1999		Third Quarter 1999		Fourth Quarter 1999		Year 1999	
Net sales and operating										
revenues	\$ 1,924,727	\$ 1,679,350	\$ 2,117,123	\$ 1,814,139	\$ 2,266,956	\$ 1,917,133	\$ 3,029,343	\$ 2,585,969	\$ 9,338,149	\$ 7,996,591
Gross profit	\$ 464,618	\$ 401,649	\$ 525,470	\$ 453,559	\$ 552,345	\$ 466,396	\$ 730,320	\$ 648,553	\$ 2,272,753	\$ 1,970,157
Earnings before Inter-Group										
Interest in the CarMax										
Group	\$ 15,748	\$ 13,697	\$ 34,427	\$ 29,226	\$ 21,575	\$ 21,078	\$ 94,688	\$ 74,533	\$ 166,438	\$ 138,534
Net earnings	\$ 13,269	\$ 12,749	\$ 32,147	\$ 27,879	\$ 15,945	\$ 14,012	\$ 87,020	\$ 57,434	\$ 148,381	\$ 112,074
Net earnings per share:										
Basic	\$ 0.13	\$ 0.13	\$ 0.32	\$ 0.28	\$ 0.16	\$ 0.14	\$ 0.87	\$ 0.58	\$ 1.50	\$ 1.14
Diluted	\$ 0.13	\$ 0.13	\$ 0.32	\$ 0.28	\$ 0.16	\$ 0.14	\$ 0.86	\$ 0.58	\$ 1.48	\$ 1.13

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Circuit City Stores, Inc.:

We have audited the accompanying balance sheets of the Circuit City Group (as defined in Note 1) as of February 28, 1999 and 1998 and the related statements of earnings, group equity and cash flows for each of the fiscal years in the three-year period ended February 28, 1999. These financial statements are the responsibility of Circuit City Stores, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 1, the financial statements of

the Circuit City Group should be read in conjunction with the consolidated financial statements of Circuit City Stores, Inc. and subsidiaries and the financial statements of the CarMax Group.

The Circuit City Group has accounted for its interest in the CarMax Group in a manner similar to the equity method of accounting. Generally accepted accounting principles require that the CarMax Group be consolidated with the Circuit City Group.

In our opinion, except for the effects of not consolidating the Circuit City Group and the CarMax Group as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Circuit City Group as of February 28, 1999 and 1998 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 28, 1999 in conformity with generally accepted accounting principles.

Richmond, Virginia
April 2, 1999

KPMG LLP

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

On January 24, 1997, shareholders of Circuit City Stores, Inc. approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group."

The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations.

The following discussion and analysis relates to the CarMax Group. Reported losses attributed to the CarMax Group Common Stock reflect the Circuit City Group's 100 percent interest prior to the consummation of the offering on February 7, 1997, and the lower Inter-Group Interest since that time. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for Circuit City Stores, Inc. and for the Circuit City Group.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the CarMax Group increased 68 percent in fiscal 1999 to \$1.47 billion. In fiscal 1998, total sales increased 71 percent to \$874.2 million from \$510.3 million in fiscal 1997. The fiscal 1999 total sales growth reflects the addition of 12 locations, three of which opened in the last week of the fiscal year, and a 2 percent decrease in comparable store sales.

CarMax opened 10 used-car superstores in fiscal 1999. The Group grand-opened the Chicago, Ill., market with three stores that opened early in fiscal 1999 and one that opened late in fiscal 1998. The Group also entered San Antonio, Texas; and Greenville, S.C.; and added stores in the Washington, D.C./Baltimore, Md.; Tampa, Fla.; and Dallas/Ft. Worth, Texas, markets. The Group also acquired franchise rights or was awarded new franchise points for six new-car stores, including the nine-franchise Mauro Auto Mall in Kenosha, Wisc. In November 1998, CarMax acquired the Toyota franchise rights and related assets held by Laurel Automotive, Inc. in Laurel, Md. That franchise is being operated from its existing location until a new location is completed next to the Laurel, Md., superstore. In November, Mitsubishi Motor Sales of America granted CarMax two new-car franchise points. These franchise points were integrated into the Laurel, Md., and the Dulles, Va., locations. CarMax acquired the franchise rights and related assets of Mauro Auto Mall, Inc. in early December 1998 and renamed it the CarMax Auto Mall. In February 1999, CarMax acquired the franchise rights and related

assets held by Nissan of Greenville, Inc. The franchise was integrated into the Greenville superstore which opened late that month. In February 1999, CarMax also acquired the Mitsubishi franchise rights and related assets of Boomershine Automotive, Inc. CarMax relocated this franchise to its Town Center superstore in the Atlanta, Ga., market.

CarMax's fiscal 1999 comparable store sales reflect used-car sales that were below expectations and continued strength in CarMax's new-car comparable store sales. The disappointing used-car sales resulted from an intensely price competitive new-car industry, with which CarMax must compete, and insufficient customer traffic in a number of multi-store metropolitan markets. CarMax is producing strong store-level returns in single-store markets and in the multi-store Atlanta, Ga., and Washington, D.C./Baltimore, Md., markets.

In larger, metropolitan markets, CarMax has begun testing a hub/satellite operating process. Under the hub/satellite process, a satellite store shares reconditioning, purchasing and business office operations with a nearby hub store. The consumer offer is identical in both the hub and satellite stores. This process significantly reduced overhead and operating costs for existing stores that were designated as satellite stores in fiscal 1999. Management believes this operating concept will allow it to efficiently open more but smaller stores in metropolitan markets. Prototypical satellite stores are expected to be approximately 12,000 square feet on four- to six-acre sites. CarMax opened one prototypical satellite store late in fiscal 1999. All other fiscal 1999 satellite stores are larger stores and are therefore classified by size, with "C" stores representing the largest store format, in the "Store Mix" table below. Going forward, management expects primarily to open smaller format "A" stores and satellite stores.

STORE MIX

Fiscal	Retail Units at Year-End				
	1999	1998	1997	1996	1995
"C" and "B" Stores	12	10	4	1	—
"A" Store	15	8	3	3	2
Prototype Satellite Store	1	—	—	—	—
Stand-Alone New-Car Store	2	—	—	—	—
Total	30	18	7	4	2

In fiscal 1999, two locations were reclassified from "B" stores to "A" stores.

FRANCHISES

Fiscal	New-Car Franchises				
	1999	1998	1997	1996	1995
Integrated New-Car Franchise	6	2	1	—	—
Stand-Alone New-Car Franchise...	10	—	—	—	—
Total	16	2	1	—	—

CarMax's fiscal 1998 sales growth reflects the addition of 11 locations, two of which opened in the last week of the fiscal year, and a 6 percent comparable store sales increase. The Group's used-car sales began to fall below management's expectations during the second half of fiscal 1998. New-car sales remained strong

throughout that fiscal year. In June 1997, CarMax acquired its second Chrysler-Plymouth-Jeep franchise, which was relocated and opened in conjunction with the opening of the CarMax superstore in Stockbridge, Ga.

The fiscal 1997 sales growth includes the addition of three stores and a 23 percent comparable store sales increase for the two locations classified as comparable stores throughout the year and the two locations classified as comparable stores for a portion of the year.

Extended warranty sales prior to July 1997 include third-party contracts and CarMax's own extended warranty contracts. In most states, CarMax sells warranties on behalf of an unrelated third party and has no contractual liability to the customer under the warranty programs. In states where third-party warranty sales are not permitted, CarMax has sold its own extended warranty. CarMax expects to continue selling this warranty where state law restricts third-party warranty sales. Gross dollar sales from all extended warranty programs were 4.3 percent of the Group's total sales in fiscal 1999, 3.8 percent in fiscal 1998 and 3.5 percent in fiscal 1997. The fiscal 1999 increase reflects pricing adjustments and a higher penetration rate achieved by extending warranty coverage to more vehicles. Total extended warranty revenue, which is reported in the Group's total sales, was 2.0 percent of total sales in fiscal 1999, 1.5 percent in fiscal 1998 and 1.2 percent in fiscal 1997. Third-party extended warranty revenue was 1.9 percent of total sales in fiscal 1999, 1.4 percent in fiscal 1998 and 1.1 percent in fiscal 1997.

IMPACT OF INFLATION. Inflation has not been a significant contributor to the Group's results. The Group's profitability is based on achieving specific gross profit dollars per unit rather than on average retail prices. Because the wholesale market generally adjusts to reflect retail price trends, management believes that if the stores meet inventory turn objectives then changes in average retail prices will have only a short-term impact on the Group's gross margin and thus profitability.

Cost of Sales

The CarMax marketing concept includes a strong commitment to providing a high level of consumer value. CarMax generally prices its used vehicles below retail book value. New vehicles are priced to be competitive with the lowest available price in the market. As a result, CarMax operates with lower gross profit margins than industry averages. The gross profit margin was 11.7 percent in fiscal 1999, 8.4 percent in fiscal 1998 and 8.5 percent in fiscal 1997. The fiscal 1999 gross profit margin increase reflects the impact of a profit improvement plan that was initiated at the end of fiscal 1998 and better used-car inventory management. The profit improvement plan included the elimination of centralized reconditioning, a variety of pricing adjustments and the introduction of electronic accessory sales. Cost of sales includes vehicle costs, reconditioning costs, transportation and related purchasing costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 13.9 percent of sales in fiscal 1999, 14.6 percent of sales in fiscal 1998 and 10.4 percent of sales in fiscal 1997. The fiscal 1999 selling, general and

administrative expense ratio reflects the costs associated with the expansion of CarMax superstores and the below-plan sales in a number of multi-store metropolitan markets. Management believes that sales generated by the addition of satellite stores and new-car franchises to these underperforming markets and the lower operating cost of the satellite stores will help improve the expense ratio.

The fiscal 1998 selling, general and administrative expense ratio primarily reflects the costs associated with the CarMax expansion, the lower-than-anticipated sales during the second half of that year and an \$11.5 million write-down of assets associated with the closure and disposal of the Group's centralized reconditioning facilities and excess property at some locations. Excluding the write-down of assets, the selling, general and administrative expense ratio would have been 13.3 percent of sales in fiscal 1998.

Profits generated by CarMax's finance operation and fees received for arranging financing through third parties are recorded as a reduction to selling, general and administrative expenses.

Interest Expense

Interest expense was 0.4 percent of sales in fiscal 1999, 0.2 percent of sales in fiscal 1998 and 1.2 percent of sales in fiscal 1997. In fiscal 1999 and fiscal 1997, interest expense primarily was incurred on allocated debt to fund store expansion and working capital. In fiscal 1998, interest expense primarily was incurred on an intergroup note used to finance inventory for much of the year. The significant decrease in interest from fiscal 1997 to fiscal 1998 reflects the reduction in the Group's average debt, using funds raised through the CarMax equity offering, which was completed late in fiscal 1997.

Pretax Losses

The CarMax Group produced a pretax loss of \$38.5 million in fiscal 1999. The fiscal 1999 loss exceeded management's expectations and reflects the underperformance of stores, especially in several multi-store metropolitan markets. The fiscal 1998 pretax loss, which includes the \$11.5 million write-down of assets, was \$56.1 million. Excluding the write-down, the fiscal 1998 pretax loss was \$44.6 million. The fiscal 1997 pretax loss was \$15.9 million.

Income Taxes

The Group's effective income tax rate was 39.0 percent in fiscal years 1999 and 1998 compared with 41.5 percent in fiscal 1997. The CarMax Group generated losses in all reported periods and as a result has recorded related income tax benefits.

Net Losses

The fiscal 1999 net loss was \$23.5 million. Including the write-down of assets, the fiscal 1998 net loss was \$34.2 million. Excluding the impact of the write-down of assets, the net loss was \$27.2 million. The fiscal 1997 net loss was \$9.3 million.

The net loss attributed to the CarMax Group Common Stock was \$5.5 million, or 24 cents per share, in fiscal 1999, compared with \$7.8 million, or 35 cents per share, in fiscal 1998. In fiscal 1997, for the period from the public offering date to the end of the fiscal year, the net loss attributed to the CarMax Group Common Stock was \$266,000, or 1 cent per share.

Operations Outlook

Late in fiscal 1999, management announced that it would delay CarMax's entry into the Los Angeles market until fiscal 2001 and focus on improving profitability in existing markets. The single-store Nashville, Tenn., market will likely be the Group's only new market in fiscal 2000. Instead, the company expects to add satellite stores and new-car franchises into existing markets. CarMax also continues to refine its marketing programs to increase consumer awareness and build customer traffic for all locations, but especially those in the underperforming markets. Management believes the fiscal 2000 growth plan will allow CarMax to produce a modest loss or reach break-even in fiscal 2000. In the following year, CarMax expects to enter the Los Angeles market with a combination of its current "A" format stores and satellite stores.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a review of recent accounting pronouncements.

FINANCIAL CONDITION

Net cash used in operating activities was \$82.0 million in fiscal 1999, \$86.1 million in fiscal 1998 and \$25.4 million in fiscal 1997. The net cash used in operations primarily reflects inventory to support store openings and additional new-car franchises, net losses for all periods and an increase in net accounts receivable, partly offset by an increase in accounts payable.

Most financial activities, including the investment of surplus cash and the issuance and repayment of short-term and long-term debt, are managed by the Company on a centralized basis. Investment of surplus cash from the equity offering has been allocated to the CarMax Group. Allocated debt of the CarMax Group consists of (1) Company debt, if any, that has been allocated in its entirety to the CarMax Group and (2) a portion of the Company's debt that is allocated between the Circuit City Group and the CarMax Group. This pooled debt bears interest at a rate based on the average pooled debt balance. Expenses related to increases in pooled debt are reflected in the weighted average interest rate of the pooled debt.

In addition to the allocation of cash and debt, interest-bearing loans, with terms determined by the board of directors, are used to manage cash between the Groups. These loans are reflected as inter-group receivables or payables on the financial statements of each Group. During fiscal 1998, an inter-group note was issued by the Circuit City Group on behalf of the CarMax Group as a temporary financing vehicle for the CarMax inventory. At fiscal year-end 1999 and 1998, the CarMax Group maintained no inter-group notes, payables or receivables with the Circuit City Group. At February 28, 1997, the CarMax Group had an inter-group receivable totaling \$48.1 million with the Circuit City Group.

The CarMax Group's capital expenditures were \$138.3 million in fiscal 1999, \$234.3 million in fiscal 1998 and \$90.4 million in fiscal 1997. CarMax's capital expenditures through fiscal 1999 were related to store expansion. Capital expenditures have been

funded through sale-leaseback transactions, landlord reimbursements, proceeds from the CarMax Group equity offering and allocated short- and long-term debt. Sale-leaseback and landlord reimbursement transactions totaled \$139.3 million in fiscal 1999, \$98.1 million in fiscal 1998 and \$16.5 million in fiscal 1997.

During fiscal 1999, the CarMax Group acquired the Toyota franchise rights and the related assets of Laurel Automotive Group, Inc.; the franchise rights and the related assets of Mauro Auto Mall, Inc.; the franchise rights and the related assets of Nissan of Greenville, Inc.; and the Mitsubishi franchise rights and the related assets of Boomershine Automotive, Inc. for a total of \$49.6 million. The acquisitions were financed through cash payments totaling \$41.6 million and the issuance of two promissory notes totaling \$8.0 million. Costs in excess of the acquired net tangible assets, which are primarily inventory, have been recorded as goodwill and covenants not to compete.

In fiscal 1996, Circuit City Stores, Inc. initiated an asset securitization program on behalf of the CarMax Group. At the end of fiscal 1999, that program allowed the transfer of up to \$575.0 million in auto loan receivables. At February 28, 1999, securitized receivables totaled \$539.0 million. The receivables are sold to an unaffiliated third party with the servicing retained. Management expects that securitization programs that allow for the transfer of receivables through both private placement and the public market, can be used to fund increases in receivables resulting from CarMax's continued growth.

In fiscal 1999, CarMax entered into a \$200.0 million one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement provides funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. As of February 28, 1999, CarMax had not yet used the financing facility; however, management expects the facility to be phased in during fiscal 2000 as various state regulatory requirements are met.

Late in fiscal 1997, Circuit City Stores, Inc. raised a net of \$412.3 million through the initial public offering of 21.86 million shares of newly created CarMax Group Common Stock. In fiscal 1997, the Group used approximately \$187 million of the net proceeds to repay its allocated portion of Circuit City Stores, Inc. indebtedness. Management has used the remainder of the net proceeds to help finance the CarMax expansion.

Management believes that the proceeds from sales of property and equipment and receivables, equity issuances, the use of the renewable inventory financing facility, future increases in Circuit City Stores, Inc. debt allocated to the CarMax Group and cash generated by operations will be sufficient to fund the CarMax Group's capital expenditures and operations. In fiscal 2000, the Group anticipates capital expenditures of approximately \$50.0 million.

MARKET RISK

The Company manages the auto installment portfolio of the Group's finance operation. A portion of this portfolio is securitized and, therefore, is not presented on the Group's balance sheet. Interest rate exposure relating to these receivables represents a market risk exposure that the Company has managed with matched funding and interest rate swaps. Total principal outstanding for fixed-rate automobile loans at February 28 was as follows:

<i>(Amounts in millions)</i>	1999	1998
Fixed APR.....	\$592	\$297

Financing for these receivables is achieved through bank conduit securitizations that, in turn, issue floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched to projected payoffs. Receivables held by the Company for investment or sale are financed with working capital. Financings at February 28 and related interest rates were as follows:

<i>(Amounts in millions)</i>	1999	1998
Floating-rate securitizations		
synthetically altered to fixed	\$500	\$224
Floating-rate securitizations	39	44
Held by the Company:		
For investment.....	38	23
For sale	15	6
Total	\$592	\$297

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 1999 or 1998. Because it has a program in place to manage interest rate exposure relating to its installment loan portfolio, the Company expects to experience relatively little impact as interest rates fluctuate in the future.

YEAR 2000 CONVERSION

Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a discussion of the Year 2000 issue and its impact on the Group's financial statements.

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management's expectations for fiscal year 2000 and beyond, are forward-looking statements and involve various risks and uncertainties. Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a review of possible risks and uncertainties.

CARMAX GROUP STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)	1999		Years Ended February 28		1997	
		%	1998	%		%
NET SALES AND OPERATING REVENUES	\$1,466,298	100.0	\$874,206	100.0	\$510,249	100.0
Cost of sales	1,294,032	88.3	800,699	91.6	466,788	91.5
GROSS PROFIT	172,266	11.7	73,507	8.4	43,461	8.5
Selling, general and administrative expenses [including \$11.5 million expense related to owned and leased real estate in fiscal 1998. NOTES 3 AND 13].....	204,422	13.9	127,822	14.6	53,111	10.4
Interest expense [NOTES 3 AND 7].....	6,393	0.4	1,789	0.2	6,279	1.2
TOTAL EXPENSES	210,815	14.3	129,611	14.8	59,390	11.6
Loss before income tax benefit	38,549	2.6	56,104	6.4	15,929	3.1
Income tax benefit [NOTES 3 AND 8]	15,035	1.0	21,881	2.5	6,611	1.3
NET LOSS	\$ 23,514	1.6	\$ 34,223	3.9	\$ 9,318	1.8
Net loss attributed to [NOTE 1]:						
Circuit City Group common stock	\$ 18,057		\$ 26,460		\$ 9,052	
CarMax Group common stock.....	5,457		7,763		266	
	\$ 23,514		\$ 34,223		\$ 9,318	
Weighted average common shares [NOTES 2 AND 10].....	22,604		22,001		21,860	
NET LOSS PER SHARE [NOTES 2 AND 10]	\$ 0.24		\$ 0.35		\$ 0.01	

See accompanying notes to group financial statements.

CARMAX GROUP BALANCE SHEETS

(Amounts in thousands)	At February 28	
	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 17,679	\$ 26,412
Net accounts receivable [NOTE 5].....	97,364	60,866
Inventory.....	225,460	143,970
Prepaid expenses and other current assets.....	620	1,359
TOTAL CURRENT ASSETS	341,123	232,607
Property and equipment, net [NOTES 6 AND 7].....	203,946	214,087
Other assets.....	26,129	1,628
TOTAL ASSETS	\$571,198	\$448,322
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTE 7]	\$ 1,250	\$ -
Accounts payable	59,838	51,220
Short-term debt [NOTE 7]	4,605	385
Accrued expenses and other current liabilities	8,556	3,604
Deferred income taxes [NOTE 8]	7,674	370
TOTAL CURRENT LIABILITIES	81,923	55,579
Long-term debt, excluding current installments [NOTE 7]	139,720	27,386
Deferred revenue and other liabilities	5,015	5,266
Deferred income taxes [NOTE 8]	4,125	145
TOTAL LIABILITIES	230,783	88,376
GROUP EQUITY	340,415	359,946
Commitments and contingent liabilities [NOTES 1, 5, 11, 12, 14 AND 15]		
TOTAL LIABILITIES AND GROUP EQUITY	\$571,198	\$448,322

See accompanying notes to group financial statements.

CARMAX GROUP STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net loss.....	\$ (23,514)	\$ (34,223)	\$ (9,318)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	10,003	4,577	1,664
Expense related to owned and leased real estate [NOTE 13]	-	11,500	-
Provision for deferred income taxes.....	11,284	(1,867)	1,666
Changes in operating assets and liabilities, net of effects			
from business acquisitions:			
(Decrease) increase in deferred revenue and other liabilities	(251)	835	1,157
Increase in net accounts receivable	(36,498)	(32,516)	(11,788)
Increase in inventory, prepaid expenses and other current assets	(55,776)	(58,967)	(23,918)
(Increase) decrease in other assets	(809)	63	(1,691)
Increase in accounts payable, accrued expenses and			
other current liabilities	13,570	24,472	16,789
NET CASH USED IN OPERATING ACTIVITIES	(81,991)	(86,126)	(25,439)
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 4].....	(41,562)	-	-
Purchases of property and equipment.....	(138,299)	(234,252)	(90,428)
Proceeds from sales of property and equipment.....	139,332	98,098	16,450
Decrease (increase) in inter-group receivable, net	-	48,147	(48,147)
NET CASH USED IN INVESTING ACTIVITIES	(40,529)	(88,007)	(122,125)
FINANCING ACTIVITIES:			
Increase (decrease) in allocated short-term debt, net.....	1,220	385	(18,050)
Increase (decrease) in allocated long-term debt, net.....	108,584	27,386	(78,519)
Equity issuances, net	3,983	2,353	412,335
NET CASH PROVIDED BY FINANCING ACTIVITIES	113,787	30,124	315,766
(Decrease) increase in cash and cash equivalents.....	(8,733)	(144,009)	168,202
Cash and cash equivalents at beginning of year	26,412	170,421	2,219
Cash and cash equivalents at end of year	\$ 17,679	\$ 26,412	\$ 170,421

See accompanying notes to group financial statements.

CARMAX GROUP STATEMENTS OF GROUP EQUITY (DEFICIT)

(Amounts in thousands)

BALANCE AT MARCH 1, 1996	\$ (11,201)
Net loss	(9,318)
Equity issuances, net	412,335
BALANCE AT FEBRUARY 28, 1997	391,816
Net loss	(34,223)
Equity issuances, net	2,353
BALANCE AT FEBRUARY 28, 1998	359,946
Net loss	(23,514)
Equity issuances, net	3,983
BALANCE AT FEBRUARY 28, 1999	<u>\$340,415</u>

See accompanying notes to group financial statements.

NOTES TO CARMAX GROUP FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

On January 24, 1997, shareholders of Circuit City Stores, Inc. and its subsidiaries approved the creation of two common stock series. The Company's existing common stock was subsequently redesignated as Circuit City Stores, Inc.—Circuit City Group Common Stock. In an initial public offering, which was completed February 7, 1997, the Company sold 21.86 million shares of Circuit City Stores, Inc.—CarMax Group Common Stock.

The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Company's investment in Digital Video Express and the Group's retained interest in the CarMax Group. The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group." The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations. The Circuit City Group held a 76.6 percent interest in the CarMax Group at February 28, 1999, 77.3 percent interest at February 28, 1998, and a 77.5 percent interest at February 28, 1997.

The CarMax Group financial statements give effect to the management and allocation policies adopted by the board of directors as described under "Corporate Activities." The CarMax Group financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical financial position, results of operations and cash flows of the CarMax Group, (ii) an allocated portion of the Company's cash equivalents and debt, including the related effects upon results of operations and cash flows, and (iii) an allocated portion of the Company's corporate general and administrative costs.

Notwithstanding the attribution of the Company's assets and liabilities (including contingent liabilities) and stockholders' equity between the CarMax Group and the Circuit City Group for the purposes of preparing their respective financial statements, holders of CarMax Stock and holders of Circuit City Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the change in the equity structure of the Company does not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Accordingly, the CarMax Group financial statements included herein should be read in conjunction with the Company's consolidated financial statements and the Circuit City Group financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) **CASH AND CASH EQUIVALENTS:** Allocated cash equivalents of \$14,750,000 at February 28, 1999, and \$16,535,000 at February 28, 1998, consist of highly liquid debt securities with original maturities of three months or less.

(B) **TRANSFERS AND SERVICING OF FINANCIAL ASSETS:** The Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective January 1, 1997. For transfers that qualify as sales, the Company recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under SFAS No. 125. Finance charge income, default rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The resulting cash flow projections are present valued at a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 28, 1999 and 1998, cost approximates fair value.

(C) **FAIR VALUE OF FINANCIAL INSTRUMENTS:** The Company enters into financial instruments on behalf of the CarMax Group. The carrying value of the CarMax Group's financial instruments approximates fair value. Credit risk is the exposure to the potential nonperformance of another material party to an agreement due to changes in economic, industry or geographic factors and is mitigated by dealing only with counterparties that are highly rated by several financial rating agencies. Accordingly, the CarMax Group does not anticipate material loss for nonperformance. All financial instruments are broadly diversified along industry, product and geographic areas.

(D) **INVENTORY:** Inventory is stated at the lower of cost or market. Vehicle inventory cost is determined by specific identification. Parts and labor used to recondition vehicles, as well as transportation and other incremental expenses associated with acquiring vehicles, are included in inventory.

(E) **PROPERTY AND EQUIPMENT:** Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives.

(F) **COMPUTER SOFTWARE COSTS:** Effective March 1, 1998, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the capitalization criteria of the SOP have been met, external direct costs of materials and services used in the development of internal-use software and payroll and payroll-related costs for employees directly involved in the development of internal-use software are capitalized. Amounts capitalized are amortized on a straight-line basis over a period of three to five years.

(G) **INTANGIBLE ASSETS:** Amounts paid for acquired businesses in excess of the fair value of the net tangible assets acquired are recorded as goodwill, which is amortized on a straight-line basis over 15 years, and covenants not to compete, which are amortized on a straight-line basis over the life of the covenant not to exceed five years. Both goodwill and covenants not to compete are included in other assets on the accompanying CarMax Group balance sheets. The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future undiscounted operating cash flows derived from such intangible assets are less than the carrying value.

(H) **PRE-OPENING EXPENSES:** Expenses associated with the opening of new stores are deferred and amortized ratably over the period from the date of the store opening to the end of the fiscal year.

(I) **INCOME TAXES:** Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes, measured by applying currently enacted tax laws. A deferred tax asset is recognized if it is more likely than not that a benefit will be realized.

(J) **DEFERRED REVENUE:** The CarMax Group sells service contracts on behalf of unrelated third parties and, prior to July 1997, sold its own contracts at one location where third-party warranty sales were not permitted. Contracts usually have terms of coverage between 12 and 72 months. All revenue from the sale of the CarMax Group's own service contracts is deferred and amortized over the life of the contracts consistent with the pattern of repair experience of the industry. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale.

(K) **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:** Operating profits generated by the finance operation are recorded as a reduction to selling, general and administrative expenses.

(L) **ADVERTISING EXPENSES:** All advertising costs are expensed as incurred.

(M) **NET LOSS PER SHARE:** On December 15, 1997, the Company adopted SFAS No. 128, "Earnings per Share." All prior period loss per share data presented has been restated to conform with the provisions of SFAS No. 128.

Net loss per share is computed by dividing the net loss attributed to CarMax Stock by the weighted average number of common shares outstanding. Diluted net loss per share is not calculated since CarMax has a net loss for the periods presented.

(N) **STOCK-BASED COMPENSATION:** On March 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue applying the provisions of the Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees," and to provide the pro forma disclosures of SFAS No. 123.

(O) **DERIVATIVE FINANCIAL INSTRUMENTS:** The Company enters into interest rate swap agreements to manage exposure to interest rates and to more closely match funding costs to the use of funding. Interest rate swaps relating to long-term debt are classified as held for purposes other than trading and are accounted for on a settlement basis. To qualify for this accounting treatment, the swap must synthetically alter the nature of a designated underlying financial instrument. Under this method, payments or receipts due or owed under the swap agreement are accrued through each settlement date and recorded as a component of interest expense. If a swap designated as a synthetic alteration were to be terminated, any gain or loss on the termination would be deferred and recognized over the shorter of the original contractual life of the swap or the related life of the designated long-term debt.

The Company also enters into interest rate swap agreements as part of its asset securitization programs. Swaps entered into by a seller as part of a sale of financial assets are considered proceeds at fair value in the determination of the gain or loss on the sale. If such a swap were terminated, the impact on the fair value of the financial asset created by the sale of the related receivables would be estimated and included in earnings.

(P) **RISKS AND UNCERTAINTIES:** The CarMax Group is a used- and new-car retail business. The diversity of the CarMax Group's customers and suppliers reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base or sources of supply. However, due to the CarMax Group's limited overall size, management cannot assure that unanticipated events will not have a negative impact on the Group.

The preparation of financial statements in conformity with 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 could differ from those estimates.

(Q) **RECLASSIFICATIONS:** Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 1999.

3. CORPORATE ACTIVITIES

The CarMax Group's financial statements reflect the application of the management and allocation policies adopted by the board of directors to various corporate activities, as described below:

(A) **FINANCIAL ACTIVITIES:** Most financial activities are managed by the Company on a centralized basis. Such financial activities include the investment of surplus cash and the issuance and repayment of short-term and long-term debt. Allocated invested surplus cash of the CarMax Group consists of (i) Company cash equivalents, if any, that have been allocated in their entirety to the CarMax Group and (ii) a portion of the Company's cash equivalents that are allocated between the Groups. Investment of surplus cash from the offering has been allocated to the CarMax Group. Allocated debt of the CarMax Group consists of (i) Company debt, if any, that has been allocated in its entirety to the CarMax Group and (ii) a portion of the Company's pooled debt, which is debt allocated between the Groups. The pooled debt bears interest at a rate based on the average pooled debt balance.

Expenses related to increases in pooled debt are reflected in the weighted average interest rate of such pooled debt as a whole.

(B) CORPORATE GENERAL AND ADMINISTRATIVE COSTS: Corporate general and administrative costs and other shared services generally have been allocated to the CarMax Group based upon utilization of such services by the Group. Where determinations based on utilization alone have been impractical, other methods and criteria were used that management believes are equitable and provide a reasonable estimate of the costs attributable to the Group. Costs allocated to the CarMax Group totaled approximately \$7.5 million for fiscal 1999, \$6.2 million for fiscal 1998 and \$1.3 million for fiscal 1997.

(C) INCOME TAXES: The CarMax Group is included in the consolidated federal income tax return and in certain state tax returns filed by the Company. Accordingly, the provision for federal income taxes and related payments of tax are determined on a consolidated basis. The financial statement provision and the related tax payments or refunds are reflected in each Group's financial statements in accordance with the Company's tax allocation policy for such Groups. In general, this policy provides that the consolidated tax provision and related tax payments or refunds will be allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to the respective Group. Tax benefits that cannot be used by the Group generating such attributes, but can be utilized on a consolidated basis, are allocated to the Group that generated such benefits. As a result, the allocated Group amounts of taxes payable or refundable are not necessarily comparable to those that would have resulted if the Groups had filed separate tax returns.

4. BUSINESS ACQUISITIONS

During fiscal 1999, CarMax acquired the franchise rights and the related assets of four new-car dealerships for an aggregate cost of \$49.6 million. The acquisitions were financed through available cash resources and the issuance of two promissory notes aggregating \$8.0 million. Costs in excess of the fair value of the net tangible assets acquired (primarily inventory) have been recorded as goodwill and covenants not to compete. These acquisitions were accounted for under the purchase method and the results of the operations of the acquired franchises have been included in the accompanying CarMax Group financial statements since the date of acquisition. Unaudited pro forma information related to these acquisitions is not included as the impact of these acquisitions on the accompanying CarMax Group financial statements is not deemed to be material.

5. ACCOUNTS RECEIVABLE AND SECURITIZATION TRANSACTIONS

Accounts receivable consist of the following at February 28:

<i>(Amounts in thousands)</i>	1999	1998
Trade receivables.....	\$ 23,649	\$23,085
Installment receivables:		
Held for sale.....	14,690	5,816
Held for investment	38,093	22,986
Retained interests	26,145	12,762
Total accounts receivable	102,577	64,649
Less allowance for doubtful accounts	5,213	3,783
Net accounts receivable	\$ 97,364	\$60,866

In fiscal 1996, the Company entered into a securitization transaction on behalf of the CarMax Group to finance the installment receivables generated by the Group's finance operation. Proceeds from the auto loan securitization transaction were \$271 million during fiscal 1999 and \$123 million during fiscal 1998.

Receivables relating to the securitization facility consist of the following at February 28:

<i>(Amounts in thousands)</i>	1999	1998
Managed receivables	\$589,032	\$291,294
Receivables held by the CarMax Group:		
For sale.....	(14,690)	(5,816)
For investment*	(35,342)	(17,478)
Net receivables sold.....	\$539,000	\$268,000
Program capacity	\$575,000	\$300,000

*Held by a bankruptcy remote special purpose company

The finance charges from the transferred receivables are used to fund interest costs, charge-offs and servicing fees. A restructuring of the facility during fiscal 1997 resulted in the recourse provisions being eliminated.

The net gain on sales of receivables totaled \$7.9 million for fiscal 1999, \$3.7 million for fiscal 1998 and \$3.1 million for fiscal 1997. Rights recorded for future interest income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to \$14.7 million at February 28, 1999, \$6.8 million at February 28, 1998, and \$3.1 million at February 28, 1997, and are included in net accounts receivable. The finance operation's servicing revenue, including gains on sales of receivables, totaled \$28.2 million for fiscal 1999, \$11.2 million for fiscal 1998 and \$8.7 million for fiscal 1997. The servicing fee specified in the auto loan securitization agreement adequately compensates the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

In determining the fair value of retained interests, the Company estimates future cash flows from finance charge collections, reduced by net defaults, servicing cost, and interest cost. The Company employs a risk-based pricing strategy that increases the stated annual percentage rate for accounts that have

a higher predicted risk of default. Accounts with a lower risk profile also may qualify for promotional financing.

The APRs range from 6 percent to 12 percent fixed, with default rates varying based on credit quality, but generally aggregating 0.75 percent to 1.25 percent. Weighted average life of the receivables is expected to be in the 18 month to 20 month range.

Interest cost depends on the time at which accounts were originated, but is in the range of 5 percent to 7 percent.

6. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 is summarized as follows:

<i>(Amounts in thousands)</i>	1999	1998
Land and buildings (20 to 25 years)	\$ 47,487	\$ 34,790
Land held for development	28,781	11,601
Construction in progress.....	76,355	139,225
Furniture, fixtures and equipment (3 to 8 years)	51,504	31,454
Leasehold improvements (10 to 15 years)	15,658	4,390
	219,785	221,460
Less accumulated depreciation.....	15,839	7,373
Property and equipment, net.....	<u>\$203,946</u>	<u>\$214,087</u>

Land held for development is land owned for future sites that are scheduled to open more than one year beyond the fiscal year reported.

7. DEBT

Long-term debt of the Company at February 28 is summarized as follows:

<i>(Amounts in thousands)</i>	1999	1998
Term loans	\$405,000	\$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.0% to 7.0%	6,564	7,665
Obligations under capital leases	12,728	12,928
Note payable	5,000	—
Total long-term debt	429,292	425,593
Less current installments	2,707	1,301
Long-term debt, excluding current installments.....	<u>\$426,585</u>	<u>\$424,292</u>
Portion of long-term debt allocated to the CarMax Group.....	<u>\$140,970</u>	<u>\$ 27,386</u>

In July 1994, the Company entered into a seven-year, \$100,000,000, unsecured bank term loan. The loan was restructured in August 1996 as a \$100,000,000, six-year unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.40 percent. At February 28, 1999, the interest rate on the term loan was 5.76 percent.

In May 1995, the Company entered into a five-year, \$175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.67 percent.

In June 1996, the Company entered into a five-year, \$130,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 28, 1999, the interest rate on the term loan was 5.29 percent.

The Company maintains a multi-year, \$150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.13 percent per annum. The agreement was entered into as of August 31, 1996, and terminates August 31, 2002. No amounts were outstanding under the revolving credit agreement at February 28, 1999 or 1998.

Under certain of the debt agreements, the Company must meet financial covenants relating to minimum tangible net worth, current ratios and debt-to-capital ratios. The Company was in compliance with all such covenants at February 28, 1999 and 1998.

In November 1998, CarMax entered into a four-year, unsecured \$5,000,000 promissory note. Principal is due annually with interest payable periodically at 8.25 percent.

In fiscal 1999, CarMax entered into a \$200,000,000 one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement will provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. During fiscal 1999, no inventory was financed by CarMax under this arrangement.

Short-term debt of the Company is funded through committed lines of credit and informal credit arrangements, as well as the revolving credit agreement. Amounts outstanding and committed lines of credit available are as follows:

<i>(Amounts in thousands)</i>	<i>Years Ended February 28</i>	
	1999	1998
Average short-term debt outstanding	<u>\$ 54,505</u>	<u>\$ 48,254</u>
Maximum short-term debt outstanding.....	<u>\$463,000</u>	<u>\$414,000</u>
Aggregate committed lines of credit.....	<u>\$370,000</u>	<u>\$410,000</u>

The weighted average interest rate on the outstanding short-term debt was 5.1 percent during fiscal 1999, 5.7 percent during fiscal 1998 and 5.4 percent during fiscal 1997.

Interest expense allocated by the Company to the CarMax Group, excluding interest capitalized, was \$6,393,000 in fiscal 1999, \$1,789,000 in fiscal 1998 and \$6,279,000 in fiscal 1997. The CarMax Group capitalizes interest in connection with the construction of certain facilities. In fiscal 1999, interest capitalized amounted to \$2,674,000 (\$4,879,000 in fiscal 1998 and \$898,000 in fiscal 1997).

8. INCOME TAXES

The components of the income tax benefit on loss before income tax benefit are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Current:			
Federal	\$(23,773)	\$(17,101)	\$(6,976)
State.....	(2,546)	(2,913)	(1,301)
	(26,319)	(20,014)	(8,277)
Deferred:			
Federal	10,945	(1,259)	1,689
State.....	339	(608)	(23)
	11,284	(1,867)	1,666
Income tax benefit	<u>\$(15,035)</u>	<u>\$(21,881)</u>	<u>\$(6,611)</u>

The effective income tax rate differed from the Federal statutory income tax rate as follows:

	Years Ended February 28		
	1999	1998	1997
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	4.0	4.0	6.5
Effective income tax rate	<u>39.0%</u>	<u>39.0%</u>	<u>41.5%</u>

In accordance with SFAS No. 109, the tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at February 28, 1999 and 1998 are as follows:

(Amounts in thousands)	1998	1997
Deferred tax assets:		
Deferred revenue	\$ 130	\$ 231
Accrued expenses.....	2,970	6,106
Other	184	—
Total gross deferred tax assets	<u>3,284</u>	<u>6,337</u>
Deferred tax liabilities:		
Depreciation	4,435	1,488
Inventory capitalization.....	4,620	2,807
Gain on sales of receivables.....	4,653	1,950
Other	1,375	607
Total gross deferred tax liabilities.....	<u>15,083</u>	<u>6,852</u>
Net deferred tax liability	<u>\$ 11,799</u>	<u>\$ 515</u>

In assessing the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on these considerations, management believes that it is more likely than not that the gross deferred tax assets at February 28, 1999 and 1998, will be realized by the CarMax Group; therefore, no valuation allowance is necessary.

9. CAPITAL STOCK AND STOCK INCENTIVE PLANS

(A) PREFERRED STOCK: In conjunction with the Company's Shareholders Rights Plan as amended and restated, preferred stock purchase rights were distributed as a dividend at the rate of one right for each share of CarMax Stock. The rights are exercisable only upon the attainment of, or the commencement of a tender offer to attain, a specified ownership interest in the Company by a person or group. When exercisable, each CarMax Group right would entitle shareholders to buy one four-hundredth of a share of Cumulative Participating Preferred Stock, Series F, \$20 par value, at an exercise price of \$100 per share subject to adjustment. A total of 500,000 shares of such preferred stock, which have preferential dividend and liquidation rights, have been designated and reserved. No such shares are outstanding. In the event that an acquiring person or group acquires the specified ownership percentage of the Company's common stock (except pursuant to a cash tender offer for all outstanding shares determined to be fair by the board of directors) or engages in certain transactions with the Company after the rights become exercisable, each right will be converted into a right to purchase, for half the current market price at that time, shares of the related Group stock valued at two times the exercise price.

The Company also has 1,000,000 shares of undesignated preferred stock authorized of which no shares are outstanding and an additional 500,000 shares of preferred stock designated as Series E which are related to similar rights held by Circuit City Group shareholders.

(B) VOTING RIGHTS: The holders of both series of common stock and any series of preferred stock outstanding and entitled to vote together with the holders of common stock will vote together as a single voting group on all matters on which common shareholders generally are entitled to vote other than a matter on which the common stock or either series thereof or any series of preferred stock would be entitled to vote as a separate voting group. On all matters on which both series of common stock would vote together as a single voting group, (i) each outstanding share of Circuit City Stock shall have one vote and (ii) each outstanding share of CarMax Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Stock to a share of Circuit City Stock. If shares of only one series of common stock are outstanding, each share of that series shall be entitled to one vote. If either series of common stock is entitled to vote as a separate voting group with respect to any matter, each share of that series shall, for purposes of such vote, be entitled to one vote on such matter.

(C) RESTRICTED STOCK: The Company has issued restricted stock under the provisions of the 1994 Stock Incentive Plan whereby management and key employees are granted restricted shares of CarMax Stock. Shares are awarded in the name of the employee, who has all the rights of a stockholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire five years from the date of grant. In fiscal 1999, restricted stock awards for 100,000 shares were granted to eligible employees. The market value at the date of grant of these shares has been recorded as unearned compensation and is a component of Group equity. Unearned compensation is expensed over the

TABLE 1

(Shares in thousands)	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year.....	4,822	\$ 1.49	4,769	\$ 0.51	4,278	\$0.22
Granted.....	205	8.63	413	13.04	961	1.68
Exercised.....	(543)	0.22	(273)	0.22	—	—
Cancelled.....	(104)	10.54	(87)	6.36	(470)	0.27
Outstanding at end of year.....	<u>4,380</u>	\$ 1.77	<u>4,822</u>	\$ 1.49	<u>4,769</u>	\$0.51
Options exercisable at end of year.....	<u>1,566</u>	\$ 0.96	<u>762</u>	\$ 0.37	<u>—</u>	\$ —

TABLE 2

(Shares in thousands) Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.22.....	3,692	3.0	\$ 0.22	1,476	\$ 0.22
4.00 to 9.19.....	448	5.0	7.84	23	9.17
12.94 to 16.31.....	<u>240</u>	5.2	14.34	<u>67</u>	14.39
Total.....	<u>4,380</u>	3.3	\$ 1.77	<u>1,566</u>	\$ 0.96

restriction periods. In fiscal 1999, a total of \$426,600 was charged to CarMax Group operations (\$77,700 in fiscal 1998). As of February 28, 1999, 120,000 restricted shares were outstanding.

(D) EMPLOYEE STOCK PURCHASE PLAN: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. The CarMax Plan was started in April 1997 and allows eligible employees to purchase shares of CarMax Stock, subject to certain limitations, at 85 percent of market value. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of \$7,500 per year. At February 28, 1999, a total of 138,693 shares remained available under the CarMax Plan. During fiscal 1999, 268,532 shares were issued to or purchased on the open market on behalf of the employees (92,775 in fiscal 1998). The average price per share was \$7.56 in fiscal 1999 and \$12.73 in fiscal 1998. The purchase price discount is charged to CarMax Group operations and totaled \$268,100 in fiscal 1999 and \$160,900 in fiscal 1998.

(E) STOCK INCENTIVE PLANS: In fiscal 1998, options that were outstanding as of February 28, 1997, to purchase shares of stock of the corporate entity comprising the CarMax Group were converted into options to purchase CarMax Stock. Under the Company's stock incentive plans, incentive and nonqualified stock options may be granted to management, key employees, and outside directors to purchase shares of CarMax Stock. The exercise price for nonqualified options granted under the 1994 plan is equal to, or greater than, the market value at the date of grant. Options generally are exercisable over various periods ranging from one to seven years from the date of grant.

A summary of the status of the CarMax Group's stock options and changes during the years ended February 28, 1999, 1998 and 1997 are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 1999.

The CarMax Group applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had

compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the CarMax Group's net loss and net loss per share would have been increased to the pro forma amounts indicated below. In accordance with the transition provisions of SFAS No. 123, the pro forma amounts reflect options with grant dates subsequent to March 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented below because compensation cost is reflected over the options' vesting periods and compensation cost of options granted prior to March 1, 1995, is not considered. The pro forma effect on fiscal year 1999 may not be representative of the pro forma effects on net earnings for future years.

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Net loss-as reported.....	\$5,457	\$7,763	\$ 266
Net loss-pro forma.....	5,537	7,824	268
Net loss per share-as reported.....	\$ 0.24	\$ 0.35	\$0.01
Net loss per share-pro forma.....	0.24	0.36	0.01

For the purpose of computing the pro forma amounts indicated above, the fair value of each option on the date of grant is estimated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model are as follows:

	1999	1998	1997
Expected dividend yield.....	—	—	—
Expected stock volatility.....	50%	50%	40%
Risk-free interest rates.....	6%	6%	6%
Expected lives (in years).....	3	3	4

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the CarMax Group is \$3 in fiscal 1999, \$6 in fiscal 1998 and \$0.70 in fiscal 1997.

10. NET LOSS PER SHARE

The calculation of net loss per share is presented below:

(Amounts in thousands except per share data)	Years Ended February 28		
	1999	1998	1997
Weighted average common shares.....	22,604	22,001	21,860
Loss available to common shareholders	\$ 5,457	\$ 7,763	\$ 266
Net loss per share.....	\$ 0.24	\$ 0.35	\$ 0.01

The CarMax Group had no diluted net loss per share because the Group had net losses for the periods presented.

11. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 80,000 shares of Circuit City Stock at February 28, 1999 and 1998.

Eligible employees of the CarMax Group participate in the Company's plan. Pension costs for these employees have been allocated to the CarMax Group based on its proportionate share of the projected benefit obligation. The following tables set forth the CarMax Group's share of the Plan's financial status and amounts recognized in the balance sheets as of February 28:

(Amounts in thousands)	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year.....	\$ 958	\$ 521
Service cost	525	219
Interest cost	67	39
Actuarial loss	1,015	179
Benefit obligation at end of year.....	\$ 2,565	\$ 958
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 1,242	\$ 895
Actual return on plan assets	69	185
Employer contributions.....	242	162
Fair value of plan assets at end of year.....	\$ 1,553	\$ 1,242
Reconciliation of funded status:		
Funded status.....	\$(1,012)	\$ 284
Unrecognized actuarial loss (gain)	1,063	(2)
Unrecognized transition asset.....	(8)	(11)
Unrecognized prior service benefit	(8)	(9)
Net amount recognized.....	\$ 35	\$ 262

The components of net pension expense are as follows:

(Amounts in thousands)	Years Ended February 28		
	1999	1998	1997
Service cost	\$ 525	\$ 219	\$ 162
Interest cost.....	67	39	34
Expected return on plan assets	(119)	(73)	(55)
Amortization of prior service cost.....	(1)	(1)	(1)
Amortization of transitional asset	(3)	(3)	(3)
Recognized actuarial loss	-	17	17
Net pension expense	\$ 469	\$ 198	\$ 154

Assumptions used in the accounting for the pension plan were:

	Years Ended February 28		
	1999	1998	1997
Weighted average discount rate.....	6.8%	7.0%	7.5%
Rate of increase in compensation levels	5.0%	5.0%	5.5%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

12. LEASE COMMITMENTS

The CarMax Group conducts substantially all of its business in leased premises. The CarMax Group's lease obligations are based upon contractual minimum rates. Rental expenses for all operating leases were \$23,521,000 in fiscal 1999, \$11,421,000 in fiscal 1998 and \$6,019,000 in fiscal 1997. Most leases provide that the CarMax Group pay taxes, maintenance, insurance and certain other operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 22 years; however, most of the leases have options providing for additional lease terms of 10 years to 20 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the CarMax Group, as of February 28, 1999, were:

(Amounts in thousands)	Operating Lease Commitments
Fiscal	
2000	\$ 30,965
2001	30,312
2002	29,059
2003	28,837
2004	28,836
After 2004	451,538
Total minimum lease payments.....	\$599,547

In fiscal 1999, the Company entered into sale-leaseback transactions on behalf of the CarMax Group with unrelated parties at an aggregate selling price of \$131,750,000 (\$98,098,000 in fiscal 1998 and \$16,450,000 in fiscal 1997). Neither the Company nor the CarMax Group has continuing involvement under the sale-leaseback transactions.

13. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

(A) **ADVERTISING EXPENSE:** Advertising expense, which is included in selling, general and administrative expenses in the accompanying statements of operations, amounted to \$50,042,000 (3.4 percent of net sales and operating revenues) in fiscal 1999, \$29,621,000 (3.4 percent of net sales and operating revenues) in fiscal 1998 and \$11,493,000 (2.3 percent of net sales and operating revenues) in fiscal 1997.

(B) **IMPAIRMENT LOSS:** In the fourth quarter of fiscal 1998, CarMax recorded an impairment loss of \$11.5 million related to the closure and eventual disposal of its centralized reconditioning facilities and costs associated with excess property at some locations. The centralized reconditioning facilities were closed in fiscal 1998 when experience proved that in-store reconditioning was more efficient. The excess property was purchased as part of retail sites. Both the reconditioning facilities and portions of the excess property were disposed of in fiscal year 1999, and the remaining excess property is expected to be disposed of within the next fiscal year.

Of the total impairment loss, the CarMax Group recorded a \$9.7 million loss for impairment of long-lived assets as required by SFAS No. 121. The charge represents the difference between the carrying value and the estimated fair value of the assets less any disposal costs. The estimated fair value is based on sales prices for comparable assets or expected future cash flows. In addition, CarMax recorded a \$1.8 million long-term liability for an operating lease where events indicated that the lease value was impaired. This loss is calculated as the difference between the present value of the required rental payments on the original lease obligations and the present value of the future rental receipts that are expected from subleasing the property. This liability was relieved during fiscal year 1999 as part of the disposition of the related property.

14. INTEREST RATE SWAPS

The Company enters into amortizing swaps relating to the auto loan receivable securitization to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. In November 1995, the Company entered into a 50-month amortizing swap with a notional amount of \$75 million and, in October 1996, entered into a 40-month amortizing swap with a notional amount of \$64 million. The Company entered into four 40-month amortizing swaps with notional amounts totaling approximately \$162 million in fiscal 1998 and four 40-month amortizing swaps with notional amounts totaling approximately \$387 million in fiscal 1999. These swaps were entered into as part of sales of receivables and are included in the gain on sales of receivables. The remaining total notional amount of all swaps related to the auto loan receivable securitization was approximately \$499 million at February 28, 1999, \$224 million at February 28, 1998, and \$114 million at February 28, 1997.

Concurrent with the funding of the \$175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating \$175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 28, 1999, would result in a loss of \$2.2 million and at February 28, 1998, would result in a loss of \$1.9 million.

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

15. CONTINGENT LIABILITIES

In the normal course of business, the Company is involved in various legal proceedings. Based upon the CarMax Group's evaluation of the information presently available, management believes that the ultimate resolution of any such proceedings will not have a material adverse effect on the CarMax Group's financial position, liquidity or results of operations.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>(Amounts in thousands except per share data)</i>	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Net sales and operating revenues	\$346,363	\$177,554	\$400,031	\$206,433	\$345,940	\$227,086	\$373,964	\$263,133	\$1,466,298	\$874,206
Gross profit	\$ 39,896	\$ 16,629	\$ 46,202	\$ 18,870	\$ 39,760	\$ 15,357	\$ 46,408	\$ 22,651	\$ 172,266	\$ 73,507
Net loss	\$ 3,215	\$ 1,223	\$ 2,965	\$ 1,740	\$ 7,331	\$ 9,141	\$ 10,003	\$ 22,119	\$ 23,514	\$ 34,223
Net loss attributed to										
CarMax Stock	\$ 736	\$ 275	\$ 685	\$ 393	\$ 1,701	\$ 2,075	\$ 2,335	\$ 5,020	\$ 5,457	\$ 7,763
Net loss per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.23	\$ 0.24	\$ 0.35

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Circuit City Stores, Inc.:

We have audited the accompanying balance sheets of the CarMax Group (as defined in Note 1) as of February 28, 1999 and 1998 and the related statements of operations, group equity (deficit) and cash flows for each of the fiscal years in the three-year period ended February 28, 1999. These financial statements are the responsibility of Circuit City Stores, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the

overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 1, the financial statements of the CarMax Group should be read in conjunction with the consolidated financial statements of Circuit City Stores, Inc. and subsidiaries and the financial statements of the Circuit City Group.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CarMax Group as of February 28, 1999 and 1998 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 28, 1999 in conformity with generally accepted accounting principles.

Richmond, Virginia
April 2, 1999

KPMG LLP

MANAGEMENT'S REPORT

The Board of Directors and Stockholders of Circuit City Stores, Inc.:

The consolidated financial statements of Circuit City Stores, Inc. and subsidiaries, as well as the financial statements of the Circuit City Group and the CarMax Group, have been prepared under the direction of management, which is responsible for their integrity and objectivity. These financial statements have been prepared in conformity with generally accepted accounting principles, except for the Circuit City Group which has accounted for its interest in the CarMax Group in a manner similar to the equity method of accounting. Generally accepted accounting principles require that the CarMax Group be consolidated with the Circuit City Group. However, management feels the manner in which the Circuit City Group is presented more clearly indicates the performance of the Circuit City business and the Company's investment in Digital Video Express. The financial statements include amounts that are the best estimates and judgments of management with consideration given to materiality.

Management is responsible for maintaining an internal control structure designed to provide reasonable assurance that the books and records reflect the transactions of the Company and that the Company's established policies and procedures are carefully followed. Because of inherent limitations in any system, there can be no absolute assurance that errors or irregularities will not occur. Nevertheless, management believes that the internal control structure provides reasonable assurance that assets are safeguarded and that financial information is objective and reliable.

The Company's and the Groups' financial statements have been audited by KPMG LLP, independent auditors. Their Independent

Auditors' Reports, which are based on audits made in accordance with generally accepted auditing standards, express opinions as to the fair presentation in conformity with generally accepted accounting principles of the financial statements. In performing their audits, KPMG LLP considers the Company's internal control structure to the extent it deems necessary in order to issue its opinions on the Company's and the Groups' financial statements.

The audit committee of the board of directors is composed solely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to assure each is properly discharging its responsibilities. KPMG LLP and the internal auditors have full and free access to meet privately with the audit committee to discuss accounting controls, audit findings and financial reporting matters.



Richard L. Sharp
Chairman and Chief Executive Officer



Michael T. Chalifoux
Executive Vice President, Chief Financial Officer and
Corporate Secretary
April 5, 1999

COMMON STOCK

The common stock of Circuit City Stores, Inc. includes two series: Circuit City Stores, Inc.—Circuit City Group Common Stock and Circuit City Stores, Inc.—CarMax Group Common Stock. Both Group stocks are traded on the New York Stock

Exchange. The quarterly dividend data shown below applies to the Circuit City Group Common Stock for the applicable periods. No dividend data is shown for the CarMax Group Common Stock since it pays no dividends at this time.

Fiscal	Circuit City Group						CarMax Group			
	Market Price of Common Stock				Dividends		Market Price of Common Stock			
	1999		1998		1999	1998	1999		1998	
	HIGH	LOW	HIGH	LOW			HIGH	LOW	HIGH	LOW
1st.....	\$49.63	\$37.56	\$40.88	\$30.88	\$.035	\$.035	\$13.50	\$8.63	\$20.13	\$13.50
2nd.....	\$54.50	\$29.94	\$39.88	\$33.13	\$.035	\$.035	\$11.00	\$5.56	\$15.38	\$12.63
3rd.....	\$39.56	\$28.81	\$45.50	\$31.00	\$.035	\$.035	\$ 8.00	\$3.63	\$18.50	\$11.38
4th.....	\$64.13	\$35.38	\$39.56	\$31.38	\$.035	\$.035	\$ 5.75	\$3.94	\$12.06	\$ 6.50
Total					<u>\$.140</u>	<u>\$.140</u>				

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Richard L. Sharp (3)
Chairman and
Chief Executive Officer

Alan L. Wurtzel (2,5)
Vice Chairman of the Board

Michael T. Chalifoux (3)
Executive Vice President,
Chief Financial Officer and
Corporate Secretary

Richard N. Cooper (4,5)
Professor of Economics,
Harvard University;
Boston, Massachusetts

Barbara S. Feigin (2,4)
Consultant,
Grey Advertising Inc.;
New York, New York

James F. Hardymon (1,2)
Retired, Chairman and
Chief Executive Officer,
Textron Inc.;
Providence, Rhode Island

Robert S. Jepson Jr. (1,2)
Chairman and
Chief Executive Officer,
Jepson Associates, Inc.;
Savannah, Georgia

**Major General Hugh G. Robinson
(Ret.), P.E. (4,5)**
Chairman and
Chief Executive Officer,
The Tetra Group, Inc.;
Dallas, Texas

Walter J. Salmon (1,2)
Stanley Roth Senior Professor
of Retailing, Emeritus
Harvard Business School;
Boston, Massachusetts

Mikael Salovaara (1,5)
Partner,
Greycliff Partners;
Morristown, New Jersey

John W. Snow (1,2)
Chairman, President and
Chief Executive Officer,
CSX Corporation;
Richmond, Virginia

Edward Villanueva (4,5)
Financial Consultant,
Former Vice President
and Treasurer

(1) Compensation and Personnel
Committee Member

(2) Nominating and Governance
Committee Member

(3) Executive Committee Member

(4) Audit Committee Member

(5) Pension Investment
Committee Member

COMPANY OFFICERS

Richard L. Sharp
Chairman and
Chief Executive Officer

W. Alan McCollough
President and
Chief Operating Officer

Richard S. Birnbaum
Executive Vice President
Operations

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

Dennis J. Bowman
Senior Vice President and
Chief Information Officer

W. Stephen Cannon
Senior Vice President and
General Counsel

John A. Fitzsimmons
Senior Vice President
Administration

John W. Froman
Senior Vice President
Merchandising

W. Austin Ligon
Senior Vice President
Automotive

Gary M. Mierenfeld
Senior Vice President
Distribution and National Service

Jeffrey S. Wells
Senior Vice President
Human Resources

George D. Clark Jr.
Vice President and
Central Division President

Michael K. Froning
Vice President and
Southern Division President

Mario Ramirez
Vice President and
Western Division President

Randall C. Stephen
Vice President and
Northeast Division President

Edward J. Brett
Vice President
Superstore Human Resources and
Superstore Training

Keith D. Browning
Vice President

Ann M. Collier
Vice President
Financial and Public Relations

Benjamin B. Cummings Jr.
Vice President
Real Estate

Philip J. Dunn
Vice President,
Treasurer and Controller

Neal N. Lappe
Vice President
Product Service

Jerry L. Lawson
Vice President
General Manager

R. Bruce Lucas
Vice President
Construction

Jeffrey D. Palmer
Vice President
Marketing

George R. Pasini
Vice President
Design

Arpad G. Toth
Vice President and
Chief Technical Officer

L. Dan Barzel
Assistant Vice President
Merchandising

Jay W. Bertagnoli
Assistant Vice President
Merchandising

David W. Cecil
Assistant Vice President
Merchandising

Joseph T. Cipolla
Assistant Vice President
Management Information Systems

Bernard H. Curlee Jr.
Assistant Vice President
Technical Service

William C. Denney
Assistant Vice President
Merchandising

Peter A. Douglas
Assistant Vice President
General Manager

Douglas R. Drews
Assistant Vice President
Distribution

Linda N. English
Assistant Vice President
Assistant Controller

Kenneth S. Golden
Assistant Vice President
Merchandising

Stanley L. Heller
Assistant Vice President
Real Estate

Thomas E. Krieck
Assistant Vice President
General Manager

William E. McCorey
Assistant Vice President
Information Systems

Janice A. McNee
Assistant Vice President
Merchandising

Douglas T. Moore
Assistant Vice President
Corporate Operations

Kim D. Orcutt
Assistant Vice President
Merchandising

Joseph E. Oren
Assistant Vice President
Information Systems

Michael T. Ryan
Assistant Vice President
Merchandising

Martin C. Schaeffer
Assistant Vice President
General Manager

Richard W. Souder Jr.
Assistant Vice President
Merchandising

Paul D. Swenson
Assistant Vice President
Warranty Administration

James H. Wimmer
Assistant Vice President
General Operations Manager

Elizabeth R. Girard
Assistant to the Chairman

CARMAX OFFICERS

W. Austin Ligon
President

Keith D. Browning
Vice President and
Chief Financial Officer

Michael K. Dolan
Vice President and
Chief Information Officer

Thomas J. Folliard
Vice President
Merchandising

Joseph S. Kunkel
Vice President
Marketing and Strategy

Mark F. O'Neil
Vice President and
Western Division President

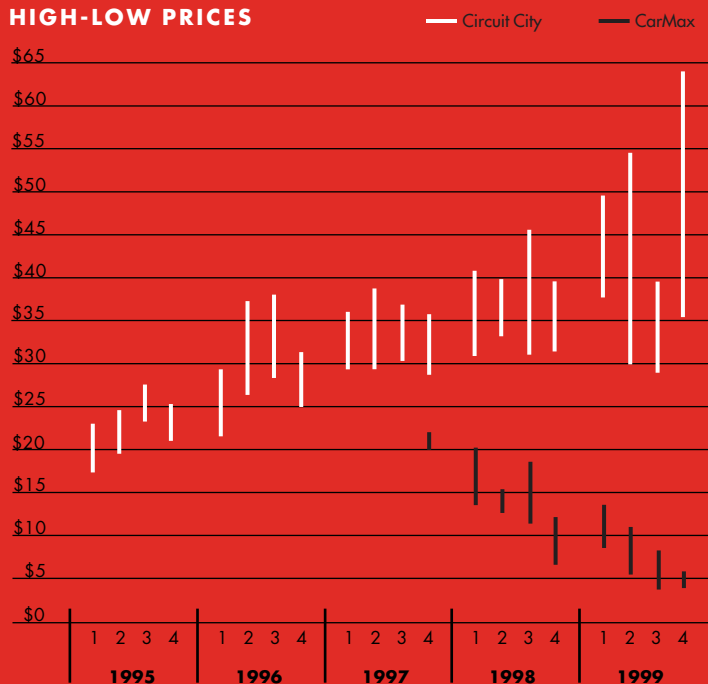
Brian A. Sexton
Vice President and
Eastern Division President

Scott A. Rivas
Assistant Vice President
Human Resources

Angela C. Schwarz
Assistant Vice President
First North American Credit
Corporation

Fred S. Wilson
Assistant Vice President
Loss Prevention

HIGH-LOW PRICES



Common Stock Prices

As of February 28, 1999, there were approximately 8,500 holders of the Circuit City Group Common Stock and 500 holders of the CarMax Group Common Stock.

The graph above shows the common stock trends for Circuit City Stores, Inc. Common Stock from March 1, 1994, through February 3, 1997, and the common stock trends for Circuit City Stores, Inc.—Circuit City Group Common Stock and Circuit City Stores, Inc.—CarMax Group Common Stock from February 4, 1997, through February 28, 1999. The Circuit City Stores, Inc. Common Stock includes a 100 percent interest in CarMax. The Circuit City Stores, Inc. Common Stock was redesignated as and, on February 4, 1997, began trading as Circuit City Group Common Stock. It includes a retained interest in the equity value of newly issued Circuit City Stores, Inc.—CarMax Group Common Stock.

STOCKHOLDER INFORMATION

Certified Public Accountants

KPMG LLP
Richmond, Virginia

Transfer Agent & Registrar

Norwest Bank Minnesota, N.A.
South St. Paul, Minnesota
(800) 468-9716

Rights Agent

Norwest Bank Minnesota, N.A.
South St. Paul, Minnesota

Corporate Offices

9950 Mayland Drive
Richmond, Virginia 23233-1464
(804) 527-4000

Web Sites

<http://www.circuitcity.com>
<http://www.carmax.com>
<http://www.divx.com>

Annual Meeting

June 15, 1999, 10:00 a.m.
The Jefferson Hotel
Franklin and Adams Streets
Richmond, Virginia

Form 10-K

Form 10-K Annual Report to the Securities and Exchange Commission provides certain additional information and will be available in June.

A copy of this report may be obtained without charge upon request to:

Office of the Corporate Secretary

Circuit City Stores, Inc.
9950 Mayland Drive
Richmond, Virginia 23233-1464

Shareholder Inquiries

Office of Financial Relations
(804) 527-4000, extension 2077

Securities Analyst Inquiries

Ann M. Collier
Vice President
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CIRCUIT CITY MARKETS (as of 2/28/99)

Alabama
Birmingham (3)
Huntsville
Montgomery

Arizona
Phoenix (8)
Tucson (2)

Arkansas
Ft. Smith (2)
Little Rock (2)

California
Bakersfield
Chico/Redding (2)
Fresno (3)
Los Angeles (40)
Palm Springs
Sacramento (5)
Salinas (3)
San Diego (8)
San Francisco (16)
Santa Barbara (2)

Colorado
Colorado Springs (3)
Denver (7)
Grand Junction

Connecticut
Hartford (4)

Florida
Fort Myers (2)
Gainesville (2)
Jacksonville (3)
Miami (9)
Orlando (5)
Pensacola (3)
Tallahassee
Tampa (9)
West Palm Beach (4)

Georgia
Atlanta (12)
Augusta
Columbus
Macon
Savannah

Hawaii
Honolulu

Idaho
Boise
Idaho Falls

Illinois
Champaign/
Springfield (2)
Chicago (25)
Peoria/Bloomington (2)
Rockford

Indiana
Evansville
Fort Wayne
Indianapolis (6)
Lafayette
South Bend

Kansas
Kansas City (4)
Topeka
Wichita (2)

Kentucky
Lexington
Louisville (4)
Paducah

Louisiana
Baton Rouge
Lafayette
Lake Charles
New Orleans (4)

Maine
Portland

Maryland
Baltimore (6)
Salisbury

Massachusetts
Boston (12)
Springfield (2)

Michigan
Detroit (10)
Flint (2)
Grand Rapids (5)
Lansing (3)
Traverse City

Minnesota
Minneapolis (9)

Mississippi
Jackson

Missouri
Columbia
St. Louis (7)
Springfield

Nebraska
Lincoln
Omaha

Nevada
Las Vegas (3)
Reno

New Mexico
Albuquerque

New York
Binghamton
Buffalo (3)
New York (25)
Rochester (2)
Syracuse

North Carolina
Charlotte (6)
Greensboro (3)
Greenville/
New Bern (2)
Raleigh (4)
Wilmington

Ohio
Cincinnati (6)
Cleveland (8)
Columbus (4)
Dayton (3)
Toledo (2)
Youngstown (2)

Oklahoma
Oklahoma City (2)
Tulsa (2)

Oregon
Eugene
Medford
Portland (5)

Pennsylvania
Harrisburg (3)
Philadelphia (14)
Pittsburgh (5)
Scranton/
Wilkes-Barre (3)

Rhode Island
Providence (4)

South Carolina
Charleston
Columbia (2)
Florence
Greenville (4)

Tennessee
Chattanooga
Jackson
Johnson City
Kingsport
Knoxville (2)
Memphis (2)
Nashville (5)

Texas
Amarillo
Austin (2)
Beaumont
Corpus Christi
Dallas/Fort Worth (10)
El Paso (2)
Houston (12)
Lubbock
McAllen/
Brownsville (2)
Midland/Odessa (2)
San Antonio (3)
Tyler/Longview (3)
Waco (4)
Wichita Falls

Utah
Salt Lake City (5)

Vermont
Burlington

Virginia
Charlottesville
Harrisonburg
Norfolk (7)
Richmond (4)
Roanoke (3)

Washington
Seattle (9)
Spokane (2)

Washington D.C.
Maryland (8)
N. Virginia (9)

West Virginia
Huntington (2)

Wisconsin
Appleton/Green Bay (2)
Madison (2)
Milwaukee (3)

CARMAX MARKETS (as of 2/28/99)

Florida
Miami (3)
Orlando
Tampa (2)

Georgia
Atlanta (3)

Illinois
Chicago (5)

North Carolina
Charlotte
Raleigh

South Carolina
Greenville

Texas
Dallas/Fort Worth (3)
Houston (3)
San Antonio

Virginia
Richmond

Washington, D.C./
Baltimore (5)

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