Circuit City Stores, Inc. Annual Report 2001

focus on the

customer

Financial Highlights

(Dollar amounts in thousands except per share data)	Years Ended February 28 or 29 2001	2000	1999
CIRCUIT CITY STORES, INC.			
Net Sales and Operating Revenues	**$12,959,028**	$12,614,390	$10,810,468
Earnings from Continuing Operations	**$ 160,802**	$ 327,830	$ 211,470
Total Assets	**$ 3,871,333**	$ 3,955,348	$ 3,445,266
Total Stockholders' Equity	**$ 2,356,483**	$ 2,142,174	$ 1,905,130
Working Capital	**$ 1,555,580**	$ 1,536,456	$ 1,430,710
CIRCUIT CITY GROUP			
Net Sales and Operating Revenues	**$10,458,037**	$10,599,406	$ 9,344,170
Earnings from Continuing Operations Before Inter-Group Interest in the CarMax Group	**$ 115,238**	$ 326,712	$ 234,984
Earnings from Continuing Operations	**$ 149,247**	$ 327,574	$ 216,927
Earnings per Share from Continuing Operations:			
Basic	**$ 0.73**	$ 1.63	$ 1.09
Diluted	**$ 0.73**	$ 1.60	$ 1.08
Number of Circuit City Superstores	**594**	571	537
CARMAX GROUP			
Net Sales and Operating Revenues	**$ 2,500,991**	$ 2,014,984	$ 1,466,298
Net Earnings (Loss)	**$ 45,564**	$ 1,118	$ (23,514)
Net Earnings (Loss) per Share:			
Basic	**$ 0.45**	$ 0.01	$ (0.24)
Diluted	**$ 0.43**	$ 0.01	$ (0.24)
Number of CarMax Retail Units	**40**	40	31

All Circuit City Group earnings per share calculations have been adjusted to reflect a two-for-one stock split effective June 30, 1999. On June 16, 1999, Digital Video Express announced that it would discontinue operations. Results of continuing operations of Circuit City Stores, Inc. and Circuit City Group shown in the tables above exclude Digital Video Express. 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 and entertainment software. At the end of fiscal year 2001, the Circuit City business included 594 Superstores in 161 markets and 35 Circuit City Express mall stores. The Circuit City Group also includes a retained interest in the equity of the CarMax Group. The Circuit City Group includes Digital Video Express, which is now classified as a discontinued operation for financial reporting purposes.

CarMax Group Common Stock (NYSE:KMX). As the pioneer of the used-car superstore concept, CarMax is transforming automobile 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 2001, CarMax operated 40 retail units in 37 locations, including 33 used-car superstores and 22 new-car franchises.

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 related operations, the CarMax retail stores and related operations, and the company's interest in Digital Video Express, which is classified as a discontinued operation.

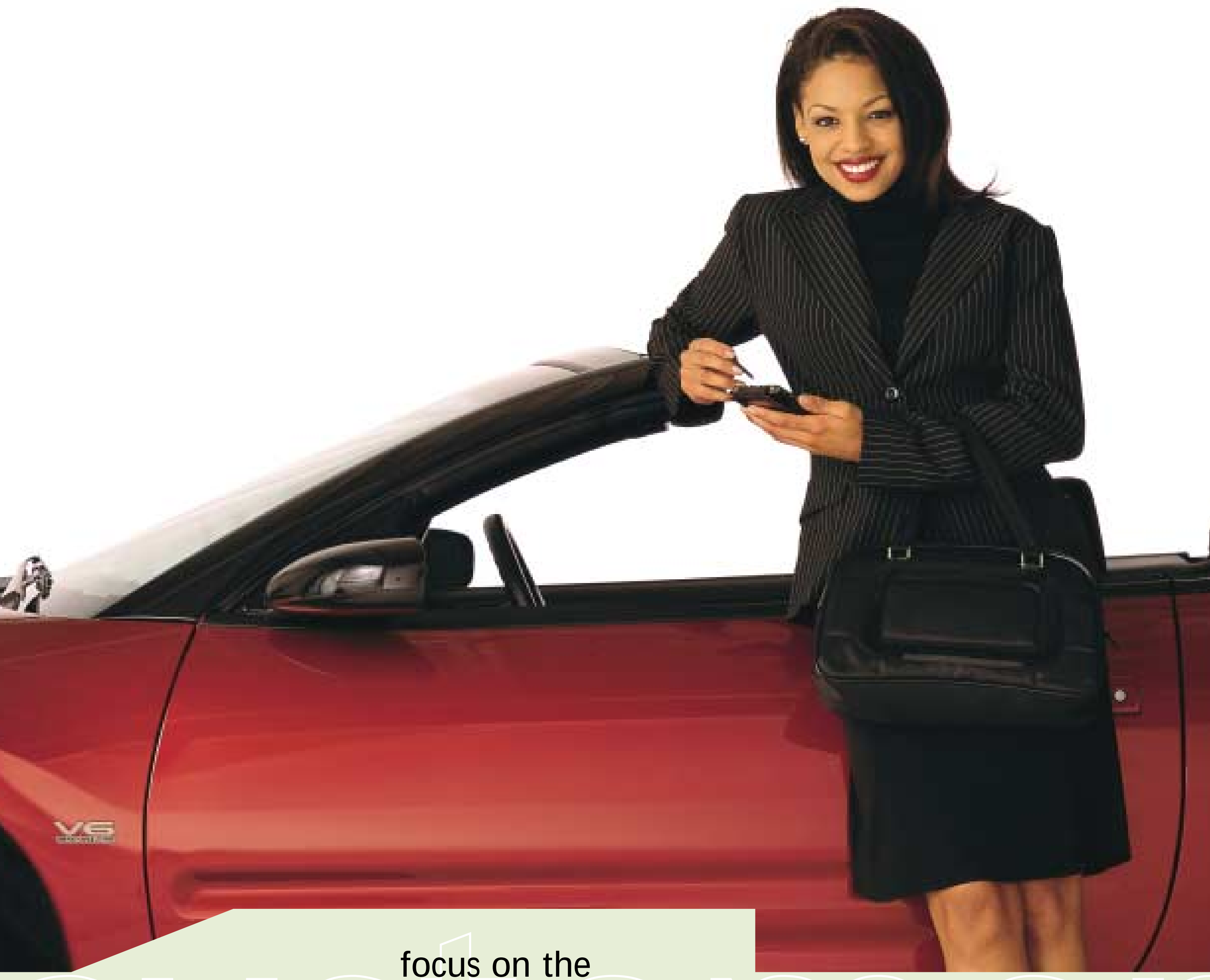
Circuit City refers to the retail operations bearing the Circuit City name and to all related operations such as product service and its finance operation.

Circuit City Group refers to the Circuit City and Circuit City-related operations, the retained interest in the equity of the CarMax Group and the company's interest in Digital Video Express, which is classified as a discontinued operation.

CarMax Group and CarMax refer to retail locations bearing the CarMax name and to all related operations such as its finance operation.

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.



focus on the customer

At Circuit City and CarMax, our unremitting focus is on providing customers with the shopping experience—the service, the information, the selection and the value—that assures Circuit City is their first choice for consumer electronics and CarMax is their first choice for used and new vehicles. In every facet of our businesses, our Associates are committed to continuously enhancing our powerful consumer offers…for the benefit of our customers and our shareholders.

management letter

W. ALAN McCOLLOUGH

By focusing on the customer, Circuit City Stores, Inc. has built a high-volume consumer electronics business that excels at bringing new, often complex, products to the marketplace and developed an automotive retail business differentiated by its ability to sell high-quality used cars in a consumer-friendly way.

CONSOLIDATED RESULTS

Circuit City Stores, Inc. reported consolidated sales of $12.96 billion for the fiscal year ended February 28, 2001, compared with $12.61 billion in fiscal 2000. Earnings from continuing operations were $160.8 million compared with last year's $327.8 million.

CIRCUIT CITY BUSINESS REVIEW

In fiscal 2001, our Circuit City business operated in a challenging retail environment that included an erratic sales pattern during the first half of the year and a significant softening across virtually all product categories during the second half. In this environment, we undertook a number of initiatives to better prepare our company for the future. These initiatives included:

- a major design change that was rolled out in 23 new and 26 fully remodeled Superstores;
- exiting the appliance business and fully remerchandising the vacated appliance space to include new and expanded selections in key consumer electronics categories; and,
- upgrading key, technology-focused merchandise displays in all stores.

Even though we accomplished a great deal, we were nonetheless disappointed with our financial results. For fiscal 2001, total sales for the Circuit City Group were $10.46 billion compared with $10.60 billion last year, and earnings from continuing operations for the Circuit City business were $115.2 million, or 56 cents per Circuit City Group share, compared with $326.7 million, or $1.60 per share. Including the retained interest in CarMax, earnings from continuing operations for the Circuit City Group were $149.2 million, or 73 cents per Circuit City Group share, compared with $327.6 million, or $1.60 per share.

Sales Environment. Although we started the year with healthy growth in virtually all product categories, by late in the first quarter we had already begun to see wide variations in monthly sales performance. The one consistent trend throughout the year was the strong growth pace for new and digital products *relative* to more traditional products, which were particularly vulnerable to rapid declines in average retails. Exciting growth categories included digital televisions; DVD players; digital imaging; computer software, accessories and peripherals; new video game platforms; and entertainment software. During the first half of the year, our appliance business was characterized by weakening growth, the entry of significant competition and below-average operating margins. These trends led to our exit from the business beginning in late July. Many of the growth categories benefited from the expanded space made available by our exit from the major appliance business. After a strong first half, the desktop PC business softened industry-wide during the second half.

Customer-Focused. We went into this sales environment with an intense focus on the consumer. Our Circuit City Superstores always have excelled at introducing new technologies. Our longtime emphasis on product-knowledge-based sales training and the strength of our interactive in-store demonstrations have enabled us to build a strong brand identity with consumers seeking product information. Nevertheless, our segment today includes numerous traditional products with which the consumer needs little assistance. Lower prices and product familiarity allow consumers to self-select these items. Recognizing that we need to adapt as consumer preferences change, we entered the year with a new store design that makes it easy for consumers to shop the way they want to shop—with or without sales counselor assistance and with a layout that invites browsing throughout the store.

The more contemporary shopping experience includes shopping carts and a bank of cash registers at the front of the store, brighter lighting, more colorful signs, more open space and improved product adjacencies. During the year, we fully remodeled 26 stores, primarily in south and central Florida, to reflect this design, and we opened 23 new stores that follow this concept.

The new design excluded major appliances, allowing us to dramatically increase our selection of faster growing, more profitable consumer electronics and home office products. Our original intent was to test a free-standing appliance store. However, as appliance sales softened and competition intensified, we decided to exit that category and remerchandise the appliance space in all remaining Superstores. That exit cost us approximately 29 cents per share, including one-time exit costs, appliance merchandise markdowns, the appliance space remodeling expenses and sales disruption. But, I believe it was the right decision for Circuit City. This move provided the needed space to quickly expand selections of digital imaging products; computer software, peripherals and accessories; video game hardware and software; DVD movie titles; and telecommunications products.

In addition to the full and the partial remodel programs, we continued to enhance other areas of the Circuit City shopping experience. During the first half, we added displays for Internet accessibility, digital memory devices and digital video and audio to virtually all stores. We expanded our wireless displays to include four providers in most markets, strengthened our ability to demonstrate the high-quality image available via digital television and expanded our broadband offering to include more providers than any other retailer.

We also continued to develop our e-commerce site, the first launched by a national brick-and-mortar consumer electronics specialty retailer. In fiscal 2001, we added more than 1,000 consumer electronics and home office products, bringing to 2,400 the number of products we offer for sale on the Web. And, in an agreement with Alliance Entertainment, we gave CircuitCity.com customers seamless access to Alliance's selection of more than 250,000 entertainment software titles. Early in the year, we became the first consumer electronics retailer to provide access to Web warehouse inventory through our in-store point-of-sale system, and at year-end, we became the first to offer 360-degree views of products. We also added online sales of wireless phones and the most extensive wireless communications information, including rate plans, available online from a brick-and-mortar retailer. Equally important, we enhanced the site and added customers while also maintaining high standards for customer service. Even during the peak holiday season, all orders for in-stock merchandise received by 1:00 p.m. Eastern time were shipped the same day, and the site was available to consumers more than 99 percent of the time.

The Challenges Ahead. I feel good about what we have accomplished, but believe there remains much yet to do. The cost of last year's full remodels and the business disruption to the existing store environment were not acceptable. And, although customers in these stores have given us great reviews, with the sales and economic uncertainty experienced at the end of the year, it is difficult to immediately measure the results of our investment. In fiscal 2002, we expect to open 15 to 20 new stores and relocate approximately 10, all of which will follow last year's design. However, we will limit our remodels to 20 to 25 and refine the design so that it is less costly and less disruptive.

We also will direct significant attention to marketing programs that cost effectively communicate the changes we have made. We have added new leadership to our marketing team and believe that the combination of talent and experience we now have will give creative life to our advertising initiatives.

Circuit City's financial strength has been driven not just by our consumer offer, but also by our ability to deliver the offer consistently and efficiently. In addition to the changes in our store design, we began in fiscal 2001 to roll out Internet-based sales training programs for all our store Associates. We plan to expand this training method to more product categories in the coming fiscal year.

Given the challenging retail climate, we will even more closely examine our operating practices. Specifically, we are undertaking initiatives to:

- further tighten inventory management, including enhancing our forecasting tools, so that we reduce inventory in the distribution system and increase inventory turnover while also maintaining high in-stock positions in the stores;
- apply the Six Sigma methodology to critical processes so that we measurably increase customer satisfaction while also reducing costs; and,

- leverage our longstanding information systems advantages to speed customer transaction times and create additional informative in-store product demonstrations that help customers through their purchase decisions.

We expect that, for our Circuit City business, fiscal 2002 will be a challenging year with an unpredictable sales and earnings climate. In this environment, we must make decisions that undergird our longer-term financial performance. We must remain focused on our customers and continue taking steps to stay competitive and up-to-date with consumer preferences. We must analyze all our processes to ensure all activity is productive. Although we expect our earnings will be disappointing in fiscal 2002, we believe that by completing these short-term initiatives, we can improve our returns over a more sustained period.

Leadership Advances. I am especially pleased with the management team we have in place to guide our decisions. Last year, several promotions and additions further strengthened this team. John Froman was promoted to executive vice president—merchandising. John joined Circuit City's store operations in 1986, was named president of our Central operating division in 1994 and senior vice president—merchandising in 1997. Ann-Marie Austin-Stephens was promoted to senior vice president—store innovation and development. Ann-Marie joined Circuit City in 1999 as vice president—strategic planning, following an extensive career in marketing, strategy and product development. In November 2000, Fiona Dias joined Circuit City as senior vice president—marketing, bringing with her broad brand management and marketing experience. Ed Brett was named president of the Northeast operating division. Ed began his Circuit City career in human resources in 1989, became vice president—Superstore human resources and training in 1998 and from 1999 until his promotion had served as a division manager and then regional vice president.

CARMAX BUSINESS REVIEW

When we began exploring the CarMax business in 1991, we approached it with the same consumer focus that had generated success for Circuit City. Even today, research consistently acknowledges widespread consumer dissatisfaction with the automobile-buying experience. Our goal is to offer an alternative, especially for the purchase of high-quality used cars. We have hit bumps along the way, particularly during the 1997 to 1998 period when we rapidly expanded and added megastores to our mix. However, our standard-format store has achieved a high degree of success in all markets and our megastore in the multi-store Washington, D.C., market ranks as the top-performing used-car sales location in the nation. In fiscal 2001, we consistently exceeded our sales expectations and significantly exceeded our earnings expectations. The sales strength continued through the fourth quarter, compared to healthy sales growth in last year's fourth quarter when CarMax saw the exit of a significant competitor from the business.

In fiscal 2001, CarMax sales increased 24 percent to $2.50 billion from $2.01 billion in fiscal 2000. Net earnings rose to $45.6 million from $1.1 million. Net earnings per CarMax Group share were 43 cents compared with 1 cent in fiscal 2000. Net earnings attributed to the Circuit City Group Common Stock were $34.0 million in fiscal 2001 compared with $862,000 in the prior year.

We achieved this profit level, in part, by focusing on the used-car segment. In the United States, sales of late-model used cars, which comprise the majority of CarMax's used-car sales, total approximately $250 billion annually. More than 85 percent of CarMax's unit sales are used vehicles. Unlike new cars, each used car is unique. By finding the best mix of top-quality used cars, reconditioning them to a high standard and guaranteeing them for a period after the sale, CarMax is able to add value for the consumer and earn a higher return per car sold.

Customer-Focused. CarMax sales are driven by a differentiated consumer offer that enables each sales consultant to focus on the needs of the consumer rather than the profit of the deal. It starts with low, no-haggle prices on the vehicle, the financing and the extended warranty. Trade-ins also are handled as a separate no-haggle transaction, including a written appraisal offer good with or without a purchase. We typically offer a broad selection of 250 to 400 high-quality used vehicles per superstore. Each vehicle has been thoroughly inspected and reconditioned to meet CarMax's mechanical, electrical, safety and cosmetic standards. Used vehicles include a five-day, money-back guarantee and a limited warranty. On-site repair service also is available for all vehicles.

In fiscal 2001, we refined our television advertising to emphasize more strongly the aspects of the offer that are most important to consumers, and we doubled the frequency of our advertising while lowering its cost. Our advertising also helped to increase awareness and drive significant additional traffic to CarMax.com, our Web site. Surveys conducted during the year showed that more than 40 percent of consumers who visited a CarMax store first visited CarMax.com. Late in fiscal 2000, we increased the functionality of CarMax.com, adding photographs and complete specifications on every car in CarMax's 12,000-vehicle inventory and enabling consumers to easily compare prices and features on selected cars and to estimate trade-in values. In fiscal 2001, we introduced a new site design and continued to enhance functionality, adding tax, title, tag and document fee information and the ability to receive insurance quotations.

The numbers prove that consumers like what CarMax has to offer. With an average of 4,000 used cars sold per store, CarMax's fiscal 2001 store volumes were more than three times the combined new- and used-car volume of the average new-car dealership. New-car dealers, who sell more than 85 percent of late-model used cars, constitute our primary competition.

Profit Driven by Execution. Sales are not the only driver of profits. Profitability is enhanced by:

- purchasing and inventory management systems: We must purchase large volumes of used cars—one at a time. To accomplish this task, we have developed unique training programs for our buying team and proprietary databases that track each car's purchase price and activity, from the point of purchase to its sale at retail. These systems enable us to measure our performance and continuously hone our buying skills. Our integrated inventory management system further helps ensure that we have the right cars in the right location at the right time, providing historical statistical data about which makes and models sell at which locations during which months.
- efficient ***and*** high-quality reconditioning: CarMax's unique, systematic reconditioning process is critical to guaranteeing high quality at low cost. A methodical, sequenced procedure brings every CarMax used car up to our exacting mechanical, electrical, safety and cosmetic standards. Through process engineering, we have reduced the average reconditioning time per car by approximately 35 percent over the last two years.
- effective store operations processes: The consumer offer and operating processes are identical in all stores. Company-wide integrated information systems support cost efficiencies, consistent execution across all stores and continuous operational improvement. Management development and store Associate training reinforce CarMax's distinct methods to ensure that we deliver high levels of customer satisfaction.

Growth Opportunities. With a year of solid profitability behind us and an expectation for sustained profitable growth, we plan to resume our geographic expansion. Our focus for the next several years will be on single-store markets and satellite fill-in stores in our multi-store markets, both of which we believe offer the lowest risk, highest return growth opportunities. Single-store markets typically are mid-sized cities with populations of 1 million to 2.5 million people. In fiscal 2002, CarMax plans to enter two single-store markets—Sacramento, Calif., and Greensboro, N.C.

Beyond fiscal 2002, we expect to gradually increase the expansion pace. We currently expect to open four to six stores, including satellites, in fiscal 2003. Adding satellite fill-in stores extends the CarMax consumer offer into underserved trade areas in our existing metro markets and leverages our operations and advertising in those markets.

We look forward to continuing sales and profit growth from CarMax, enabling us to fulfill the return on investment opportunities envisioned when we launched the business in 1993.

Leadership Recognition. Austin Ligon, president of CarMax, and the entire CarMax team have made considerable progress developing the CarMax offer and establishing a strong profitable base for growth. Last year, we were pleased to announce the promotion of Tom Folliard to senior vice president—store operations. Early this year, he became executive vice president—store operations. Tom joined CarMax in 1993 as senior buyer and was an early member of the used-car superstore development team. He became director of purchasing in 1994 and, since 1996, had served as vice president—merchandising. Tom played the key leadership role in the development of CarMax's buying and inventory management team and system.

Only our outstanding team of Circuit City Associates could have met the challenges Circuit City faced in fiscal 2001, and the great year enjoyed by CarMax followed years of tenacious work by the CarMax team. I am proud to be working with these Associates, and I thank them and their families for the sacrifices they make for our company on a daily basis. I also thank our customers, our vendors, our board of directors and our shareholders for their support.

W. Alan McCollough
President and Chief Executive Officer
Circuit City Stores, Inc.
April 2, 2001

customer-defined shopping

"WE WANT CUSTOMERS TO BE DELIGHTED WITH THEIR CIRCUIT CITY SHOPPING EXPERIENCE...TO FEEL THE MOMENT THEY WALK INTO THE STORE THAT THIS IS WHERE THEIR NEEDS WILL BE MET."

ANN-MARIE AUSTIN-STEPHENS
SENIOR VICE PRESIDENT
STORE INNOVATION AND DEVELOPMENT

"NEW TRAINING PROGRAMS AND NEW DISPLAYS REFLECT OUR DETERMINED COMMITMENT TO PROVIDE CONSUMERS THE INFORMATION THEY NEED TO BUY NEW TECHNOLOGIES. AT THE SAME TIME, OUR EXPANDED SELECTIONS AND NEW STORE LAYOUTS ENCOURAGE MORE BROWSING IN ALL AREAS."

RICHARD BIRNBAUM
EXECUTIVE VICE PRESIDENT
OPERATIONS

The success of any retail superstore has historically stemmed from its focus on customer service, broad product selections, low prices and continued satisfaction after the sale. This value equation holds true today. However, the definition of its various components has evolved as consumers and, in our retail segment, the products have evolved.

The consumer electronics and home office categories include a broad array of traditional products—VCRs, portable audio, small-screen televisions—with which the consumer is already familiar and that sell at relatively low average retails. It includes deep selections of entertainment software—movie titles, music and video games. At the same time, we are adding new and more complex technologies at a rapid rate. At Circuit City, we are adapting our store to the new dichotomy in our product lines and to the changes in consumer buying behavior so that we continue to serve the needs of a broad customer base. Today, Circuit City customers find the same knowledgeable sales assistance upon which they have always relied, but they also find more products quickly accessible on the floor with more cash registers for easier checkout. And, ensuring that we cover all consumer shopping preferences, we were the first national brick-and-mortar specialty retailer to sell consumer electronics over the Internet.

Our new and fully remodeled Superstores are designed completely around today's consumer. The store's contemporary look and brighter lights and colors reflect the energy of our product categories. The open floor plan is simple to navigate so that customers can find help if they need it or browse and select their products as they prefer. Shopping carts and baskets and cash register checkouts at the front of the store create a comfortable shopping environment for "take-with" products. With our exit from the appliance business, we were able in all stores to add cash registers and place more products on the floor. Improved product adjacencies in the new store design enable our commissioned sales Associates to easily demonstrate related products and help customers compare features and benefits across models. Hourly store Associates help to ensure that product displays are adequately stocked at all times.

Finally, we recognize that the Web has added an exciting dimension to retail shopping. It enables consumers to learn about and purchase products 24-hours-a-day, seven-days-a-week. Since launching our site in July 1999, we have maintained a tight integration with our stores. In all stores, sales Associates can access the Web store inventory through the point-of-sale system and order merchandise not available at the store. We have continued to add products and features to the site since its launch. We view CircuitCity.com as an integral part of our efforts to provide consumers with information and make it easy for customers to shop the way they want to shop.

Today, Circuit City customers find the same knowledgeable sales assistance upon which they have always relied, but they also find more products quickly accessible on the floor and conveniently located cash registers for easy checkout. And, we were the first national brick-and-mortar specialty retailer to sell consumer electronics over the Internet.

comprehensive

information

“OUR WEB-BASED TRAINING PROVIDES TECHNOLOGICAL KNOW-HOW TO OUR STORE ASSOCIATES AT A PACE THAT MIRRORS TODAY’S RAPIDLY CHANGING CONSUMER ELECTRONICS PRODUCT OFFERINGS.”

JEFF WELLS
SENIOR VICE PRESIDENT
HUMAN RESOURCES

“CIRCUIT CITY IS FIRMLY COMMITTED TO IN-STORE SYSTEMS THAT CREATE A FAST, EASY, INFORMATIVE SHOPPING EXPERIENCE. E-COMMERCE, WITH IN-STORE PICK-UP, AND THE PLANNED LAUNCH OF BROADBAND STATIONS EXEMPLIFY THIS COMMITMENT.”

DENNIS BOWMAN
SENIOR VICE PRESIDENT AND
CHIEF INFORMATION OFFICER

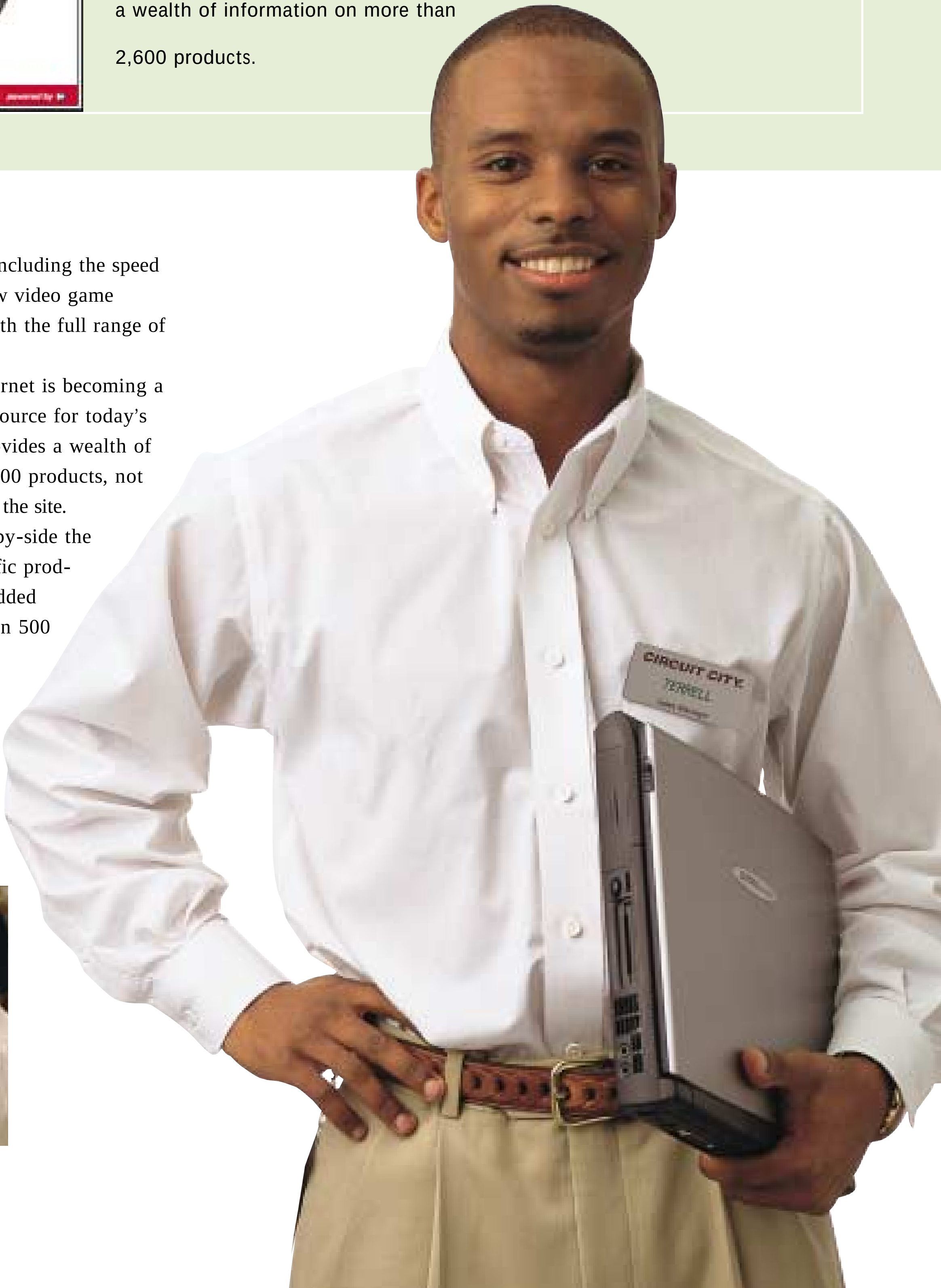
We have added new ways for the consumer to shop, but also maintained our emphasis on providing the comprehensive information needed to purchase many consumer electronics and home office products. Our long-standing commitment to product-knowledgeable sales assistance distinguishes Circuit City from all our significant competitors.

Delivering on that commitment requires contemporary sales training programs. All Circuit City store Associates complete training modules focused on customer service and store procedures. Sales training includes initial and ongoing product modules to ensure that sales Associates can answer questions on even the latest products. In fiscal 2001, we began moving from classroom training to Internet-based training courses. C-learning is more user-friendly to today’s sales Associates, who are familiar with the layout of Internet pages. Equally important, the Internet gives us a way to more quickly and more efficiently deliver information on fast-changing technologies to our store Associates and ultimately to the consumer. In fiscal 2002, we expect to add more product modules as well as introduce management development courseware.

We continue to reward our sales Associates with incentive compensation. This compensation structure recognizes the value they add to the shopping experience for consumers seeking in-store information. It also helps us to attract Associates who value customer service and have a keen interest in the products we sell.

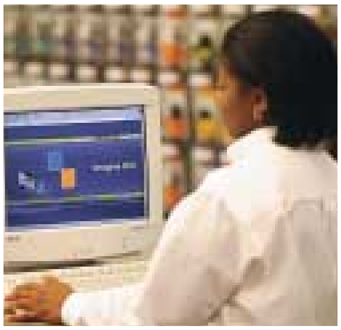
In addition to sales Associate training, we focus significant resources on in-store product displays and demonstrations. At the digital imaging displays in our new and fully remodeled stores, customers learn how to take digital still photos, upload them to a personal computer and e-mail them to family and friends or make high-quality prints. Our digital television display provides a vivid comparison between a big-screen, analog television and various digital display devices. Speaker sound rooms and car audio/video product rooms enable consumers to compare systems. In the home office area, customers can see demonstrations of various

Product-knowledgeable sales assistance distinguishes Circuit City from all our significant competitors. In-store product displays and demonstrations help our customers learn about the benefits of technology, and CircuitCity.com provides a wealth of information on more than 2,600 products.



Internet access technologies, including the speed of broadband. And, in our new video game departments, they can play with the full range of game platforms.

Finally, we believe the Internet is becoming a more important information source for today's consumer. CircuitCity.com provides a wealth of information on more than 2,600 products, not just those available for sale on the site. Consumers can compare side-by-side the features and benefits of specific products, and in fiscal 2001, we added 360-degree views of more than 500 products. In the new year, we will continue to add information and expand 360-degree views to more products.



optimal selection

"IN FISCAL 2002, WE WILL FOCUS ON BUILDING MARKET SHARE IN THE PROFITABLE TECHNOLOGIES THAT WE BELIEVE WILL DRIVE INDUSTRY GROWTH DURING THIS DIGITAL DECADE."

JOHN FROMAN
EXECUTIVE VICE PRESIDENT
MERCHANDISING

"ADVANCES IN SUPPLY CHAIN MANAGEMENT CAN HELP REDUCE INVENTORY IN WAREHOUSES WHILE MAINTAINING OR EVEN IMPROVING THE STORES' ALREADY SOLID IN-STOCK LEVELS. WE ARE TARGETING IMPROVED RETURNS WITH REDUCED INVENTORY INVESTMENT AND DISTRIBUTION COSTS."

GARY MIERENFELD
SENIOR VICE PRESIDENT
DISTRIBUTION AND NATIONAL SERVICE

We recognize that consumers purchasing big-ticket items often shop multiple retailers. Nevertheless, we strive to provide an experience that enables them to shop only at Circuit City for a broad, feature-rich selection of name-brand consumer electronics and home office products.

Our merchandising team provides a selection that includes a variety of brands, features and price points. The selection extends from the basic entry-level products to the highest-quality television available for your family or media room. You can grab a replacement VCR or learn about new digital television products. We were one of the first national retailers to introduce DIRECTV and one of the first to introduce CableLabs-certified DOCSIS modems. In fiscal 2001, we helped introduce new ways to access the Internet—from your wireless phone, your handheld computer or even your television. And, we expanded our wireless communications selection to include options from four major carriers in most markets.

We are careful, however, to not offer selection that provides no distinguishing value for the consumer. As products become similar in the features offered, we adjust our selection to help simplify the customer's purchase decision. Today, for example, we carry only about 15 VCR models versus approximately 50 five years ago. These reductions free space for other products that have a greater variety of features across models.

Our new store design and our exit from the appliance business allowed us to dramatically expand our selections in many categories during fiscal 2001. Now, our typical Superstore displays approximately 1,000 computer software titles compared with only about 50 previously. We increased the selling square footage for computer peripherals and accessories by 70 percent. We extended our digital camera and accessories selection, allowing us to meet high demand over the holidays, and added 35mm cameras. We doubled our DVD movie offering, expanding from an average of 2,500 titles to an average of 5,000 titles in all stores. And, we added a full assortment of video game platforms, including hardware and software. We will continue to expand our video game selection as developing platforms are introduced in the new year.

Finally, our e-commerce team mirrors the store's focus on selection. More than 2,400 products are available for purchase on the Web site, including approximately 115 televisions, 45 digital cameras and 20 notebook PCs. Circuit City Web customers can purchase products online for delivery to their home or check inventory at up to three stores, purchase the products online and pick them up from the store at their convenience. In addition, the Web site enables us to offer special selections of product line extensions only available in limited supply. It further expands the stores' inventories by providing access to these more limited quantities as well as to the full Web store warehouse inventory. And, CircuitCity.com customers now have access to more than 250,000 music and movie titles through our agreement with Alliance Entertainment.

Circuit City provides a broad, feature-rich selection of name-brand consumer electronics and home office products. In fiscal 2001, we dramatically expanded our selections in computer software, peripherals and accessories; digital and 35mm cameras and imaging accessories; DVD movies; and video game hardware and software.

value
customers trust

"WE'RE CHANGING OUR STORES TO MATCH CHANGED CONSUMER SHOPPING PREFERENCES. WE MUST ALSO CHANGE OUR ADVERTISING TO REACH TODAY'S CONSUMER, GIVING IT THE SAME FRESH APPROACH WE'RE INTRODUCING IN OUR STORES."

FIONA DIAS
SENIOR VICE PRESIDENT
MARKETING

At Circuit City, we believe that for today's consumer, value is critical to an outstanding shopping experience. Value includes not only extensive product information and a vast product array, but also low prices and satisfaction after the sale.

As a primary shopping destination, our stores must offer competitive pricing with all major retailers in our categories. Our Web pricing must be competitive with available product from other major e-tailers and with our stores. We actively shop the competition and continuously enhance our inventory management systems to improve forecasting and reduce inventory carrying and distribution costs, all as part of our efforts to keep prices low. Finally, we offer a low price guarantee at all stores, and customers buying online and picking up products at the store automatically receive the lower of the Web price or the in-store price.

But to maintain our relationship with the consumer, we also must continue our commitment to service and satisfaction after the sale is complete. That commitment includes competitive return policies, home delivery for larger items, installation for items such as DIRECTV, and in-shop and in-home product repair. For in-shop repair, customers simply bring a product to the most convenient Circuit City Superstore, and we send it to one of our 23 regional repair centers.

CircuitCity.com customers also receive superior after-the-sale service. Products purchased online for home delivery are shipped the same day if the order is received before 1:00 p.m. Eastern time or the following day if after 1:00 p.m. Customer e-mails are responded to within 24 hours of receipt. We now have operated the site through two peak selling seasons and have set the standard, meeting our shipping and e-mail response criteria more than 99 percent of the time. And finally, unlike pure-play e-tailers or brick-and-mortar retailers without fully integrated sites, any products, whether they are picked up at the store or delivered to the home, may be returned or exchanged at any Circuit City Superstore.

During fiscal 2001, we made significant changes to the Circuit City consumer offer, exiting the appliance business to focus on the more promising consumer electronics and home office categories, adding more "take-with" selection to all stores and introducing a store environment that is more contemporary and more conducive to browsing as well as to finding and learning about new technologies. And yet, we kept the underlying principles of our value equation—exceptional customer service, a broad product selection, low prices and satisfaction after the sale. In fiscal 2002, we will maintain our focus on customers while we continue refining the store design as well as the operating and management information systems that support our consumer offer. Our objective, as always, remains to achieve the best returns we can for Circuit City shareholders.

At Circuit City, we are committed to providing the value that is critical to an outstanding shopping experience—extensive product information, a vast product array, low prices and satisfaction after the sale—in an environment that lets customers shop the way they want to shop.

customer-defined shopping

"IN FISCAL 2001, CARMAX'S UNIQUE CONSUMER OFFER AND OPERATIONAL CONCEPT BEGAN TO DELIVER THE PROFITABILITY ENVISIONED WHEN THE BUSINESS WAS LAUNCHED, AND NOW WE LOOK FORWARD TO TAKING THE CARMAX CONCEPT TO MORE MARKETS."

AUSTIN LIGON
PRESIDENT

"CARMAX SALES CONSULTANTS TAKE THE CUSTOMER THROUGH THE ENTIRE BUYING PROCESS, FROM VEHICLE SELECTION THROUGH TEST DRIVING AND FINANCING TO DELIVERY."

TOM FOLLIARD
EXECUTIVE VICE PRESIDENT
STORE OPERATIONS

"COMPETITIVE FINANCING IS A KEY COMPONENT THAT MAKES THE CARMAX OFFER WORK FOR THE CUSTOMER."

ANGIE SCHWARZ
VICE PRESIDENT
CARMAX AUTO FINANCE

An overriding focus on the customer also drives the success of our CarMax used-car superstores. They must offer the same value—exceptional customer service, broad selection, low prices and continued satisfaction after the sale—that characterizes successful specialty superstores nationwide. CarMax's pioneering consumer offer is unmatched in automobile retailing.

CarMax has been a hit with the consumer since the day the first store opened in Richmond, Va., in 1993. In our first year, the Richmond store's used-vehicle sales were higher than the combined used- and new-vehicle sales of any new-car dealer in the Richmond market. Today, the average used-car sales of our 33 CarMax used-car superstores are more than three times the national new-car-dealer averages for new- and used-car sales combined, and our largest superstore in Laurel, Md., sells nearly eight times that average. Over the past eight years, we have further refined the consumer offer, strengthened our operating skills and capacity, and honed our ability to deliver CarMax's value equation consistently across all stores on a daily basis.

One of the keys to our customer focus is the CarMax sales consultant. These consultants receive the same commission amount for every car they sell. Pricing on vehicles, financing and warranties are set at low, no-haggle levels, and trade-ins are handled as separate no-haggle transactions. These incentive and pricing policies enable the sales consultant to focus solely on the customer's needs rather than negotiating the best "deal" for the dealership. Whether buying a luxury vehicle or a sub-compact, the CarMax customer receives the same help and attention.

In addition, the sales consultant is able to assist the customer at every stage of the buying process, from selection and test driving, through the trade-in appraisal and sale, and sign-ups for financing and extended warranty plans. Our proprietary, enterprise-wide information system facilitates and speeds the shopping process. It allows the sales consultant and customer to instantly check system-wide inventory information, price an extended warranty or submit an application for financing. Qualified customers receive online financing approval on primary credit financing from either CarMax Auto Finance, Bank of America, or both, typically in less than five minutes. Sub-prime financing is provided through the system by a variety of third-party lenders.

CarMax also provides a customer-defined shopping experience on the Web. While most used-car customers prefer to view and test drive these unique vehicles, CarMax.com provides comprehensive information on our entire vehicle inventory. Both used-car and new-car customers can contact dedicated "eOffice" consultants online via CarMax.com, by telephone or by fax. Customers can work with these eOffice sales consultants from the comfort of home—including applying for financing—and need only visit the store to sign the paperwork and pick up their vehicle.

CarMax's pioneering consumer offer is unmatched in automobile retailing: low, no-haggle prices; a broad selection; guaranteed quality; and customer-friendly service.

comprehensive
information

"OUR ADVERTISING AND MARKETING MESSAGES EXPLAIN IN A STRAIGHT-FORWARD, 'NO-GAMES' MANNER HOW THE ELEMENTS OF THE CARMAX OFFER DIFFER FROM THOSE OF A TRADITIONAL DEALER."

JOE KUNKEL
SENIOR VICE PRESIDENT
MARKETING AND STRATEGY

"THE SYSTEMS CARMAX CUSTOMERS SEE, IN OUR STORES AND ON THE WEB, PROVIDE THE COMPREHENSIVE INFORMATION THAT DISTINGUISHES OUR CONSUMER OFFER; THE OPERATIONAL SYSTEMS THEY DON'T SEE HELP US SUCCESSFULLY DELIVER OUR OFFER."

MIKE DOLAN
SENIOR VICE PRESIDENT AND
CHIEF INFORMATION OFFICER

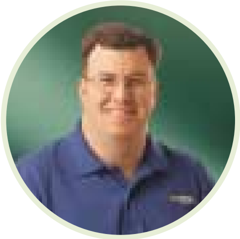
CarMax further improves the car-buying experience with easily accessible information on each used and new vehicle in our inventory. Vehicle information that includes features, specifications and the low, no-haggle CarMax price is available in-store via our automated touch-screen kiosks and online at CarMax.com. Both systems provide the comparative Kelley Blue Book price for used cars and the manufacturer's suggested retail price and the dealer invoice for new cars. Inventory information on the more than 12,000 vehicles available for sale is updated daily on CarMax.com and instantaneously on our in-store system.

Customers visiting our stores are offered sales assistance when they enter the store, but also are free to roam the vehicle selections on their own. Inventory is arranged by vehicle type—from subcompacts to light trucks and luxury vehicles—and by make within each type. An easy way to sort through the vast inventory selection is via our automated touch-screen terminals. Using these kiosks inside the store, customers can search the inventory by price point or vehicle make and model. After sorting, customers can see side-by-side comparisons that include the features, specifications and color photos of the selected vehicles. Once the customer selects a vehicle of interest, the system prints an information sheet with a map showing the vehicle's exact location on the CarMax site.

More and more consumers are researching vehicle purchases on the Web before entering a store. Early on, CarMax laid the foundation with information systems that could be naturally integrated into a Web site, and in 1996, we launched CarMax.com. CarMax.com allows consumers to search our entire used- and new-car inventory, including the prices of all vehicles. Consumers also can view financing and warranty information, estimate monthly payments, approximate trade-in values and compare the features and specifications of selected vehicles side-by-side. In fiscal 2001, we introduced a new site design and added vehicle reviews, the ability to estimate tax, title and tag fees and a link offering insurance quotes.

CarMax provides easily accessible information, including our low, no-haggle prices, on each used and new vehicle in our entire inventory—in-store via automated touch screens and online via CarMax.com.

optimal selection



"SUPERVISED BY EXPERIENCED BUYERS, OUR BUYERS-IN-TRAINING APPRAISE THOUSANDS OF CARS BEFORE MAKING THEIR FIRST SOLO PURCHASE FOR CARMAX."

CLIFF WOOD
VICE PRESIDENT
MERCHANDISING

"AN AUTO PURCHASE IS A DOCUMENT-INTENSIVE PROCESS. OUR EFFICIENT ASSOCIATES AND EFFECTIVE SYSTEMS MAKE THIS PROCESS APPEAR SIMPLE AND SEAMLESS TO THE CUSTOMER."

FRED WILSON
VICE PRESIDENT
STORE ADMINISTRATION

CarMax is a superstore for used cars. To achieve our volume objectives, we must offer a broad selection of vehicles that appeal to a large number of consumers. Within each category, we also must offer a variety of makes and models so that our customers have enough choices without having to shop all over town.

Each CarMax used-car superstore offers no fewer than 250 vehicles, and typical inventories range from 250 vehicles to 400 vehicles. At our highest volume locations, the selection rises to as many as 650 vehicles. Every CarMax superstore offers a wide selection representing all popular makes and models, from subcompact, mid-sized and luxury cars to sport utilities, trucks and mini-vans. CarMax also offers consumers the option to transfer used vehicles from any other CarMax location.

CarMax used cars are less than six years old, have fewer than 60,000 miles and generally range in price from $6,500 to $30,000. For the most cost-conscious consumer, we offer ValuMax®, which are high-quality vehicles that are more than six years old or have 60,000 miles or more. They generally range in price from $4,000 to $19,000.

Because these unique used vehicles cannot be purchased in bulk, delivering this broad selection requires special buying skills. First, to make sure our selection matches consumer tastes in each market, we purchase most cars directly from consumers in the market or at regional auctions. We appraise any vehicle and offer to purchase it from the consumer whether or not he or she buys a vehicle from CarMax. Second, we provide extensive training for CarMax buyers. From their first day with us, buyers-in-training are mentored by experienced buyers. In classroom training, buyers learn how to evaluate a used car, as well as important in-store and business operating procedures. But, the most important education they receive is their on-the-job training. This training allows them to appraise thousands of vehicles and receive a critique on each appraisal made before making their first solo purchase for CarMax.

In addition to our used-car superstores, we operate 21 new-car franchises, most of which are integrated or co-located with our superstores. Brands represented include Chrysler, Dodge, Jeep, Nissan, Mitsubishi, Toyota, BMW, Chevrolet and Ford. At each franchise, CarMax offers the full selection of manufacturer's models at no-haggle prices.

Maintaining CarMax's superior selection also requires excellent inventory management skills. Our inventory management system tracks each vehicle from its point of wholesale purchase to its sale at retail. Measuring the time a vehicle remains on our lot, tracking its purchase price versus its ultimate retail sales price and tracking movement of vehicles between locations helps generate an efficient inventory turn ratio. We are constantly using the information provided by this system to refine our buying skills, our selection and our retail prices.

CarMax is a superstore for used cars, with typical inventories ranging from 250 vehicles to 400 vehicles. In fiscal 2001, CarMax sold an average of 4,000 used cars per superstore, more than three times the combined new- and used-car volume of the average new-car dealership.

value
customers trust

"OUR SERVICE TECHNICIANS KNOW THAT WHETHER OR NOT A CUSTOMER BECOMES A REPEAT CUSTOMER DEPENDS ON THE QUALITY OF OUR RECONDITIONING AND SERVICE OPERATIONS."

ED HILL
VICE PRESIDENT
SERVICE OPERATIONS

"PAYING THE SAME FIXED DOLLAR COMMISSION ON EVERY VEHICLE ALLOWS OUR SALES CONSULTANTS TO FOCUS ON FINDING THE RIGHT CAR FOR THE CUSTOMER."

SCOTT RIVAS
VICE PRESIDENT
HUMAN RESOURCES

Creating value for automotive consumers means providing top-notch customer service, a broad selection of vehicles and easily accessible product information. But, most of all, it means providing low prices on high-quality vehicles. CarMax delivers the entire value equation.

On average, CarMax used cars are priced $1,500 below the Kelley Blue Book price. In fiscal 2001, approximately 75 percent of our new cars were priced below dealer's invoice. Every consumer receives these low prices—without having to negotiate. At CarMax, we extend no-haggle to all parts of the transaction. Consumers can receive written appraisals on any vehicle, and we will buy their cars even if they don't buy from us. We also set financing and warranty rates at low, no-haggle levels and offer customers a choice of rates and terms when they are approved by more than one financing source. Other automobile retailers may offer a good deal on the vehicle or even advertise no-haggle pricing, but most then vary the pricing on trade-ins, financing and warranties to earn back the margin lost on the vehicle.

The prices are low, but the quality is high. Every CarMax used car undergoes our rigorous Certified Quality Inspection℠. This comprehensive inspection includes the engine, cooling and fuel system, drive axle, transmission, electronic systems, suspension, brake system, steering, air conditioning, interior and optional equipment. ValuMax® must meet the same mechanical, electrical and safety standards, but fewer cosmetic and optional equipment standards. Vehicle inspections are completed systematically by CarMax mechanics, most of whom are A.S.E.-certified. Fewer than half the cars we purchase from consumers meet the CarMax retail standard; the remainder are wholesaled to other dealers at onsite auctions.

A five-day, 250-mile return guarantee and a limited 30-day warranty back every used car sold at CarMax. The majority of customers also choose to purchase extended warranties that provide comprehensive mechanical protection for periods ranging from six months to 72 months. All CarMax used-car locations provide vehicle repair service, including warranty service. CarMax extended warranty customers also have access to an additional 14,000 independent service providers nationwide. Factory-authorized warranty service is available for all new cars at CarMax new-car franchises.

From the day we opened the doors, consumers have told us they like CarMax. Today, we operate 37 locations and used cars account for more than 85 percent of the vehicles we sell. We have refined the offer and strengthened the systems that support it and our capacity to consistently deliver it. As we enter fiscal 2002, we are once again beginning to extend the CarMax offer to customers in new markets. As we engage in this expansion program, we expect that continuing to offer consumers "car-buying the way it should be" will produce healthy returns for our shareholders.

Creating value for automotive consumers means providing top-notch customer service, easily accessible product information and low prices on high-quality vehicles. CarMax delivers the entire value equation.

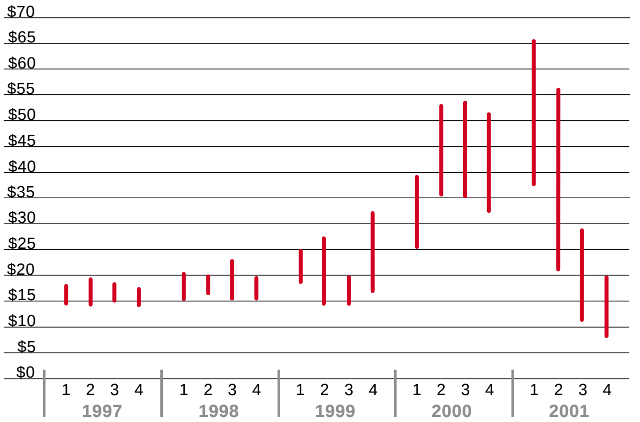
Selected Financial Data

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
CONSOLIDATED SUMMARY OF EARNINGS FROM CONTINUING OPERATIONS										
(Amounts in millions except per share data)										
Net sales and operating revenues	**$12,959**	$12,614	$10,810	$ 8,871	$ 7,664	$ 7,029	$ 5,583	$ 4,130	$ 3,270	$ 2,790
Gross profit	**$ 2,795**	$ 2,863	$ 2,456	$ 2,044	$ 1,761	$ 1,635	$ 1,385	$ 1,106	$ 924	$ 809
Selling, general and administrative expenses	**$ 2,515**	$ 2,310	$ 2,087	$ 1,815	$ 1,499	$ 1,315	$ 1,105	$ 892	$ 745	$ 676
Earnings from continuing operations before income taxes	**$ 259**	$ 529	$ 341	$ 202	$ 233	$ 295	$ 270	$ 209	$ 175	$ 124
Earnings from continuing operations	**$ 161**	$ 328	$ 211	$ 125	$ 144	$ 184	$ 169	$ 132	$ 110	$ 78
Earnings (loss) per share from continuing operations:										
Circuit City Group:										
Basic	**$ 0.73**	$ 1.63	$ 1.09	$ 0.68	$ 0.74	$ 0.95	$ 0.88	$ 0.70	$ 0.59	$ 0.43
Diluted	**$ 0.73**	$ 1.60	$ 1.08	$ 0.67	$ 0.73	$ 0.94	$ 0.87	$ 0.69	$ 0.58	$ 0.42
CarMax Group:										
Basic	**$ 0.45**	$ 0.01	$ (0.24)	$ (0.35)	$ (0.01)	$ –	$ –	$ –	$ –	$ –
Diluted	**$ 0.43**	$ 0.01	$ (0.24)	$ (0.35)	$ (0.01)	$ –	$ –	$ –	$ –	$ –
CONSOLIDATED SUMMARY OF EARNINGS FROM CONTINUING OPERATIONS PERCENTAGES										
(% to sales except effective tax rate)										
Gross profit	**21.6**	22.7	22.7	23.0	23.0	23.3	24.8	26.8	28.3	29.0
Selling, general and administrative expenses	**19.4**	18.3	19.3	20.5	19.6	18.7	19.8	21.6	22.8	24.2
Earnings from continuing operations before income taxes	**2.0**	4.2	3.2	2.3	3.0	4.2	4.8	5.1	5.4	4.5
Effective tax rate	**38.0**	38.0	38.0	38.0	38.0	37.5	37.5	36.7	37.0	37.0
Earnings from continuing operations	**1.2**	2.6	2.0	1.4	1.9	2.6	3.0	3.2	3.4	2.8
CONSOLIDATED SUMMARY BALANCE SHEETS										
(Amounts in millions)										
Total current assets	**$ 2,847**	$ 2,943	$ 2,394	$ 2,146	$ 2,163	$ 1,736	$ 1,387	$ 1,024	$ 791	$ 597
Property and equipment, net	**$ 989**	$ 965	$ 1,006	$ 1,049	$ 886	$ 774	$ 593	$ 438	$ 371	$ 319
Deferred income taxes	**$ –**	$ –	$ –	$ –	$ –	$ –	$ 6	$ 79	$ 88	$ 68
Other assets	**$ 35**	$ 47	$ 45	$ 37	$ 32	$ 16	$ 18	$ 14	$ 13	$ 15
Total assets	**$ 3,871**	$ 3,955	$ 3,445	$ 3,232	$ 3,081	$ 2,526	$ 2,004	$ 1,555	$ 1,263	$ 999
Total current liabilities	**$ 1,292**	$ 1,406	$ 964	$ 906	$ 837	$ 831	$ 706	$ 546	$ 373	$ 279
Long-term debt, excluding current installments	**$ 116**	$ 249	$ 426	$ 424	$ 430	$ 399	$ 179	$ 30	$ 82	$ 85
Deferred revenue and other liabilities	**$ 92**	$ 130	$ 112	$ 145	$ 166	$ 214	$ 242	$ 268	$ 232	$ 187
Deferred income taxes	**$ 15**	$ 28	$ 38	$ 27	$ 33	$ 18	$ –	$ –	$ –	$ –
Total liabilities	**$ 1,515**	$ 1,813	$ 1,540	$ 1,502	$ 1,466	$ 1,462	$ 1,127	$ 844	$ 687	$ 551
Total stockholders' equity	**$ 2,356**	$ 2,142	$ 1,905	$ 1,730	$ 1,615	$ 1,064	$ 877	$ 711	$ 576	$ 448
Total liabilities and stockholders' equity	**$ 3,871**	$ 3,955	$ 3,445	$ 3,232	$ 3,081	$ 2,526	$ 2,004	$ 1,555	$ 1,263	$ 999
CONSOLIDATED STATEMENTS OF CASH FLOWS FROM CONTINUING OPERATIONS										
(Amounts in millions)										
Depreciation and amortization	**$ 153**	$ 148	$ 130	$ 115	$ 99	$ 80	$ 67	$ 55	$ 42	$ 36
Cash flow from operating activities of continuing operations	**$ 156**	$ 626	$ 319	$ 236	$ 26	$ (46)	$ 51	$ 111	$ 163	$ 67
Capital expenditures	**$ 286**	$ 222	$ 352	$ 576	$ 540	$ 517	$ 375	$ 252	$ 190	$ 110
OTHER DATA										
Cash dividends per share paid on Circuit City Group Common Stock	**$ 0.07**	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.06	$ 0.05	$ 0.04	$ 0.03	$ 0.03
Return on average stockholders' equity (%)	**7.1**	9.8	7.9	6.2	10.2	18.5	21.1	20.6	21.5	19.2
Number of Associates at year-end	**56,865**	60,083	53,710	46,691	42,312	37,086	31,413	23,625	20,107	16,635
Number of Circuit City retail units at year-end	**629**	616	587	556	493	419	352	294	260	228
Number of CarMax retail units at year-end	**40**	40	31	18	7	4	2	1	–	–

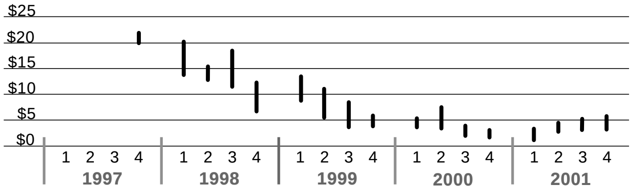
All earnings per share and dividends per share calculations for the Circuit City Group have been adjusted to reflect a two-for-one stock split effective June 30, 1999. On June 16, 1999, Digital Video Express announced that it would discontinue operations. Results of continuing operations shown above exclude Digital Video Express. See notes to consolidated and group financial statements.

HIGH-LOW PRICES

Circuit City



CarMax



Common Stock Prices

As of February 28, 2001, there were approximately 8,600 holders of the Circuit City Group Common Stock and 535 holders of the CarMax Group Common Stock.

The first graph above shows the common stock trends for Circuit City Stores, Inc. Common Stock from March 1, 1996, through February 3, 1997, and the common stock trends for Circuit City Stores, Inc.–Circuit City Group Common Stock from February 4, 1997, through February 28, 2001. 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 of newly issued Circuit City Stores, Inc.–CarMax Group Common Stock. Circuit City Group Common Stock prices have been adjusted to reflect a two-for-one stock split effective June 30, 1999.

The second graph shows the common stock trends for Circuit City Stores, Inc.–CarMax Group Common Stock from February 4, 1997, the first day it was traded, through February 28, 2001.

SHAREHOLDER INFORMATION

CERTIFIED PUBLIC ACCOUNTANTS
KPMG LLP
Richmond, Virginia

TRANSFER AGENT & REGISTRAR
Wells Fargo Bank Minnesota, N.A.
South St. Paul, Minnesota
(800) 468-9716
www.wellsfargo.com/com/shareowner_services

RIGHTS AGENT
Wells Fargo Bank Minnesota, N.A.
South St. Paul, Minnesota

CORPORATE OFFICES
9950 Mayland Drive
Richmond, Virginia 23233-1464

WEB SITES
www.CircuitCity.com
www.CarMax.com

INVESTOR INFORMATION WEB SITES
http://investor.CircuitCity.com
http://investor.CarMax.com

ANNUAL MEETING
June 15, 2001, 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
Financial and Public Relations
(804) 527-4058

CIRCUIT CITY MARKETS *(as of 2/28/01)*

ALABAMA
Anniston
Birmingham (2)
Huntsville
Montgomery
Tuscaloosa

ARIZONA
Phoenix (8)
Tucson (2)

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

CALIFORNIA
Bakersfield
Chico/Redding (2)
Fresno (3)
Los Angeles (41)
Palm Springs
Sacramento (5)
Salinas (3)
San Diego (8)
San Francisco (16)
Santa Barbara (2)

COLORADO
Colorado Springs (3)
Denver (8)
Grand Junction

CONNECTICUT
Hartford (4)

FLORIDA
Fort Myers (3)
Gainesville (2)
Jacksonville (4)
Miami (9)
Orlando (7)
Panama City
Pensacola (3)
Tallahassee
Tampa (9)
West Palm Beach (5)

GEORGIA
Albany
Atlanta (16)
Augusta
Columbus
Macon
Savannah

HAWAII
Honolulu

IDAHO
Boise
Idaho Falls

ILLINOIS
Champaign/Springfield (3)
Chicago (25)
Peoria/Bloomington (2)
Rockford

INDIANA
Evansville
Fort Wayne
Indianapolis (7)
Lafayette
South Bend
Terre Haute

KANSAS
Kansas City (5)
Topeka
Wichita (2)

KENTUCKY
Lexington
Louisville (4)
Paducah (2)

LOUISIANA
Baton Rouge
Lafayette
New Orleans (4)
Lake Charles
Texarkana/Shreveport

MAINE
Bangor
Portland

MARYLAND
Baltimore (6)
Salisbury

MASSACHUSETTS
Boston (14)
Springfield (2)

MICHIGAN
Detroit (11)
Flint (2)
Grand Rapids (5)
Lansing (3)
Traverse City

MINNESOTA
Minneapolis (9)

MISSISSIPPI
Biloxi
Jackson
Tupelo

MISSOURI
Columbia
St. Louis (7)
Springfield

NEBRASKA
Lincoln
Omaha

NEVADA
Las Vegas (3)
Reno

NEW MEXICO
Albuquerque

NEW YORK
Albany
Binghamton
Buffalo (3)
New York (32)
Rochester (3)
Syracuse

NORTH CAROLINA
Charlotte (6)
Greensboro (3)
Greenville/New Bern (2)
Raleigh (5)
Wilmington

OHIO
Cincinnati (6)
Cleveland (9)
Columbus (4)
Dayton (3)
Toledo (2)
Youngstown (2)

OKLAHOMA
Oklahoma City (2)
Tulsa (2)

OREGON
Eugene
Medford
Portland (5)

PENNSYLVANIA
Erie
Harrisburg (4)
Johnstown (3)
Philadelphia (14)
Pittsburgh (5)
Scranton/Wilkes-Barre (3)

RHODE ISLAND
Providence (5)

SOUTH CAROLINA
Charleston
Columbia (2)
Florence (2)
Greenville (4)

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

TEXAS
Abilene
Amarillo
Austin (3)
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 (5)
Roanoke (3)
Winchester

WASHINGTON
Seattle (9)
Spokane (2)
Yakima

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

WEST VIRGINIA
Charleston/Huntington (2)
Clarksburg (2)
Wheeling (2)

WISCONSIN
Appleton/Green Bay (2)
Madison (2)
Milwaukee (4)

WYOMING
Cheyenne

CARMAX MARKETS *(as of 2/28/01)*

CALIFORNIA
Los Angeles (4)

FLORIDA
Miami (3)
Orlando (2)
Tampa (2)

GEORGIA
Atlanta (3)

ILLINOIS
Chicago (6)

NORTH CAROLINA
Charlotte
Raleigh

SOUTH CAROLINA
Greenville

TENNESSEE
Nashville

TEXAS
Dallas/Fort Worth (5)
Houston (4)
San Antonio

VIRGINIA
Richmond

WASHINGTON, D.C./BALTIMORE (5)

Reported Historical Information

(Amounts in thousands except per share data)	2001	2000	1999	1998	1997
Net sales and operating revenues	**$12,959,028**	$12,614,390	$10,810,468	$8,870,797	$7,663,811
Earnings from continuing operations	**$ 160,802**	$ 327,830	$ 211,470	$ 124,947	$ 144,234
Loss from discontinued operations	**$ –**	$ (130,240)	$ (68,546)	$ (20,636)	$ (7,820)
Net earnings	**$ 160,802**	$ 197,590	$ 142,924	$ 104,311	$ 136,414
Net earnings (loss) per share attributed to:					
Circuit City Group:					
Basic:					
Continuing operations	**$ 0.73**	$ 1.63	$ 1.09	$ 0.68	$ 0.74
Discontinued operations	**$ –**	$ (0.65)	$ (0.34)	$ (0.11)	$ (0.04)
Net earnings	**$ 0.73**	$ 0.98	$ 0.75	$ 0.57	$ 0.70
Diluted:					
Continuing operations	**$ 0.73**	$ 1.60	$ 1.08	$ 0.67	$ 0.73
Discontinued operations	**$ –**	$ (0.64)	$ (0.34)	$ (0.10)	$ (0.04)
Net earnings	**$ 0.73**	$ 0.96	$ 0.74	$ 0.57	$ 0.69
CarMax Group:					
Basic	**$ 0.45**	$ 0.01	$ (0.24)	$ (0.35)	$ (0.01)
Diluted	**$ 0.43**	$ 0.01	$ (0.24)	$ (0.35)	$ (0.01)
Total assets	**$ 3,871,333**	$ 3,955,348	$ 3,445,266	$3,231,701	$3,081,173
Long-term debt, excluding current installments	**$ 116,137**	$ 249,241	$ 426,585	$ 424,292	$ 430,290
Deferred revenue and other liabilities	**$ 92,165**	$ 130,020	$ 112,085	$ 145,107	$ 166,295
Cash dividends per share paid on Circuit City Group Common Stock	**$ 0.07**	$ 0.07	$ 0.07	$ 0.07	$ 0.07

See notes to consolidated financial statements.

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

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City business and related operations and the Group's retained interest in the CarMax Group. The effects of the retained interest in the CarMax Group on the Circuit City Group's financial statements are identified by the term "Inter-Group." During the three-year period discussed in this annual report, the financial results for the Company and the Circuit City Group also have included the Company's investment in Digital Video Express, which has been discontinued. The CarMax Group Common Stock is intended to track the performance of the CarMax stores and related operations. The Circuit City Group's retained interest is not considered outstanding CarMax Group Common Stock. Therefore, the net earnings or losses attributed to the retained interest are not included in the CarMax Group's per share calculations.

Holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and as such are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. The discussion and analysis for Circuit City Stores, Inc. presented below should be read in conjunction with the discussion and analysis presented for each Group and in conjunction with all the Company's SEC filings.

RESULTS OF OPERATIONS

Sales Growth

Total sales for Circuit City Stores, Inc. increased 3 percent in fiscal 2001 to $12.96 billion. In fiscal 2000, total sales increased 17 percent to $12.61 billion from $10.81 billion in fiscal 1999.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

	Circuit City Stores, Inc.	Circuit City Group		CarMax Group	
Fiscal	Total	Total	Comparable	Total	Comparable
2001	3%	(1)%	(4)%	24%	17 %
2000	17%	13 %	8 %	37%	2 %
1999	22%	17 %	8 %	68%	(2)%
1998	16%	12 %	(1)%	71%	6 %
1997	9%	6 %	(8)%	85%	23 %

THE CIRCUIT CITY GROUP. For the Circuit City Group, total sales decreased 1 percent in fiscal 2001 to $10.46 billion. In fiscal 2000, total sales were $10.60 billion, a 13 percent increase from $9.34 billion in fiscal 1999. The fiscal 2001 total sales decline includes a 4 percent decline in the comparable store sales of the Circuit City business, partly offset by the net addition of 23 Circuit City Superstores. Throughout fiscal 2001, we experienced significant variability in the Circuit City comparable store sales pace. The sales pace in the major appliance category softened significantly at the end of the first quarter and into the second quarter. In late July, we announced plans to exit the appliance business and expand our selection of key consumer electronics and home office products. A product profitability analysis had indicated that the appliance category produced below-average profits. This analysis, combined with the declining sales pace and expected increases in competition, led to the decision to exit the category. The exit from the appliance business and remerchandising of the appliance selling space was completed by the end of the third fiscal quarter. Nevertheless, the Circuit City business continued to experience a highly variable comparable store sales pace, and sales softened substantially in the last two months of the fiscal year. We believe the variability reflects the slower consumer spending experienced by most retailers during the second half of the year, some disruption to sales caused by the partial remodeling to remerchandise the appliance space, significant declines in average retails and industry-wide declines in desktop personal computer sales by year-end. Throughout the year, new technologies, better-featured consumer electronics and the new and expanded selections added to the store produced strong sales growth, although not always in line with our expectations. Excluding the appliance category from fiscal 2001 and fiscal 2000 sales, comparable store sales rose 3 percent in fiscal 2001.

In addition to the partial remodels, we fully remodeled 25 Circuit City Superstores in central and south Florida and one Superstore in Richmond, Va., to a design that we believe is more contemporary and easier to navigate. The full remodels offer better product adjacencies, shopping carts and baskets, more and highly visible cash registers, better lighting and signs, and the expanded and new product selections now available in all stores. The 23 new stores opened from August 2000 through February 2001 also reflect this new design, and all new stores planned for fiscal 2002 will reflect this design. Consumer reaction to the design has been positive, but the ability to meet our longer-term expectations has been difficult to determine given the overall slowdown that occurred during the second half of the fiscal year. In addition, the cost of remodeling and the disruption to sales in remodeled stores were higher than anticipated. Fiscal 2002 remodels will follow a less costly design that can be completed over a shorter time period, but which we believe will offer similar benefits to the consumer. We also will focus on new marketing programs designed to increase foot traffic at all Circuit City Superstores.

Geographic expansion is currently a limited contributor to Circuit City's growth. We opened 23 new Circuit City Superstores and relocated two Circuit City Superstores in fiscal 2001, increasing the store base 4 percent. New Superstores were added to existing markets or built in one- or two-store markets given that we already operate stores in virtually all of the nation's top metropolitan markets.

From fiscal 1997 through fiscal 1998, a lack of significant consumer electronics product introductions resulted in weak industry sales. Geographic expansion was the primary contributor to growth of the Circuit City business during this time. The industry began to emerge from this period of declining sales in fiscal 1999, and that trend continued in fiscal 2000. As noted above, sales softened again in fiscal 2001. We continue to believe that new technologies will generate significant industry growth during the current decade. However, we expect little, if any, sales growth in fiscal 2002.

In most states, Circuit City sells extended warranty programs on behalf of unrelated third parties who are the primary obligors. Under these third-party warranty programs, we have no contractual liability to the customer. In states where third-party warranty sales are not permitted, Circuit City sells an extended warranty for which we are the primary obligor. Gross dollar sales from all extended warranty programs were 5.1 percent of total sales of the Circuit City business in fiscal 2001, compared with 5.4 percent in fiscal 2000 and fiscal 1999. Total extended warranty revenue, which is reported in total sales, was 4.0 percent of sales in fiscal 2001, 4.4 percent of sales in fiscal 2000 and 4.6 percent of sales in fiscal 1999. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. The fiscal 2001 decline in extended warranty sales as a percent of total sales reflects the increased selection of products, such as entertainment software, for which extended warranties are not available and reduced consumer demand for warranties on many consumer electronics and home office products that have experienced significant declines in average retails. Third-party extended warranty revenue was 3.9 percent of total sales in fiscal 2001 and 4.1 percent of total sales in fiscal 2000 and fiscal 1999.

THE CARMAX GROUP. For the CarMax Group, total sales increased 24 percent in fiscal 2001 to $2.50 billion. In fiscal 2000, total sales increased 37 percent to $2.01 billion from $1.47 billion in fiscal 1999. The fiscal 2001 total sales increase reflects a 17 percent increase in the comparable store sales of the CarMax business, driven by higher-than-anticipated used-car sales, and the net addition of two used-car superstores, two prototype satellite stores and six new-car franchises since the end of fiscal 1999. The new stores and four of the franchises moved into the comparable store sales base throughout fiscal 2001.

We believe CarMax's fiscal 2001 sales performance primarily reflects the improved execution of the CarMax offer at individual stores, increased awareness and use of the CarMax Web site and the exit of CarMax's primary used-car superstore competitor late in fiscal 2000. We believe this competitor's exit from five multi-store markets helped eliminate consumer confusion over the two offers. CarMax's used-car comparable store sales growth remained strong through the fiscal 2001 anniversary of this competitor's exit from the used-car superstore business. We also believe that the continuation of CarMax's robust used-car sales growth during the second half of the fiscal year indicates that the CarMax used-car concept offers strong consumer value and can generate steady sales growth in an economic downturn.

Geographic expansion of the CarMax used-car superstore concept and the addition of new-car franchises were the primary contributors to CarMax's total sales growth from fiscal 1999 through the first half of fiscal 2000. Throughout this period, weak used-car sales more than offset CarMax's strong comparable store sales growth in new cars. Late in fiscal 1999, CarMax adopted a hub and satellite operating strategy in existing multi-store markets. Under the hub and satellite operating model, a satellite store delivers the same consumer offer as a hub store, but uses the reconditioning, purchasing and business office operations of a nearby hub store. The prototype satellites require one-half to one-third the acreage of a standard "A" store. In fiscal 1999, we converted five CarMax superstores in multi-store markets to satellite operations and opened two prototype satellite stores. During fiscal 2000, we opened two CarMax used-car superstores, two prototype satellite used-car superstores, five stand-alone new-car stores and one new-car franchise that was integrated with a used-car superstore. CarMax also converted one existing store into a satellite operation and relocated one franchise next to a used-car superstore.

In the second half of fiscal 2000, CarMax limited its geographic expansion to focus on building sales and profitability in existing markets. The sales pace improved at CarMax's used-car superstores, including those stores with integrated new-car franchises, and CarMax generated comparable store sales growth for the last two quarters and for the fiscal year. That success continued in fiscal 2001 with strong comparable store sales throughout the year and used-car sales that exceeded expectations in all four quarters. During the year, CarMax added two new-car franchises, integrating them with existing used-car superstores.

Although the performance of the used-car superstores and integrated used- and new-car superstores exceeded expectations in fiscal 2001, we have been disappointed by the performance of the stand-alone new-car stores. Operations at these stores have improved significantly versus their levels prior to acquisition; however, they remain below our expectations.

In most states, CarMax sells extended warranties on behalf of unrelated third parties who are the primary obligors. Under this third-party warranty program, we have no contractual liability to the customer. In states where third-party warranty sales were not permitted, CarMax has sold its own extended warranty for which we are the primary obligor. Gross dollar sales from all extended warranty programs were 4.0 percent of total sales of the CarMax business in fiscal 2001, 3.7 percent in fiscal 2000 and 4.3 percent in fiscal 1999. The fiscal 2001 increase reflects the increase in used-car sales as a percentage of the overall mix, enhanced manufacturers' programs on new cars and improved warranty penetration. Used cars achieve a higher warranty penetration rate than new cars. The fiscal 2000 decrease reflects the increase in new-car sales as a percentage of the overall mix. Total extended warranty revenue, which is reported in total sales, was 1.8 percent of total sales in fiscal 2001, 1.6 percent in fiscal 2000 and 2.0 percent in fiscal 1999. Third-party extended warranty revenue was 1.8 percent of total sales in fiscal 2001, 1.6 percent in fiscal 2000 and 1.9 percent in fiscal 1999.

IMPACT OF INFLATION. Inflation has not been a significant contributor to the Company's results. For the Circuit City business, average retail prices have declined in virtually all product categories during the past three years. Although product introductions could help reverse this trend in selected areas, we expect no significant short-term change overall. Because we purchase substantially all products sold in Circuit City stores in U.S. dollars, prices are not directly impacted by the value of the dollar in relation to foreign currencies.

For the CarMax business, profitability is based on achieving specific gross profit dollars per vehicle rather than on average retail prices. Because the wholesale market generally adjusts to reflect retail price trends, we believe that if the stores meet inventory turn objectives then changes in average retail prices will have only a short-term impact on the gross margin and thus profitability of that business.

Cost of Sales, Buying and Warehousing

For the Company, the gross profit margin was 21.6 percent of sales in fiscal 2001, compared with 22.7 percent of sales in fiscal 2000 and fiscal 1999. The fiscal 2001 gross profit margin reflects lower gross profit margins for the Circuit City business and higher gross profit margins for the CarMax business, compared with fiscal 2000. Because the CarMax business produces lower gross margins than the Circuit City business, the increased sales contribution from CarMax may reduce the Company's overall gross profit margin even though CarMax's gross profit margin may increase. Excluding the impact of the appliance merchandise markdowns and the one-time appliance exit costs incurred by the Circuit City business, the Company's gross profit margin was 22.0 percent of sales in fiscal 2001.

THE CIRCUIT CITY GROUP. For the Circuit City business, the gross profit margin was 23.6 percent of sales in fiscal 2001, 24.7 percent of sales in fiscal 2000 and 24.4 percent of sales in fiscal 1999. The fiscal 2001 gross profit margin was reduced by one-time costs of $28.3 million and merchandise markdowns of $28.0 million associated with the exit from the appliance business, significantly lower appliance gross margins prior to the announced plans to exit that business and a merchandise mix that included a high percentage of traditional products that carry lower gross profit margins. The one-time appliance exit costs included lease terminations, employee severance, fixed asset impairment and other related costs. Excluding the appliance category, the gross profit margin was 24.7 percent of sales in fiscal 2001, compared with 25.4 percent of sales in fiscal 2000 and 24.7 percent of sales in fiscal 1999. Excluding the impact of the appliance merchandise markdowns and the one-time appliance exit costs, the gross profit margin was 24.1 percent of sales in fiscal 2001.

The improvement in the gross profit margin from fiscal 1999 to fiscal 2000 primarily reflected the higher percentage of sales from better-featured products and newer technologies, which carry higher gross profit margins, and continued improvements in inventory management partly offset by the strength in personal computer sales, which carry lower gross margins. In fiscal 2001, the decline in the gross profit margin was limited by lower personal computer sales and by continued double-digit sales growth in new technologies and in higher margin categories where selection was expanded as part of the exit from the appliance business. The impact of the appliance category and the high proportion of sales represented by traditional products more than offset these factors.

THE CARMAX GROUP. For the CarMax business, the gross profit margin was 13.2 percent in fiscal 2001, 11.9 percent in fiscal 2000 and 11.7 percent in fiscal 1999. At the end of fiscal 1998, CarMax instituted a profit improvement plan that included better inventory management, increased retail service sales, pricing adjustments and the addition of consumer electronics accessory sales. CarMax's gross profit margins have improved significantly since that time. In fiscal 2001, the increase in used-car sales as a percent of the total sales mix and continued strong inventory management throughout the year, especially during the second half when the model-year transition occurs in the new-car segment, contributed to a higher gross margin. Significant increases in unit sales of new cars as a percentage of total unit sales limited the gross margin improvement in fiscal 2000.

Selling, General and Administrative Expenses

For the Company, selling, general and administrative expenses were 19.4 percent of sales in fiscal 2001, compared with 18.3 percent of sales in fiscal 2000 and 19.3 percent of sales in fiscal 1999. Profits generated by the Company's finance operations are recorded as a reduction to selling, general and administrative expenses.

THE CIRCUIT CITY GROUP. For the Circuit City business, selling, general and administrative expenses were 21.7 percent of sales in fiscal 2001, compared with 19.6 percent of sales in fiscal 2000 and 20.1 percent of sales in fiscal 1999. The fiscal 2001 increase reflects the decline in comparable store sales, $41.9 million in remodeling costs for the Florida stores, $30.0 million in costs related to the partial remodels and $5.0 million in severance costs associated with the fourth quarter workforce reduction. Excluding these costs and the estimated sales disruption during the seven to 10 days of partial remodeling that occurred primarily in the third quarter, the fiscal 2001 expense ratio would have been 20.9 percent of sales. The improvement in the expense ratio from fiscal 1999 to fiscal 2000 primarily reflects leverage gained from the fiscal 2000 comparable store sales increase.

THE CARMAX GROUP. For the CarMax business, selling, general and administrative expenses were 9.8 percent of sales in fiscal 2001, 11.3 percent of sales in fiscal 2000 and 13.9 percent of sales in fiscal 1999. The fiscal 2001 selling, general and administrative expense ratio continued the improvement experienced in fiscal 2000 and reflects the leverage achieved from strong total and comparable store sales growth; more efficient advertising expenditures; overall improvements in store productivity, including those achieved through the hub and satellite operating strategy we adopted in multi-store markets; and a favorable contribution from the finance operation. The fiscal 2001 improvements were partly offset by an $8.7 million write-off of goodwill associated with two underperforming stand-alone new-car franchises. Excluding these costs, the fiscal 2001 expense ratio would have been 9.4 percent of sales. The fiscal 2000 improvements were partly offset by $4.8 million in charges related to lease termination costs on undeveloped property and a write-down of assets associated with excess property for sale. Excluding these costs, the fiscal 2000 expense ratio would have been 11.1 percent of sales. The higher ratio in fiscal 1999 reflects the costs associated with the expansion of CarMax superstores and the below-plan sales in a number of multi-store metropolitan markets.

Interest Expense

Interest expense has remained unchanged as a percent of sales across the three-year period at 0.2 percent of sales.

Earnings from Continuing Operations

Earnings from continuing operations for Circuit City Stores, Inc. were $160.8 million in fiscal 2001, compared with $327.8 million in fiscal 2000 and $211.5 million in fiscal 1999. The fiscal 2001 decrease reflects the lower earnings for the Circuit City business, partly offset by the earnings increase achieved by the CarMax business. The fiscal 2000 increase reflects earnings growth of 39 percent for the Circuit City business and a slight profit for the CarMax business.

THE CIRCUIT CITY GROUP. For the Circuit City business, earnings from continuing operations before the Inter-Group Interest in the CarMax Group were $115.2 million, or 56 cents per share, in fiscal 2001, compared with $326.7 million, or $1.60 per share, in fiscal 2000 and $235.0 million, or $1.17 per share, in fiscal 1999. Excluding the estimated sales disruption during the seven to 10 days of partial remodeling, the appliance merchandise markdowns, exit costs, remodel expenses and severance costs related to the workforce reduction, earnings from continuing operations before the Inter-Group Interest in the CarMax Group would have been $205.1 million, or $1.00 per share, in fiscal 2001.

The net earnings attributed to the Circuit City Group's Inter-Group Interest in the CarMax Group were $34.0 million in fiscal 2001, compared with net earnings of $862,000 in fiscal 2000 and a net loss of $18.1 million in fiscal 1999.

Earnings from continuing operations attributed to the Circuit City Group were $149.2 million, or 73 cents per share, in fiscal 2001; $327.6 million, or $1.60 per share, in fiscal 2000; and $216.9 million, or $1.08 per share, in fiscal 1999.

Fiscal	Circuit City Group Earnings per Share from Continuing Operations 2001	2000	1999
Circuit City store business	$ 1.00	$1.60	$ 1.17
Impact of merchandise markdowns*	(0.08)	–	–
Impact of appliance exit	(0.09)	–	–
Impact of Florida remodels**	(0.13)	–	–
Impact of partial remodels**	(0.09)	–	–
Impact of sales disruption	(0.03)	–	–
Impact of workforce reduction**	(0.02)	–	–
Inter-Group Interest in CarMax	0.17	–	(0.09)
Circuit City Group	$ 0.73	$1.60	$ 1.08

** Reflected as a reduction in gross profit margins.*
*** Reflected as an increase in selling, general and administrative expenses.*

THE CARMAX GROUP. For the CarMax business, net earnings were $45.6 million in fiscal 2001, compared with net earnings of $1.1 million in fiscal 2000 and a net loss of $23.5 million in fiscal 1999. Excluding the write-off of goodwill, net earnings would have been $51.0 million in fiscal 2001. Excluding lease termination costs and the write-down of assets, net earnings would have been $4.1 million in fiscal 2000.

Net earnings attributed to the CarMax Group Common Stock were $11.6 million, or 43 cents per share, in fiscal 2001, compared with $256,000, or 1 cent per share, in fiscal 2000, and a net loss of $5.5 million, or 24 cents per share, in fiscal 1999.

Loss from Discontinued Operations

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

The loss from the discontinued operations of Divx totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000 and $68.5 million after an income tax benefit of $42.0 million in fiscal 1999.

In fiscal 2000, the loss on the disposal of the Divx business totaled $114.0 million after an income tax benefit of $69.9 million. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

Net Earnings

Net earnings for the Company were $160.8 million in fiscal 2001, $197.6 million in fiscal 2000 and $142.9 million in fiscal 1999.

Operations Outlook

THE CIRCUIT CITY GROUP. For the Circuit City business, we believe that increased household penetration of products and services such as broadband Internet access, wireless communications, multi-channel video programming devices, digital television and digital imaging will drive profitability of the consumer electronics business during the current decade. For that reason, we are focused on store designs, sales counselor training, inventory management, marketing programs and Six Sigma process improvements that will maintain Circuit City's position as a leading retailer of new technologies.

Despite these plans and longer-term outlook, we recognize that the sales pace shifted significantly throughout fiscal 2001 and that sales were especially weak at the end of the fiscal year. Therefore, we are cautious in our outlook for fiscal 2002. We expect to open 15 to 20 new Circuit City Superstores, relocate approximately 10 Superstores and fully remodel 20 to 25 Superstores. We expect limited sales and earnings growth for the Circuit City business in fiscal 2002. We do, however, expect continued strong sales and earnings growth for the CarMax business and anticipate that CarMax will make a greater contribution to the earnings attributed to the Circuit City Group in fiscal 2002.

THE CARMAX GROUP. We believe that the higher-than-expected sales and earnings growth produced by CarMax in fiscal 2001 indicates that the CarMax business has developed a store concept that can generate sustained profits. We believe that we have in place the infrastructure that will enable CarMax to maintain its improved level of execution, generate additional comparable store sales growth and resume geographic expansion.

In single-store markets, our most mature CarMax stores have captured market shares of 8 percent to 10 percent. We have identified approximately 35 additional markets that could support an "A" store, the standard CarMax store size going forward. We expect to enter two of these markets, Sacramento, Calif., and Greensboro, N.C., in late fiscal 2002. We also believe that we can add another 10 satellite CarMax superstores in our existing multi-store markets. Assuming the CarMax used-car business continues to meet our expectations, we plan to open, in fiscal 2003, four to six stores, including openings in single-store markets and satellite stores in existing multi-store markets, and, in fiscal 2004 through fiscal 2006, six to eight stores per year, again focusing near-term growth on single-store markets or satellites.

Based on the performance of the existing used-car superstores, we believe that a standard "A" store in a single-store market will at maturity produce sales in the $50 million to $100 million range and a pretax, before non-store overhead, store operating profit margin in the range of 5.0 percent to 9.5 percent. We believe a satellite store at maturity will produce sales in the $36 million to $72 million range and a pretax, before non-store overhead, store operating profit margin in the range of 5.0 percent to 9.3 percent. In both cases, maturity is assumed to be the fifth year of operation. If we meet our store opening and sales per store objectives, we believe that CarMax can produce annual sales volumes of $5 billion within five years. Non-store overhead, which includes all field operating expenses outside the store as well as corporate overhead, was 2.3 percent of sales in fiscal 2001, and we estimate it will decline to approximately 1.7 percent of sales when annual volumes reach $5 billion.

Given the strong fiscal 2001 performance, we are highly optimistic about our growth plan for CarMax. Nevertheless, we will proceed cautiously as we seek to ensure that all sales growth is profitable sales growth and that we are delivering an attractive return on investment.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and No. 138, is effective for quarters in fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, standardizes the accounting for derivative instruments and requires that an entity recognize those items as either assets or liabilities and measure them at fair value.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." While SFAS No. 140 carries over most of the provisions of SFAS No. 125, it provides new standards for reporting financial assets transferred as collateral and new standards for the derecognition of financial assets, in particular transactions involving the use of special purpose entities. SFAS No. 140 also prescribes additional disclosures for securitization transactions accounted for as sales. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, except for certain disclosures that are required for fiscal years ending after December 15, 2000. The Company does not expect the adoption of SFAS No. 133 or SFAS No. 140 to have a material impact on its financial position, results of operations or cash flows.

In July 2000, the FASB issued Emerging Issues Task Force No. 00-14, "Accounting for Certain Sales Incentives," which is effective for the fiscal quarter beginning after March 15, 2001. The issue provides guidance for sales incentives offered to customers to be classified as a reduction of revenue. The Company offers certain mail-in rebates that the Company currently records in cost of sales, buying and warehousing. The Company does not expect the adoption of EITF No. 00-14 to have a material impact on its financial position, results of operations or cash flows. However, the Company expects to reclassify certain rebate expenses from cost of sales, buying and warehousing to net sales and operating income to be in compliance with EITF No. 00-14. For fiscal 2001, this reclassification would have increased our gross profit margin and our expense ratio by 20 basis points.

FINANCIAL CONDITION

Liquidity and Capital Resources

In fiscal 2001, net cash provided by operating activities of continuing operations was $155.8 million, compared with $626.2 million in fiscal 2000 and $319.0 million in fiscal 1999. The fiscal 2001 decrease reflects the lower earnings from continuing operations for the Circuit City business and a decrease in accounts payable, partly offset by the increase in earnings for the CarMax business. The fiscal 2000 increase primarily reflects increased earnings from the Circuit City and CarMax businesses and increases in accounts payable for both businesses, partly offset by increases in inventory.

During fiscal 2001, a term loan totaling $175 million was repaid using existing working capital. In addition, a term loan totaling $130 million and due in June 2001 was classified as a current liability. Although the Company has the ability to refinance this debt, we intend to repay it using existing working capital.

Capital expenditures have been funded primarily through sale-leaseback transactions, landlord reimbursements and short- and long-term debt. Capital expenditures of $285.6 million in fiscal 2001 primarily were related to Circuit City Superstore remodeling and new Circuit City Superstore construction. Capital expenditures of $222.3 million in fiscal 2000 and $352.4 million in fiscal 1999 largely were incurred in connection with the expansion programs for both businesses. Sale-leasebacks, landlord reimbursement transactions and fixed asset sales totaled $115.7 million in fiscal 2001, $100.2 million in fiscal 2000 and $273.6 million in fiscal 1999.

During fiscal 2001, CarMax acquired one new-car franchise for a total of $1.3 million. In fiscal 2000, CarMax acquired five new-car franchises for a total of $34.8 million. These acquisitions were financed through cash resources. Costs in excess of the acquired net tangible assets, which were primarily inventory, were recorded as goodwill and covenants not to compete.

Receivables generated by the Company's 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 finance operation has a master trust securitization facility for its private-label credit card that allows the transfer of up to $1.31 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to $1.94 billion in receivables related to the operation's bankcard programs. Securitized receivables under all Circuit City programs totaled $2.75 billion at February 28, 2001.

The Company also has an asset securitization program operated through a special purpose subsidiary on behalf of CarMax. At the end of fiscal 2001, that program allowed the transfer of up to $450 million in automobile loan receivables. In October 1999, the Company formed an owner trust securitization facility that allowed for a $644 million securitization of automobile loan receivables in the public market. At February 28, 2001, the program had a capacity of $329 million. In January 2001, the Company formed an additional owner trust securitization facility that allowed for a $655 million securitization of automobile loan receivables in the public market. The program had a capacity of $655 million at the end of fiscal 2001. Securitized receivables under all CarMax programs totaled $1.28 billion at the end of fiscal 2001.

The receivables are sold to unaffiliated third parties with the servicing rights retained. We expect that securitization programs can be expanded to accommodate future growth for both businesses.

Capital Structure

Total assets at February 28, 2001, were $3.87 billion, down $84.0 million, or 2 percent, since February 29, 2000. A $197.8 million decrease in cash offset by a $68.5 million increase in inventory primarily contributed to the decrease in total assets.

Over the past three years, expansion for the Circuit City and CarMax businesses has been funded with internally generated cash, sale-leaseback transactions, operating leases and short-term and long-term debt. Finance operation receivables have been funded through securitization transactions.

During fiscal 2001, stockholders' equity increased 10 percent to $2.36 billion. Capitalization for the past five years is illustrated in the "Capitalization" table below. Net earnings for the Circuit City Group and the CarMax Group produced a return on equity of 7.1 percent in fiscal 2001, compared with 9.8 percent in fiscal 2000.

We anticipate that in fiscal 2002 capital expenditures of approximately $295 million will be funded through a combination of internally generated cash, sale-leaseback transactions, operating leases or floor plan financing of inventory and that securitization transactions will finance the growth in receivables. At the end of fiscal 2001, we maintained a multi-year, $150 million unsecured revolving credit agreement and $360 million in committed seasonal lines that are renewed annually with various banks.

The Groups rely on the external debt of Circuit City Stores, Inc. to provide working capital needed to fund net assets not otherwise financed through 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, sale-leasebacks of real estate and Inter-Group loans.

MARKET RISK

The Company manages the private-label and bankcard revolving loan portfolios of the Circuit City finance operation and the automobile installment loan portfolio of the CarMax finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Company's balance sheets. 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 accounts in 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, 2001, and February 29, 2000, had the following APR structure:

(Amounts in millions)	2001	2000
Indexed to prime rate	$2,596	$2,631
Fixed APR	203	213
Total	$2,799	$2,844

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued at floating rates based on LIBOR. Receivables held by the Company for sale are financed with working capital. At February 28, 2001, and February 29, 2000, financings were as follows:

(Amounts in millions)	2001	2000
Floating-rate (including synthetic alteration) securitizations	$2,754	$2,689
Fixed-rate securitizations	–	137
Held by the Company for sale	45	18
Total	$2,799	$2,844

CAPITALIZATION

Fiscal	2001		2000		1999		1998		1997	
(Dollar amounts in millions)	$	%	$	%	$	%	$	%	$	%
Long-term debt, excluding current installments	116.1	5	249.2	10	426.6	17	424.3	18	430.3	19
Other long-term liabilities	107.1	4	157.8	6	149.7	6	171.5	7	199.4	9
Total stockholders' equity	2,356.5	91	2,142.2	84	1,905.1	77	1,730.0	75	1,614.8	72
Total capitalization	2,579.7	100	2,549.2	100	2,481.4	100	2,325.8	100	2,244.5	100

Automobile Installment Loans

Total principal outstanding for fixed-rate automobile loans at February 28, 2001, and February 29, 2000, was as follows:

(Amounts in millions)	2001	2000
Fixed APR	$1,296	$932

Financing for these receivables is achieved through asset securitization programs that, in turn, issue fixed- and floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched to projected payoffs. Receivables held by the Company for investment or sale are financed with working capital. Financings at February 28, 2001, and February 29, 2000, were as follows:

(Amounts in millions)	2001	2000
Fixed-rate securitization	$ 984	$559
Floating-rate securitizations		
synthetically altered to fixed	299	327
Floating-rate securitizations	1	1
Held by the Company:		
For investment*	9	22
For sale	3	23
Total	$1,296	$932

** Held by a bankruptcy remote special purpose company.*

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 2001, and February 29, 2000. Because programs are in place to manage interest rate exposure relating to the consumer loan portfolios, we expect to experience relatively little impact as interest rates fluctuate. 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.

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 2002 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 online 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, or consumer acceptance 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) inability on the part of either of the Company's businesses to liquidate excess inventory should excess inventory develop;

(g) unanticipated adverse results from the remodeling of Circuit City Superstores;

(h) the ability to attract and retain 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;

(i) 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 automobile installment loan receivables;

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

(k) availability of appropriate real estate locations for expansion;

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

(m) adverse results in significant litigation matters;

(n) changes in levels of competition in the car business from either traditional competitors and/or new nontraditional competitors utilizing auto superstore or other formats; and,

(o) the inability of the CarMax business to reach expected mature sales and earnings potential.

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.

Circuit City Stores, Inc.

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.

	Circuit City Group*						CarMax Group			
	Market Price of Common Stock				Dividends		Market Price of Common Stock			
Fiscal	2001		2000		2001	2000	2001		2000	
Quarter	HIGH	LOW	HIGH	LOW			HIGH	LOW	HIGH	LOW
1st	$65.19	$37.25	$39.19	$25.94	$.0175	$.0175	$4.25	$1.56	$5.50	$3.69
2nd	$56.63	$21.00	$52.97	$35.44	$.0175	$.0175	$4.88	$2.63	$7.13	$3.38
3rd	$28.25	$ 11.56	$53.88	$35.00	$.0175	$.0175	$5.38	$3.38	$4.00	$1.75
4th	$19.90	$ 8.69	$51.69	$32.50	$.0175	$.0175	$5.50	$3.69	$3.25	$1.31
Total					$.0700	$.0700				

** Circuit City Group stock prices and dividends per share have been adjusted to reflect a two-for-one stock split effective June 30, 1999.*

Consolidated Statements of Earnings

(Amounts in thousands except per share data)	Years Ended February 28 or 29 2001	%	2000	%	1999	%
NET SALES AND OPERATING REVENUES	**$12,959,028**	100.0	$12,614,390	100.0	$10,810,468	100.0
Cost of sales, buying and warehousing	**10,135,380**	78.2	9,751,833	77.3	8,354,230	77.3
Appliance exit costs [NOTE 15]	**28,326**	0.2	–	–	–	–
GROSS PROFIT	**2,795,322**	21.6	2,862,557	22.7	2,456,238	22.7
Selling, general and administrative expenses [NOTE 11]	**2,514,912**	19.4	2,309,593	18.3	2,086,838	19.3
Appliance exit costs [NOTE 15]	**1,670**	–	–	–	–	–
Interest expense [NOTE 5]	**19,383**	0.2	24,206	0.2	28,319	0.2
TOTAL EXPENSES	**2,535,965**	19.6	2,333,799	18.5	2,115,157	19.5
Earnings from continuing operations before income taxes	**259,357**	2.0	528,758	4.2	341,081	3.2
Provision for income taxes [NOTE 6]	**98,555**	0.8	200,928	1.6	129,611	1.2
EARNINGS FROM CONTINUING OPERATIONS	**160,802**	1.2	327,830	2.6	211,470	2.0
Discontinued operations [NOTE 16]:						
Loss from discontinued operations of Divx, less income tax benefit	**–**	–	(16,215)	(0.1)	(68,546)	(0.7)
Loss on disposal of Divx, less income tax benefit	**–**	–	(114,025)	(0.9)	–	–
Loss from discontinued operations	**–**	–	(130,240)	(1.0)	(68,546)	(0.7)
NET EARNINGS	**$ 160,802**	1.2	$ 197,590	1.6	$ 142,924	1.3
Net earnings (loss) attributed to [NOTES 1 AND 2]:						
Circuit City Group Common Stock:						
Continuing operations	**$ 149,247**		$ 327,574		$ 216,927	
Discontinued operations	**–**		(130,240)		(68,546)	
CarMax Group Common Stock	**11,555**		256		(5,457)	
	$ 160,802		$ 197,590		$ 142,924	
Weighted average common shares [NOTES 2 AND 8]:						
Circuit City Group basic	**203,774**		201,345		198,304	
Circuit City Group diluted	**205,830**		204,321		200,812	
CarMax Group basic	**25,554**		23,778		22,604	
CarMax Group diluted	**26,980**		25,788		22,604	
NET EARNINGS (LOSS) PER SHARE ATTRIBUTED TO [NOTES 2 AND 8]:						
Circuit City Group basic:						
Continuing operations	**$ 0.73**		$ 1.63		$ 1.09	
Discontinued operations	**–**		(0.65)		(0.34)	
Net earnings	**$ 0.73**		$ 0.98		$ 0.75	
Circuit City Group diluted:						
Continuing operations	**$ 0.73**		$ 1.60		$ 1.08	
Discontinued operations	**–**		(0.64)		(0.34)	
Net earnings	**$ 0.73**		$ 0.96		$ 0.74	
CarMax Group basic	**$ 0.45**		$ 0.01		$ (0.24)	
CarMax Group diluted	**$ 0.43**		$ 0.01		$ (0.24)	

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(Amounts in thousands except share data)	At February 28 or 29 2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 446,131**	$ 643,933
Net accounts receivable [NOTE 12]	**585,761**	593,276
Inventory	**1,757,664**	1,689,209
Prepaid expenses and other current assets	**57,623**	16,197
TOTAL CURRENT ASSETS	**2,847,179**	2,942,615
Property and equipment, net [NOTES 4 AND 5]	**988,947**	965,181
Other assets	**35,207**	47,552
TOTAL ASSETS	**$3,871,333**	$3,955,348
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 5 AND 10]	**$ 132,388**	$ 177,344
Accounts payable	**902,560**	960,131
Short-term debt [NOTE 5]	**1,200**	3,005
Accrued expenses and other current liabilities	**162,972**	204,561
Deferred income taxes [NOTE 6]	**92,479**	61,118
TOTAL CURRENT LIABILITIES	**1,291,599**	1,406,159
Long-term debt, excluding current installments [NOTES 5 AND 10]	**116,137**	249,241
Deferred revenue and other liabilities	**92,165**	130,020
Deferred income taxes [NOTE 6]	**14,949**	27,754
TOTAL LIABILITIES	**1,514,850**	1,813,174
STOCKHOLDERS' EQUITY [NOTES 1 AND 7]:		
Circuit City Group Common Stock, $0.50 par value; 350,000,000 shares authorized; 207,020,000 shares issued and outstanding (203,868,000 in 2000)	**103,510**	101,934
CarMax Group Common Stock, $0.50 par value; 175,000,000 shares authorized; 25,639,000 shares issued and outstanding (25,614,000 in 2000)	**12,820**	12,807
Capital in excess of par value	**642,838**	576,574
Retained earnings	**1,597,315**	1,450,859
TOTAL STOCKHOLDERS' EQUITY	**2,356,483**	2,142,174
Commitments and contingent liabilities [NOTES 1, 9, 10, 12, 13, 14, 15 and 16]		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$3,871,333**	$3,955,348

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Amounts in thousands)	2001	2000	1999
	Years Ended February 28 or 29		
OPERATING ACTIVITIES:			
Net earnings	**$ 160,802**	$ 197,590	$ 142,924
Adjustments to reconcile net earnings to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations [NOTE 16]	**–**	16,215	68,546
Loss on disposal of discontinued operations [NOTE 16]	**–**	114,025	–
Depreciation and amortization	**153,090**	148,164	129,727
Loss on disposition of property and equipment	**4,674**	17	3,087
Provision for deferred income taxes	**19,765**	43,053	17,235
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Decrease in deferred revenue and other liabilities	**(17,855)**	(15,565)	(33,022)
Decrease (increase) in net accounts receivable	**7,541**	(18,922)	23,640
Increase in inventory	**(67,655)**	(184,507)	(97,597)
(Increase) decrease in prepaid expenses and other current assets	**(41,426)**	81,316	31,257
Decrease (increase) in other assets	**1,012**	240	(607)
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	**(64,193)**	244,559	33,838
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**155,755**	626,185	319,028
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 3]	**(1,325)**	(34,849)	(41,562)
Purchases of property and equipment	**(285,556)**	(222,268)	(352,384)
Proceeds from sales of property and equipment	**115,695**	100,151	273,647
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	**(171,186)**	(156,966)	(120,299)
FINANCING ACTIVITIES:			
Payments on short-term debt, net	**(1,805)**	(5,011)	(960)
Principal payments on long-term debt [NOTE 5]	**(178,060)**	(2,707)	(1,301)
Issuances of Circuit City Group Common Stock, net	**38,123**	18,591	34,301
Issuances of CarMax Group Common Stock, net	**(109)**	2,361	2,324
Dividends paid on Circuit City Group Common Stock	**(14,346)**	(14,207)	(13,981)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	**(156,197)**	(973)	20,383
CASH USED IN DISCONTINUED OPERATIONS [NOTE 16]	**(26,174)**	(90,193)	(69,844)
(Decrease) increase in cash and cash equivalents	**(197,802)**	378,053	149,268
Cash and cash equivalents at beginning of year	**643,933**	265,880	116,612
Cash and cash equivalents at end of year	**$ 446,131**	$ 643,933	$ 265,880
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	**$ 25,336**	$ 34,389	$ 31,858
Income taxes	**$ 117,366**	$ 14,908	$ 53,528

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Amounts in thousands except per share data)	Common Shares Outstanding		Common Stock				
	Circuit City Group	CarMax Group	Circuit City Group	CarMax Group	Capital In Excess of Par Value	Retained Earnings	Total
BALANCE AT MARCH 1, 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
Effect of two-for-one stock split [NOTE 1]	100,820	–	50,410	–	(50,410)	–	–
Net earnings	–	–	–	–	–	197,590	197,590
Exercise of common stock options [NOTE 7]	2,864	2,027	1,432	1,014	34,232	–	36,678
Shares issued under Employee Stock Purchase Plans [NOTE 7]	502	506	251	253	21,547	–	22,051
Shares issued under the 1994 Stock Incentive Plan [NOTE 7]	346	30	173	15	13,996	–	14,184
Tax benefit from stock issued	–	–	–	–	32,459	–	32,459
Shares cancelled upon reacquisition by Company	(1,484)	(65)	(742)	(33)	(52,173)	–	(52,948)
Unearned compensation-restricted stock	–	–	–	–	1,237	–	1,237
Cash dividends-Circuit City Group Common Stock ($0.07 per share)	–	–	–	–	–	(14,207)	(14,207)
BALANCE AT FEBRUARY 29, 2000	203,868	25,614	101,934	12,807	576,574	1,450,859	2,142,174
Net earnings	–	–	–	–	–	160,802	160,802
Exercise of common stock options [NOTE 7]	1,526	56	763	28	35,391	–	36,182
Shares issued under Employee Stock Purchase Plans [NOTE 7]	862	–	431	–	16,119	–	16,550
Shares issued under the 1994 Stock Incentive Plan [NOTE 7]	1,486	–	743	–	31,912	–	32,655
Tax benefit from stock issued	–	–	–	–	29,839	–	29,839
Shares cancelled upon reacquisition by Company	(722)	(31)	(361)	(15)	(32,774)	–	(33,150)
Unearned compensation-restricted stock	–	–	–	–	(14,223)	–	(14,223)
Cash dividends-Circuit City Group Common Stock ($0.07 per share)	–	–	–	–	–	(14,346)	(14,346)
BALANCE AT FEBRUARY 28, 2001	**207,020**	**25,639**	**$103,510**	**$12,820**	**$642,838**	**$1,597,315**	**$2,356,483**

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued (see Note 16). The CarMax Group Common Stock is intended to track the performance of the CarMax Group's operations. The Circuit City Group held a 74.6 percent interest in the CarMax Group at February 28, 2001, a 74.7 percent interest at February 29, 2000, and a 76.6 percent interest at February 28, 1999. The terms of each series of common stock are discussed in detail in the Company's Form 8-A registration statement on file with the SEC.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing the financial statements, holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Net losses of either Group, and dividends or distributions on, or repurchases of, Circuit City Group Common Stock or CarMax Group Common Stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the Company's consolidated financial statements included herein should be read in conjunction with the financial statements of each Group and the Company's SEC filings.

The financial statements of the Company reflect each Group's businesses as well as the allocation of the Company's assets, liabilities, expenses and cash flows between the Groups in accordance with the policies adopted by the board of directors. These policies may be modified or rescinded, or new policies may be adopted, at the sole discretion of the board of directors, although the board of directors has no present plans to do so. These management and allocation policies include the following:

(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. Debt of the Company is either allocated between the Groups (pooled debt) or is allocated in its entirety to one Group. 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.

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

(C) INCOME TAXES: The Groups are included in the consolidated federal income tax return and in certain state tax returns filed by the Company. Accordingly, 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 are allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to each 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.

On June 15, 1999, the board of directors declared a two-for-one split of the outstanding Circuit City Group Common Stock in the form of a 100 percent stock dividend. All share, earnings per share and dividends per share calculations for the Circuit City Group included in the accompanying consolidated financial statements reflect this stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of the Circuit City Group 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 $408,778,000 at February 28, 2001, and $583,506,000 at February 29, 2000, consist of highly liquid debt securities with original maturities of three months or less.

(C) TRANSFERS AND SERVICING OF FINANCIAL ASSETS: For transfers of financial assets that qualify as sales, the Company may retain interest-only strips, one or more subordinated tranches, residual interests in a securitization trust, servicing rights and a cash reserve account, all of which are retained interests in the securitized receivables. These retained interests are measured based on the fair value at the date of transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions such as finance charge income, default rates, payment rates, forward yield curves and discount rates appropriate for the type of asset and risk. Retained interests are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings.

(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 because of 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) 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: The Company accounts for computer software costs in accordance with 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 SOP 98-1 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) 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 values of intangible assets are periodically reviewed by the Company and impairments are recognized when the future undiscounted operating cash flows expected from such intangible assets are less than the carrying values.

(I) PRE-OPENING EXPENSES: Effective March 1, 1999, the Company adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires costs of start-up activities, including organization and pre-opening costs, to be expensed as incurred. Prior to fiscal 2000, the Company capitalized pre-opening costs for new store locations. Beginning in the month after the store opened for business, the pre-opening costs were amortized over the remainder of the fiscal year.

(J) 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.

(K) REVENUE RECOGNITION: The Company recognizes revenue when the earnings process is complete, generally at either the time of sale to a customer or upon delivery to a customer.

(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. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale, because the third parties are the primary obligors under these contracts. Inasmuch as Circuit City is the primary obligor on its own contracts, all revenue from the sale of these 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.

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. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale, because the third parties are the primary obligors under these contracts. Inasmuch as CarMax is the primary obligor on its own contracts, all revenue from the sale of these contracts was 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 were deferred and charged to expense in proportion to the revenue recognized.

(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: The Company calculates earnings per share based upon SFAS No. 128, "Earnings per Share." Basic net earnings per share attributed to Circuit City Group Common Stock is computed by dividing net earnings attributed to Circuit City Group Common Stock, including the Circuit City Group's retained interest in the CarMax Group, by the weighted average number of shares of Circuit City Group Common Stock outstanding. Diluted net earnings per share attributed to Circuit City Group Common Stock is computed by dividing net earnings attributed to Circuit City Group Common Stock, which includes the Circuit City Group's retained interest in the CarMax Group, by the weighted average number of shares of Circuit City Group Common Stock outstanding and dilutive potential Circuit City Group Common Stock.

Basic net earnings (loss) per share attributed to CarMax Group Common Stock is computed by dividing net earnings (loss) attributed to CarMax Group Common Stock by the weighted average number of shares of CarMax Group Common Stock outstanding. Diluted net earnings per share attributed to CarMax Group Common Stock is computed by dividing net earnings attributed to CarMax Group Common Stock by the weighted average number of shares of CarMax Group Common

Stock outstanding and dilutive potential CarMax Group Common Stock.

(P) STOCK-BASED COMPENSATION: The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees," and provides the pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation."

(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. 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 to be 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: The Circuit City Group is a leading national retailer of brand-name consumer electronics, personal computers and entertainment software. The diversity of the Circuit City Group's products, customers, suppliers and geographic operations 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.

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, competition or sources of supply. However, because of 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 accounting principles generally accepted in the United States of America 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) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 2001.

3. BUSINESS ACQUISITIONS

The CarMax Group acquired the franchise rights and the related assets of one new-car dealership for an aggregate cost of $1.3 million in fiscal 2001, five new-car dealerships for an aggregate cost of $34.8 million in fiscal 2000 and four new-car dealerships for an aggregate cost of 49.6 million in fiscal 1999. These acquisitions were financed through available cash resources and, in fiscal 1999, 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 each acquired franchise were included in the accompanying consolidated financial statements since the dates of acquisition. Unaudited pro-forma information related to these acquisitions is not included because the impact of these acquisitions on the accompanying consolidated financial statements is not material.

4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Land and buildings (20 to 25 years)	$ 178,042	$ 180,422
Land held for sale	30,730	41,850
Land held for development	4,285	17,697
Construction in progress	58,659	69,388
Furniture, fixtures and equipment (3 to 8 years)	874,367	750,737
Leasehold improvements (10 to 15 years)	619,782	586,005
Capital leases, primarily buildings (20 years)	12,471	12,471
	1,778,336	1,658,570
Less accumulated depreciation and amortization	789,389	693,389
Property and equipment, net	$ 988,947	$ 965,181

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

5. DEBT

Long-term debt at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Term loans	$230,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.5% to 6.7%	4,400	5,419
Obligations under capital leases [NOTE 10]	12,049	12,416
Note payable	2,076	3,750
Total long-term debt	248,525	426,585
Less current installments	132,388	177,344
Long-term debt, excluding current installments	$116,137	$249,241

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, 2001, the interest rate on the term loan was 5.97 percent.

In May 1995, the Company entered into a five-year, $175,000,000 unsecured bank term loan. As scheduled, the Company used existing working capital to repay this term loan in May 2000.

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, 2001, the interest rate on the term loan was 5.73 percent. This term loan is due in June 2001 and was classified as a current liability at February 28, 2001. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 0.18 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, 2001, or February 29, 2000.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately $6,243,000 at February 28, 2001, and $8,404,000 at February 29, 2000.

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

The scheduled aggregate annual principal payments on long-term obligations for the next five fiscal years are as follows: 2002–$132,388,000; 2003–$102,073,000; 2004–$1,410,000; 2005–$2,521,000; 2006–$1,083,000.

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, 2001, and February 29, 2000.

Short-term debt 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 or 29 2001	2000
Average short-term debt outstanding	$ 56,065	$ 44,692
Maximum short-term debt outstanding	$365,275	$411,791
Aggregate committed lines of credit	$360,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 6.8 percent during fiscal 2001, 5.6 percent during fiscal 2000 and 5.1 percent during fiscal 1999.

The Company capitalizes interest in connection with the construction of certain facilities and software developed or obtained for internal use. Interest capitalized amounted to $2,121,000 in fiscal 2001, $3,420,000 in fiscal 2000 and $5,423,000 in fiscal 1999.

6. INCOME TAXES

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

(Amounts in thousands)	Years Ended February 28 or 29 2001	2000	1999
Current:			
Federal	$69,832	$140,119	$ 99,228
State	10,167	17,756	13,148
	79,999	157,875	112,376
Deferred:			
Federal	17,999	41,762	16,718
State	557	1,291	517
	18,556	43,053	17,235
Provision for income taxes	$98,555	$200,928	$129,611

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

	Years Ended February 28 or 29 2001	2000	1999
Federal statutory income tax rate	35%	35%	35%
State and local income taxes, net of federal benefit	3%	3%	3%
Effective income tax rate	38%	38%	38%

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 or 29 are as follows:

(Amounts in thousands)	2001	2000
Deferred tax assets:		
Inventory	$ –	$ 2,609
Accrued expenses	48,126	33,484
Other	7,546	7,476
Total gross deferred tax assets	55,672	43,569
Deferred tax liabilities:		
Depreciation and amortization	46,338	51,035
Deferred revenue	32,825	29,656
Securitized receivables	51,519	18,988
Inventory	16,376	–
Prepaid expenses	12,417	26,111
Other	3,625	6,651
Total gross deferred tax liabilities	163,100	132,441
Net deferred tax liability	$107,428	$ 88,872

Based on the Company's historical and current pretax earnings, management believes the amount of gross deferred tax assets will more likely than not be realized through future taxable income; therefore, no valuation allowance is necessary.

7. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(k) PLAN: Effective August 1, 1999, the Company began sponsoring a 401(k) Plan for all employees meeting certain eligibility criteria. Under the Plan, eligible employees can contribute up to 15 percent of their salaries, and the Company matches a portion of those associate contributions. The Company's expense for this plan was $4,682,000 in fiscal 2001 and $2,475,000 in fiscal 2000.

(B) 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 Group Common Stock and CarMax Group Common 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 eight-hundredth of a share of Cumulative Participating Preferred Stock, Series E, $20 par value, at an exercise price of $125 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.

(C) 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 Group Common Stock shall have one vote and (ii) each outstanding share of CarMax Group Common Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Group Common Stock to a share of Circuit City Group Common 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.

(D) 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 Group Common Stock or CarMax Group Common Stock. Shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire three to seven years from the date of grant. Total restricted stock awards of 1,483,358 shares of Circuit City Group Common Stock were granted to eligible employees in fiscal 2001. Approximately 1,047,000 of those shares were granted as a one-for-one replacement for cancelled options that were originally granted on June 13, 2000. Options held by senior management were excluded from this replacement grant. Approximately 782,000 of those shares vest two-and-one-half years from the date of grant and approximately 265,000 shares vest four to five years from the grant date with accelerated vesting if certain performance factors are met. The market value at the date of grant of all shares granted has been recorded as unearned compensation and is a component of stockholders' equity. Unearned compensation is expensed over the restriction periods. In fiscal 2001, a total of $11,364,700 was charged to operations ($12,095,900 in fiscal 2000 and $9,167,700 in fiscal 1999). As of February 28, 2001, 2,364,051 restricted shares of Circuit City Group Common Stock and 56,667 restricted shares of CarMax Group Common Stock were outstanding.

(E) EMPLOYEE STOCK PURCHASE PLANS: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. Under the Circuit City Group Plan and the CarMax Group Plan, eligible employees may purchase shares of Circuit City Group Common Stock or CarMax Group Common Stock, subject to certain limitations. For each $1.00 contributed by employees under the Plans, the Company matches $0.15. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of $7,500 per year. At February 28, 2001, a total of 2,501,731 shares remained available under the Circuit City Group Plan and 581,599 shares remained available under the CarMax Group Plan. During fiscal 2001, 862,315 shares of Circuit City Group Common Stock were issued to or purchased on the open market for employees (501,984 shares in fiscal 2000 and 858,710 shares in fiscal 1999), and 477,094 shares of CarMax Group Common Stock were issued to or purchased on the open market on behalf of employees (580,000 in fiscal 2000 and 268,532 in fiscal 1999). The average price per share of Circuit City Group Common Stock purchased under the Plan was $29.93 in fiscal 2001, $41.70 in fiscal 2000 and $21.69 in fiscal 1999. The average price per share of CarMax Group Common Stock purchased under the Plan was $4.18 in fiscal 2001, $3.68 in fiscal 2000 and $7.56 in fiscal 1999. The Company match or purchase price discount totaled $2,766,500 in fiscal 2001, $2,903,800 in fiscal 2000 and $2,984,500 in fiscal 1999.

(F) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of Circuit City Group Common Stock or CarMax Group Common Stock. The exercise price for nonqualified options is equal to, or greater than, the market value at the date of grant. Options generally are exercisable over a period of from one to 10 years from the date of grant.

TABLE 1	2001		2000		1999	
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Circuit City Group:						
Outstanding at beginning of year	7,380	$25.07	8,894	$18.25	9,988	$16.00
Granted	4,280	34.80	1,564	40.75	1,080	21.17
Exercised	(1,526)	23.64	(2,864)	12.65	(2,008)	8.77
Cancelled	(1,414)	34.25	(214)	22.06	(166)	16.80
Outstanding at end of year	8,720	$28.60	7,380	$25.07	8,894	$18.25
Options exercisable at end of year	3,158	$21.86	1,258	$13.89	2,966	$12.02
CarMax Group:						
Outstanding at beginning of year	3,324	$ 3.87	4,380	$ 1.77	4,822	$ 1.49
Granted	1,281	1.70	1,132	5.89	205	8.63
Exercised	(56)	0.22	(2,027)	0.22	(543)	0.22
Cancelled	(442)	4.67	(161)	6.94	(104)	10.54
Outstanding at end of year	4,107	$ 3.16	3,324	$ 3.87	4,380	$ 1.77
Options exercisable at end of year	1,943	$ 2.94	1,203	$ 2.54	1,566	$ 0.96

TABLE 2	Options Outstanding			Options Exercisable	
(Shares in thousands) Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Circuit City Group:					
$ 9.09 to 14.75	1,344	3.8	$14.10	879	$13.93
15.18 to 18.00	1,067	3.0	17.24	876	17.23
18.43 to 25.28	864	4.1	21.11	212	20.78
29.50	1,000	1.1	29.50	1,000	29.50
34.84 to 35.21	3,038	7.2	35.21	–	–
35.22 to 47.53	1,407	5.4	40.72	191	40.81
Total	8,720	4.9	$28.60	3,158	$21.86
CarMax Group:					
$ 0.22	1,578	1.0	$ 0.22	1,338	$ 0.22
1.63	1,094	6.0	1.63	–	–
3.22 to 6.25	1,011	4.7	5.89	305	6.07
8.68 to 16.31	424	3.4	11.55	300	11.91
Total	4,107	3.5	$ 3.16	1,943	$ 2.94

A summary of the status of the Company's stock options and changes during the years ended February 28, 2001, February 29, 2000, and February 28, 1999, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 2001.

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 net earnings and net earnings per share attributed to the Circuit City Group and the net earnings (loss) and net earnings (loss) per share attributed to the CarMax Group would have changed to the pro forma amounts indicated in the following table. 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 (loss) 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 2001 may not be representative of the pro forma effects on net earnings (loss) for future years.

(Amounts in thousands except per share data)	Years Ended February 28 or 29 2001	2000	1999
Circuit City Group:			
Earnings from continuing operations:			
As reported	$149,247	$327,574	$216,927
Pro forma	136,957	319,337	211,025
Net earnings:			
As reported	$149,247	$197,334	$148,381
Pro forma	136,957	189,097	142,479
Earnings per share from continuing operations:			
Basic – as reported	$ 0.73	$ 1.63	$ 1.09
Basic – pro forma	0.67	1.59	1.06
Diluted – as reported	$ 0.73	$ 1.60	$ 1.08
Diluted – pro forma	0.67	1.56	1.05
Net earnings per share:			
Basic – as reported	$ 0.73	$ 0.98	$ 0.75
Basic – pro forma	0.67	0.94	0.72
Diluted – as reported	$ 0.73	$ 0.96	$ 0.74
Diluted – pro forma	0.67	0.93	0.71
CarMax Group:			
Net earnings (loss):			
As reported	$ 11,555	$ 256	$ (5,457)
Pro forma	11,345	75	(5,537)
Net earnings (loss) per share:			
Basic – as reported	$ 0.45	$ 0.01	$ (0.24)
Basic – pro forma	0.44	0.00	(0.24)
Diluted – as reported	$ 0.43	$ 0.01	$ (0.24)
Diluted – pro forma	0.42	0.00	(0.24)

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:

	2001	2000	1999
Circuit City Group:			
Expected dividend yield	0.2%	0.2%	0.4%
Expected stock volatility	49%	38%	33%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	5	5	5
CarMax Group:			
Expected dividend yield	–	–	–
Expected stock volatility	71%	62%	50%
Risk-free interest rates	7%	6%	6%
Expected lives (in years)	4	4	3

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the Circuit City Group is $17 in fiscal 2001, $17 in fiscal 2000 and $8 in fiscal 1999; and for the CarMax Group, $1 in fiscal 2001, $3 in fiscal 2000 and $3 in fiscal 1999.

8. EARNINGS (LOSS) PER SHARE

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

(Amounts in thousands except per share data)	Years Ended February 28 or 29 2001	2000	1999
Circuit City Group:			
Weighted average common shares	203,774	201,345	198,304
Dilutive potential common shares:			
Options	885	2,145	1,700
Restricted stock	1,171	831	808
Weighted average common shares and dilutive potential common shares	205,830	204,321	200,812
Earnings from continuing operations available to common shareholders	$149,247	$327,574	$216,927
Basic earnings per share from continuing operations	$ 0.73	$ 1.63	$ 1.09
Diluted earnings per share from continuing operations	$ 0.73	$ 1.60	$ 1.08
CarMax Group:			
Weighted average common shares	25,554	23,778	22,604
Dilutive potential common shares:			
Options	1,332	1,814	–
Restricted stock	94	196	–
Weighted average common shares and dilutive potential common shares	26,980	25,788	22,604
Net earnings (loss) available to common shareholders	$ 11,555	$ 256	$ (5,457)
Basic net earnings (loss) per share	$ 0.45	$ 0.01	$ (0.24)
Diluted net earnings (loss) per share	$ 0.43	$ 0.01	$ (0.24)

Certain options were outstanding and not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 8,469,700 shares of Circuit City Group Common Stock ranging from $14.75 to $47.53 per share were outstanding and not included in the calculation at the end of fiscal 2001; 2,900 shares ranging from $43.03 to $47.53 per share at the end of fiscal 2000; and 2,000,000 shares at $29.50 per share at the end of fiscal 1999. Options to purchase 1,357,200 shares of CarMax Group Common Stock ranging from $6.06 to $16.31 per share were outstanding and not included in the calculation at the end of fiscal 2001, and

1,685,400 shares ranging from $3.90 to $16.31 per share were not included at the end of fiscal 2000. Because the CarMax Group had a net loss in fiscal 1999, no dilutive potential shares of CarMax Group Common Stock were included in the calculation of diluted net loss per share.

9. PENSION PLANS

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 160,000 shares of Circuit City Group Common Stock at February 28, 2001, and February 29, 2000. Contributions were $15,733,000 in fiscal 2001, $12,123,000 in fiscal 2000 and $10,306,000 in fiscal 1999.

The following tables set forth the Pension Plan's financial status and amounts recognized in the consolidated balance sheets as of February 28 or 29:

(Amounts in thousands)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$113,780	$112,566
Service cost	14,142	14,678
Interest cost	9,045	7,557
Actuarial loss (gain)	21,776	(16,870)
Benefits paid	(2,994)	(4,151)
Benefit obligation at end of year	$155,749	$113,780
Change in plan assets:		
Fair value of plan assets at beginning of year	$132,353	$ 95,678
Actual return on plan assets	(10,667)	28,703
Employer contributions	15,733	12,123
Benefits paid	(2,994)	(4,151)
Fair value of plan assets at end of year	$134,425	$132,353
Reconciliation of funded status:		
Funded status	$ (21,324)	$ 18,573
Unrecognized actuarial loss (gain)	16,961	(26,862)
Unrecognized transition asset	(202)	(404)
Unrecognized prior service benefit	(285)	(427)
Net amount recognized	$ (4,850)	$ (9,120)

The components of net pension expense are as follows:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Service cost	$14,142	$14,678	$11,004
Interest cost	9,045	7,557	6,202
Expected return on plan assets	(11,197)	(9,078)	(7,794)
Amortization of prior service cost	(142)	(134)	(105)
Amortization of transitional asset	(202)	(202)	(202)
Recognized actuarial (gain) loss	(183)	87	–
Net pension expense	$11,463	$12,908	$ 9,105

Assumptions used in the accounting for the Pension Plan were:

	Years Ended February 28 or 29		
	2001	2000	1999
Weighted average discount rate	7.5%	8.0%	6.8%
Rate of increase in compensation levels	6.0%	6.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

The Company also has an unfunded nonqualified plan that restores retirement benefits for certain senior executives who are affected by Internal Revenue Code limitations on benefits provided under the Company's Pension Plan. The projected benefit obligation under this plan was $10.4 million at February 28, 2001, and $6.6 million at February 29, 2000.

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:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Minimum rentals	$341,122	$322,598	$296,706
Rentals based on sales volume	1,229	1,327	1,247
Sublease income	(15,333)	(16,425)	(14,857)
Net rental expense	$327,018	$307,500	$283,096

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 operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 20 years; however, most of the leases have options providing for additional lease terms of five 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, 2001, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
2002	$ 1,725	$ 328,205	$(13,350)
2003	1,726	325,116	(12,638)
2004	1,768	322,072	(11,142)
2005	1,798	320,038	(10,193)
2006	1,807	317,279	(9,132)
After 2006	12,859	3,255,150	(34,437)
Total minimum lease payments	21,683	$4,867,860	$(90,892)
Less amounts representing interest	(9,634)		
Present value of net minimum capital lease payments [NOTE 5]	$12,049		

In fiscal 2001, the Company entered into sale-leaseback transactions with unrelated parties at an aggregate selling price of $61,526,000 ($36,795,000 in fiscal 2000 and $235,500,000 in fiscal 1999). The Company does not have continuing involvement under sale-leaseback transactions.

11. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Advertising expense from continuing operations, which is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings, amounted to $467,786,000 (3.6 percent of net sales and operating revenues) in fiscal 2001, $438,781,000 (3.5 percent of net sales and operating revenues) in fiscal 2000 and $426,359,000 (3.9 percent of net sales and operating revenues) in fiscal 1999.

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 finance operation. In these securitizations, the Company retains servicing rights and subordinated interests.

Private-label credit card receivables are financed through a master trust securitization program. During fiscal year 2001, a $300 million, five-year public securitization related to the private-label card matured and was paid off. The Company entered into a $275 million, three-year public securitization in fiscal 2001. As of February 28, 2001, the master trust securitization program had a capacity of $1.31 billion. The master trust agreement has no recourse provisions.

Bankcard receivables also are financed through a master trust securitization program. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on $188 million of the receivables sold. The Company believes that as of February 28, 2001, no liability existed under the recourse provisions. The bankcard securitization program had a total program capacity of $1.94 billion as of February 28, 2001.

At February 28, 2001, the total principal amount of loans managed or securitized was $2,799 million. Of the total loans, the principal amount of loans securitized was $2,754 million and the principal amount of loans held for sale was $45 million. The principal amount of loans that were 31 days or more delinquent was $192.3 million at February 28, 2001. The credit losses net of recoveries were $229.9 million for fiscal 2001.

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

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

(Amounts in thousands)	Year Ended February 28, 2001
Proceeds from new securitizations	$1,092,500
Proceeds from collections reinvested in previous credit card securitizations	$ 1,730,511
Servicing fees received	$ 52,044
Other cash flows received on retained interests*	$ 173,775

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

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

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $131.0 million at February 28, 2001, and are included in net accounts receivable. Gains on sales of $182.6 million were recorded in fiscal 2001.

The fair value of retained interests at February 28, 2001, was $246.1 million with a weighted-average life ranging from 0.4 years to 3 years. The following table shows the key economic assumptions used in measuring the fair value of retained interests at February 28, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at February 28, 2001, are not materially different than assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Payment rate	7.1–11.3%	$10,592	$20,107
Default rate	7.0–14.3%	$21,159	$42,318
Discount rate	10.0–15.0%	$ 2,973	$ 5,892

(B) AUTOMOBILE LOAN SECURITIZATIONS: The Company also has an asset securitization program, operated through a special purpose subsidiary on behalf of the CarMax Group, to finance the consumer installment credit receivables generated by its automobile loan finance operation. This automobile loan securitization program had a total program capacity of $450 million as of February 28, 2001, with no recourse provisions. In October 1999, the Company formed a second securitization facility that allowed for a $644 million securitization of automobile loan receivables in the public market. Because of the amortization of the automobile loan receivables and corresponding securities in this facility, the program had a capacity of $329 million as of February 28, 2001, with no recourse provisions. In January 2001, the Company sold $655 million of receivables in the public market through an additional owner trust structure. The program had a capacity of $655 million as of February 28, 2001, with no recourse provisions. In these securitizations, the Company retains servicing rights and subordinated interests. The Company's retained interests are subject to credit and prepayment risks on the transferred financial assets.

At February 28, 2001, the total principal amount of loans managed or securitized was $1,296 million. Of the total loans, the principal amount of loans securitized was $1,284 million and the principal amount of loans held for sale or investment was $12 million. The principal amount of loans that were 31 days or more delinquent was $18.1 million at February 28, 2001. The credit losses net of recoveries were $7.2 million for fiscal 2001.

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

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

(Amounts in thousands)	Year Ended February 28, 2001
Proceeds from new securitizations	$619,525
Proceeds from collections reinvested in previous automobile loan securitizations	$313,827
Servicing fees received	$ 10,474
Other cash flows received on retained interests*	$ 39,265

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

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

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $42.0 million at February 28, 2001, and are included in net accounts receivable. Gains on sales of $35.4 million were recorded in fiscal 2001.

The fair value of retained interests at February 28, 2001, was $74.1 million with a weighted-average life ranging from 1.5 years to 1.8 years. The table below shows the key economic assumptions used in measuring the fair value of retained interests at February 28, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at February 28, 2001, are not materially different than assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Prepayment speed	1.5–1.6%	$1,840	$3,864
Default rate	1.0–1.2%	$1,471	$3,050
Discount rate	12.0%	$ 890	$1,786

13. INTEREST RATE SWAPS

The Company enters into amortizing swaps relating to automobile loan receivable securitizations to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. The Company entered into nine 40-month amortizing swaps with notional amounts totaling approximately $735 million in fiscal 2001, four 40-month amortizing swaps with notional amounts totaling approximately $344 million in fiscal 2000 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 or loss on sales of receivables. The remaining total notional amount of all swaps related to the automobile loan receivable securitizations was approximately $299 million at February 28, 2001, $327 million at February 29, 2000, and $499 million at February 28, 1999. The reduction in the total notional amount of the CarMax interest rate swaps in fiscal 2001 and in fiscal 2000 relates to the replacement of floating-rate securitizations with a $655 million fixed-rate securitization in January 2001 and a $644 million fixed-rate securitization in October 1999.

The market and credit risks associated with interest rate swaps are similar to those relating to other types of financial instruments. Market risk is the exposure created by potential fluctuations in interest rates and is directly related to the product type, agreement terms and transaction volume. The Company does not anticipate significant market risk from swaps, because 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. CONTINGENT LIABILITIES

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. APPLIANCE EXIT COSTS

On July 25, 2000, the Company announced plans to exit the major appliance category to expand its selection of key consumer electronics and home office products in all Circuit City Superstores. This decision reflected significant sales weakness and increased competition in the major appliance category and management's earnings expectations for these other products. To exit the appliance business, the Company closed six distribution centers and seven service centers in fiscal 2001 and expects to close two distribution centers and one service center by July 31, 2001. The majority of these properties are leased. The Company is in the process of marketing these properties to be subleased. Circuit City maintains control over its in-home major appliance repair business, although repairs are subcontracted to an unrelated third party. In the second quarter of fiscal 2001, the Company recorded appliance exit costs of $30 million. Most of these expenses are included in cost of sales, buying and warehousing on the statement of earnings for fiscal 2001. There were no adjustments to the exit costs as of February 28, 2001.

Approximately 850 employees have been terminated and approximately 100 employees will be terminated as locations close or consolidate. These reductions were mainly in the service, distribution and merchandising functions. Because severance is being paid to employees on a bi-weekly schedule based on years of service, cash payments lag job eliminations. The exit costs also include $17.8 million for lease termination costs and $5.0 million, net of salvage value, for the write-down of fixed assets.

(Amounts in millions)	Total Exit Costs	Expenses Paid or Assets Written Off	Liability at February 28, 2001
Lease termination costs	$17.8	$ 1.8	$16.0
Fixed asset write-downs	5.0	5.0	–
Employee termination benefits	4.4	2.2	2.2
Other	2.8	2.8	–
Appliance exit costs	$30.0	$11.8	$18.2

16. DISCONTINUED OPERATIONS

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

For fiscal 2001, the discontinued Divx operations had no impact on the net earnings of Circuit City Stores, Inc. The loss from the discontinued Divx operations totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000 and $68.5 million after an income tax benefit of $42.0 million in fiscal 1999. The loss on the disposal of the Divx business totaled $114.0 million after an income tax benefit of $69.9 million in fiscal 2000. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

The net liabilities of the discontinued Divx operations reflected in the accompanying consolidated balance sheets as of February 28 or 29 are comprised of the following:

(Amounts in thousands)	2001	2000
Current assets	$ 8	$ 612
Property and equipment, net	—	513
Other assets	324	—
Current liabilities	(27,522)	(32,650)
Other liabilities	(14,082)	(35,291)
Net liabilities of discontinued operations	$(41,272)	$(66,816)

17. OPERATING SEGMENT INFORMATION

The Company conducts business in two operating segments: Circuit City and CarMax. These segments are identified and managed by the Company based on the different products and services offered by each. Circuit City refers to the retail operations bearing the Circuit City name and to all related operations, such as its finance operation. This segment is engaged in the business of selling brand-name consumer electronics, personal computers and entertainment software. CarMax refers to the used- and new-car retail locations bearing the CarMax name and to all related operations, such as its finance operation. Financial information for these segments for fiscal 2001, 2000 and 1999 are shown in Table 3.

TABLE 3

2001 *(Amounts in thousands)*	Circuit City	CarMax	Total Segments
Revenues from external customers	$10,458,037	$2,500,991	$12,959,028
Interest expense	7,273	12,110	19,383
Depreciation and amortization	126,297	26,793	153,090
Earnings from continuing operations before income taxes	185,875	73,482	259,357
Provision for income taxes	70,637	27,918	98,555
Earnings from continuing operations	115,238	45,564	160,802
Total assets	$ 3,160,048	$ 710,953	$ 3,871,001

2000 *(Amounts in thousands)*	Circuit City	CarMax	Total Segments
Revenues from external customers	$10,599,406	$2,014,984	$12,614,390
Interest expense	13,844	10,362	24,206
Depreciation and amortization	132,923	15,241	148,164
Earnings from continuing operations before income taxes	526,955	1,803	528,758
Provision for income taxes	200,243	685	200,928
Earnings from continuing operations	326,712	1,118	327,830
Total assets	$ 3,278,728	$ 675,495	$ 3,954,223

1999 *(Amounts in thousands)*	Circuit City	CarMax	Total Segments
Revenues from external customers	$ 9,344,170	$1,466,298	$10,810,468
Interest expense	21,926	6,393	28,319
Depreciation and amortization	119,724	10,003	129,727
Earnings (loss) from continuing operations before income taxes	379,630	(38,549)	341,081
Income tax provision (benefit)	144,646	(15,035)	129,611
Earnings (loss) from continuing operations	234,984	(23,514)	211,470
Total assets	$ 2,816,954	$ 571,198	$ 3,388,152

Earnings from continuing operations and total assets for Circuit City on this table exclude: (1) the Inter-Group Interest in CarMax and (2) the discontinued Divx operations as discussed in Note 16.

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands except per share data)	First Quarter 2001	First Quarter 2000	Second Quarter 2001	Second Quarter 2000	Third Quarter 2001	Third Quarter 2000	Fourth Quarter 2001	Fourth Quarter 2000	Year 2001	Year 2000
Net sales and operating revenues	$3,074,851	$2,690,982	$3,179,781	$2,958,394	$2,887,269	$2,984,607	$3,817,127	$3,980,407	$12,959,028	$12,614,390
Gross profit	$ 683,262	$ 602,727	$ 673,465	$ 668,283	$ 582,128	$ 670,910	$ 856,467	$ 920,637	$ 2,795,322	$ 2,862,557
Net earnings (loss) attributed to:										
Circuit City Group Common Stock:										
Continuing operations	$ 57,123	$ 41,398	$ 55,341	$ 73,692	$ (64,407)	$ 52,335	$ 101,190	$ 160,149	$ 149,247	$ 327,574
Discontinued operations	$ –	$ (130,240)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ (130,240)
CarMax Group Common Stock	$ 3,535	$ 646	$ 4,126	$ 775	$ 1,920	$ (757)	$ 1,974	$ (408)	$ 11,555	$ 256
Net earnings (loss) per share attributed to:										
Circuit City Group Common Stock:										
Basic:										
Continuing operations	$ 0.28	$ 0.21	$ 0.27	$ 0.37	$ (0.32)	$ 0.26	$ 0.50	$ 0.79	$ 0.73	$ 1.63
Discontinued operations	$ –	$ (0.65)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ (0.65)
Net earnings (loss)	$ 0.28	$ (0.44)	$ 0.27	$ 0.37	$ (0.32)	$ 0.26	$ 0.50	$ 0.79	$ 0.73	$ 0.98
Diluted:										
Continuing operations	$ 0.28	$ 0.20	$ 0.27	$ 0.36	$ (0.32)	$ 0.26	$ 0.49	$ 0.78	$ 0.73	$ 1.60
Discontinued operations	$ –	$ (0.64)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ (0.64)
Net earnings (loss)	$ 0.28	$ (0.44)	$ 0.27	$ 0.36	$ (0.32)	$ 0.26	$ 0.49	$ 0.78	$ 0.73	$ 0.96
CarMax Group Common Stock:										
Basic	$ 0.14	$ 0.03	$ 0.16	$ 0.03	$ 0.08	$ (0.03)	$ 0.08	$ (0.02)	$ 0.45	$ 0.01
Diluted	$ 0.13	$ 0.03	$ 0.15	$ 0.03	$ 0.07	$ (0.03)	$ 0.07	$ (0.02)	$ 0.43	$ 0.01

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, 2001 and February 29, 2000 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, 2001. 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 auditing standards generally accepted in the United States of America. 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, 2001 and February 29, 2000 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 28, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Richmond, Virginia
April 2, 2001

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

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City business and related operations and the Group's retained interest in the CarMax Group. The effects of the retained interest in the CarMax Group on the Circuit City Group's financial statements are identified by the term "Inter-Group." During the three-year period discussed in this annual report, the financial results for the Company and the Circuit City Group also have included the Company's investment in Digital Video Express, which has been discontinued. The CarMax Group Common Stock is intended to track the performance of the CarMax stores and related operations. The Circuit City Group's retained interest is not considered outstanding CarMax Group Common Stock. Therefore, the net earnings or losses attributed to the retained interest are not included in the CarMax Group's per share calculations.

Holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and as such are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. The discussion and analysis for the Circuit City Group presented below should be read in conjunction with the discussion and analysis for Circuit City Stores, Inc. and for the CarMax Group and in conjunction with all the Company's SEC filings.

The Circuit City Group held a 74.6 percent interest in the CarMax Group at February 28, 2001, a 74.7 percent interest at February 29, 2000, and a 76.6 percent interest at February 28, 1999.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the Circuit City Group decreased 1 percent in fiscal 2001 to $10.46 billion. In fiscal 2000, total sales were $10.60 billion, a 13 percent increase from $9.34 billion in fiscal 1999.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

Fiscal	Total	Comparable
2001	(1)%	(4)%
2000	13 %	8 %
1999	17 %	8 %
1998	12 %	(1)%
1997	6 %	(8)%

The fiscal 2001 total sales decline includes a 4 percent decline in the comparable store sales of the Circuit City business, partly offset by the net addition of 23 Circuit City Superstores. Throughout fiscal 2001, we experienced significant variability in the Circuit City comparable store sales pace. The sales pace in the major appliance category softened significantly at the end of the first quarter and into the second quarter. In late July, we announced plans to exit the appliance business and expand our selection of key consumer electronics and home office products. A product profitability analysis had indicated that the appliance category produced below-average profits. This analysis, combined with the declining sales pace and expected increases in competition, led to the decision to exit the category. The exit from the appliance business and remerchandising of the appliance selling space was completed by the end of the third fiscal quarter. Nevertheless, the Circuit City business continued to experience a highly variable comparable store sales pace, and sales softened substantially in the last two months of the fiscal year. We believe the variability reflects the slower consumer spending experienced by most retailers during the second half of the year, some disruption to sales caused by the partial remodeling to remerchandise the appliance space, significant declines in average retails and industry-wide declines in desktop personal computer sales by year-end. Throughout the year, new technologies, better-featured consumer electronics and the new and expanded selections added to the store produced strong sales growth, although not always in line with our expectations. Excluding the appliance category from fiscal 2001 and fiscal 2000 sales, comparable store sales rose 3 percent in fiscal 2001.

In addition to the partial remodels, we fully remodeled 25 Superstores in central and south Florida and one Superstore in Richmond, Va., to a design that we believe is more contemporary and easier to navigate. The full remodels offer better product adjacencies, shopping carts and baskets, more and highly visible cash registers, better lighting and signs, and the expanded and new product selections now available in all stores. The 23 new stores opened from August 2000 through February 2001 also reflect this new design, and all new stores planned for fiscal 2002 will reflect this design. Consumer reaction to the design has been positive, but the ability to meet our longer-term expectations has been difficult to determine given the overall slowdown that occurred during the second half of the fiscal year. In addition, the cost of remodeling and the disruption to sales in remodeled stores were higher than anticipated. Fiscal 2002 remodels will follow a less costly design that can be completed over a shorter time period, but which we believe will offer similar benefits to the consumer. We also will focus on new marketing programs designed to increase foot traffic at all Circuit City stores.

Geographic expansion is currently a limited contributor to Circuit City's growth. We opened 23 new Circuit City Superstores and relocated two Circuit City Superstores in fiscal 2001, increasing the store base 4 percent. New Superstores were added to existing markets or built in one- or two-store markets given that we already operate stores in virtually all of the nation's top metropolitan markets.

From fiscal 1997 through fiscal 1998, a lack of significant consumer electronics product introductions resulted in weak industry sales. Geographic expansion was the primary contributor to growth of the Circuit City business during this time. The industry began to emerge from this period of declining sales in fiscal 1999, and that trend continued in fiscal 2000. As noted above, sales softened again in fiscal 2001. We continue to believe that new technologies will generate significant industry growth during the current decade. However, we expect little, if any, sales growth in fiscal 2002.

SALES BY MERCHANDISE CATEGORIES*

Fiscal	2001	2000	1999	1998	1997
Video	35%	32%	31%	31%	32%
Audio	16%	16%	17%	18%	19%
Information Technology	35%	33%	32%	30%	29%
Entertainment	7%	5%	5%	6%	5%
Appliances	7%	14%	15%	15%	15%
Total	100%	100%	100%	100%	100%

** Circuit City updated its sales by merchandise category classifications in fiscal 2001 to reflect the changes in the Company's product selections in recent years and expected changes going forward. Information for prior years has been reclassified for consistency.*

In most states, the Group sells extended warranty programs on behalf of unrelated third parties who are the primary obligors. Under these third-party warranty programs, we have no contractual liability to the customer. In states where third-party warranty sales are not permitted, the Group sells an extended warranty for which we are the primary obligor. Gross dollar sales from all extended warranty programs were 5.1 percent of total sales of the Circuit City business in fiscal 2001, compared with 5.4 percent in fiscal 2000 and fiscal 1999. Total extended warranty revenue, which is reported in total sales, was 4.0 percent of sales in fiscal 2001, 4.4 percent of sales in fiscal 2000 and 4.6 percent of sales in fiscal 1999. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. The fiscal 2001 decline in extended warranty sales as a percent of total sales reflects the increased selection of products, such as entertainment software, for which extended warranties are not available and reduced consumer demand for warranties on many consumer electronics and home office products that have experienced significant declines in average retails. Third-party extended warranty revenue was 3.9 percent of total sales in fiscal 2001 and 4.1 percent of total sales in fiscal 2000 and fiscal 1999.

SUPERSTORE SALES PER TOTAL SQUARE FOOT

Fiscal	
2001	$528
2000	$555
1999	$514
1998	$478
1997	$499

SUPERSTORE SALES PER TOTAL SQUARE FOOT. At the end of fiscal 2001, total space for all Circuit City Superstores equaled 19,706,588 square feet and selling space equaled 11,469,092 square feet. The fiscal 2001 sales per total square foot decrease reflects the decline in comparable store sales. The improvements from fiscal 1998 through fiscal 2000 were driven by comparable store sales growth in those years. The decline from fiscal 1997 to fiscal 1998 reflects the impact of larger-format stores, which generate lower sales per square foot than smaller stores, declines in comparable store sales and declines in industry sales. The Group ceased construction of these larger stores after fiscal 1999.

STORE MIX

	Retail Units at Year-End				
Fiscal	2001	2000	1999	1998	1997
Superstores	594	571	537	500	443
Circuit City Express	35	45	48	52	45
Electronics-only	–	–	2	4	5
Total	629	616	587	556	493

IMPACT OF INFLATION. Inflation has not been a significant contributor to results. In fact, during the past three years, average retail prices declined in virtually all of Circuit City's product categories. Although product introductions could help reverse this trend in selected areas, we expect no significant short-term change overall. Because we purchase substantially all products sold in Circuit City stores in U.S. dollars, prices are not directly impacted by the value of the dollar in relation to foreign currencies.

Cost of Sales, Buying and Warehousing

The gross profit margin was 23.6 percent of sales in fiscal 2001, 24.7 percent of sales in fiscal 2000 and 24.4 percent of sales in fiscal 1999. The fiscal 2001 gross profit margin was reduced by one-time costs of $28.3 million and merchandise markdowns of $28.0 million associated with the exit from the appliance business, significantly lower appliance gross margins prior to the announced plans to exit that business and a merchandise mix that included a high percentage of traditional products that carry lower gross profit margins. The one-time appliance exit costs included lease terminations, employee severance, fixed asset impairment and other related costs. Excluding the appliance category, the gross profit margin was 24.7 percent of sales in fiscal 2001, compared with 25.4 percent of sales in fiscal 2000 and 24.7 percent of sales in fiscal 1999. Excluding the impact of the appliance merchandise markdowns and the one-time appliance exit costs, the gross profit margin was 24.1 percent of sales in fiscal 2001.

GROSS PROFIT MARGIN COMPONENTS

Fiscal	2001	2000	1999
Circuit City store business	24.1 %	24.7%	24.4%
Impact of appliance markdowns	(0.2)%	–	–
One-time appliance exit costs	(0.3)%	–	–
Gross profit margin	23.6 %	24.7%	24.4%
Gross profit margin excluding appliance category	24.7 %	25.4%	24.7%

The improvement in the gross profit margin from fiscal 1999 to fiscal 2000 primarily reflected the higher percentage of sales from better-featured products and newer technologies, which carry higher gross profit margins, and continued improvements in inventory management partly offset by the strength in personal computer sales, which carry lower gross margins. In fiscal 2001, the decline in the gross profit margin was limited by lower personal computer sales and by continued double-digit sales growth in new technologies and in higher margin categories where selection was expanded as part of the exit from the appliance business. The impact of the appliance category and the high proportion of sales represented by traditional products more than offset these factors.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 21.7 percent of sales in fiscal 2001, compared with 19.6 percent of sales in fiscal 2000 and 20.1 percent of sales in fiscal 1999. The fiscal 2001 increase reflects the decline in comparable store sales, $41.9 million in remodeling costs for the Florida stores, $30.0 million in costs related to the partial remodels and $5.0 million in severance costs associated with the fourth quarter workforce reduction. Excluding these costs and the estimated sales disruption during the seven to 10 days of partial remodeling that occurred primarily in the third quarter, the fiscal 2001 expense ratio would have been 20.9 percent of sales. The improvement in the expense ratio from fiscal 1999 to fiscal 2000 primarily reflects leverage gained from the fiscal 2000 comparable store sales increase.

EXPENSE RATIO COMPONENTS

Fiscal	2001	2000	1999
Circuit City store business	20.9%	19.6%	20.1%
Florida remodel costs	0.4%	–	–
Partial remodel costs	0.3%	–	–
Sales disruption impact	0.1%	–	–
Expense ratio	21.7%	19.6%	20.1%

Interest Expense

Interest expense was relatively unchanged as a percent of sales across the three-year period at 0.1 percent of sales in fiscal 2001 and fiscal 2000 and 0.2 percent of sales in fiscal 1999. Interest expense was incurred on allocated debt used to fund store expansion, remodeling and working capital, including inventory.

Income Taxes

The Group's effective income tax rate was 38.0 percent in fiscal 2001 and fiscal 2000 and 38.1 percent in fiscal 1999.

Earnings from Continuing Operations Before Inter-Group Interest in the CarMax Group

Earnings from continuing operations before the Inter-Group Interest in the CarMax Group were $115.2 million in fiscal 2001, compared with $326.7 million in fiscal 2000 and $235.0 million in fiscal 1999. Excluding the estimated sales disruption during the seven to 10 days of partial remodeling, the appliance merchandise markdowns, exit costs, remodel expenses and severance costs related to the workforce reduction, earnings from continuing operations before the Inter-Group Interest in the CarMax Group would have been $205.1 million in fiscal 2001.

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

The net earnings attributed to the Circuit City Group's Inter-Group Interest in the CarMax Group were $34.0 million in fiscal 2001, compared with net earnings of $862,000 in fiscal 2000 and a net loss of $18.1 million in fiscal 1999.

Earnings from Continuing Operations

Earnings from continuing operations attributed to the Circuit City Group were $149.2 million in fiscal 2001, $327.6 million in fiscal 2000 and $216.9 million in fiscal 1999.

Loss from Discontinued Operations

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

The loss from the discontinued operations of Divx totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000 and $68.5 million after an income tax benefit of $42.0 million in fiscal 1999.

In fiscal 2000, the loss on the disposal of the Divx business totaled $114.0 million after an income tax benefit of $69.9 million. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

Net Earnings

Net earnings attributed to the Circuit City Group were $149.2 million in fiscal 2001, $197.3 million in fiscal 2000 and $148.4 million in fiscal 1999.

Operations Outlook

We believe that increased household penetration of products and services such as broadband Internet access, wireless communications, multi-channel video programming devices, digital television and digital imaging will drive profitability of the consumer electronics business during the current decade. For that reason, we are focused on store designs, sales counselor training, inventory management, marketing programs and Six Sigma process improvements that will maintain Circuit City's position as a leading retailer of new technologies.

Despite these plans and longer-term outlook, we recognize that the sales pace shifted significantly throughout fiscal 2001 and that sales were especially weak at the end of the fiscal year. Therefore, we are cautious in our outlook for fiscal 2002. We expect to open 15 to 20 new Circuit City Superstores, relocate approximately 10 Superstores and fully remodel 20 to 25 Superstores. We expect limited sales and earnings growth for the Circuit City business in fiscal 2002. We do, however, expect continued strong sales and earnings growth for the CarMax business and anticipate that CarMax will make a greater contribution to the earnings attributed to the Circuit City Group in fiscal 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL CONDITION

In fiscal 2001, net cash provided by operating activities of continuing operations was $137.9 million, compared with $650.2 million in fiscal 2000 and $399.4 million in fiscal 1999. The fiscal 2001 decrease reflects the lower earnings from continuing operations for the Circuit City business and a decrease in accounts payable. The fiscal 2000 increase reflects a 39 percent increase in earnings from continuing operations for the Circuit City business and an increase in accounts payable, partly offset by an increase in inventory.

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.

During fiscal 2001, a term loan totaling $175 million was repaid using the Company's existing working capital. In addition, a term loan totaling $130 million and due in June 2001 was classified as a current liability. Although the Company has the ability to refinance this debt, we intend to repay it using existing working capital. Payment of corporate debt does not necessarily result in a reduction of Circuit City Group allocated debt.

The Circuit City Group's capital expenditures were $274.7 million in fiscal 2001, $176.9 million in fiscal 2000 and $214.1 million in fiscal 1999. The Group's capital expenditures in fiscal 2001 primarily were related to Superstore remodeling and new Circuit City Superstore construction. In fiscal 2000 and fiscal 1999, these expenditures primarily reflected new store construction. Capital expenditures for the Circuit City Group have been funded through sale-leaseback transactions, landlord reimbursements and allocated short- and long-term debt. In fiscal 2002, the Group anticipates capital expenditures of approximately $215 million, primarily related to construction of new Superstores, the remodeling of 20 to 25 existing Superstores and the relocation of approximately 10 Superstores. Sale-leasebacks, landlord reimbursement transactions and fixed asset sales totaled $100.2 million in fiscal 2001, $74.8 million in fiscal 2000 and $134.3 million in fiscal 1999.

Circuit City'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. The finance operation has a master trust securitization facility for its private-label credit card that allows the transfer of up to $1.31 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to $1.94 billion in receivables related to the operation's bankcard programs. Securitized receivables totaled $2.75 billion at February 28, 2001. Under the securitization programs, receivables are sold to unaffiliated third parties with the servicing rights retained. We expect that both securitization programs can be expanded to accommodate future receivables growth.

At the end of fiscal 2001, the Circuit City Group retained a 74.6 percent interest in the equity of the CarMax Group. As of February 28, 2001, the Circuit City Group's equity in the CarMax Group was $292.2 million.

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

MARKET RISK

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

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, 2001, and February 29, 2000, had the following APR structure:

(Amounts in millions)	2001	2000
Indexed to prime rate	$2,596	$2,631
Fixed APR	203	213
Total	$2,799	$2,844

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued at floating rates based on LIBOR. Receivables held by the Company for sale are financed with working capital. At February 28, 2001, and February 29, 2000, financings were as follows:

(Amounts in millions)	2001	2000
Floating-rate (including synthetic alteration) securitizations	$2,754	$2,689
Fixed-rate securitizations	–	137
Held by the Company for sale	45	18
Total	$2,799	$2,844

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 2001, or February 29, 2000. 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. 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.

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management's expectations for fiscal year 2002 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)	2001	%	2000	%	1999	%
	Years Ended February 28 or 29					
NET SALES AND OPERATING REVENUES	**$10,458,037**	100.0	$10,599,406	100.0	$9,344,170	100.0
Cost of sales, buying and warehousing	**7,964,148**	76.1	7,977,214	75.3	7,060,198	75.6
Appliance exit costs [NOTE 12]	**28,326**	0.3	–	–	–	–
GROSS PROFIT	**2,465,563**	23.6	2,622,192	24.7	2,283,972	24.4
Selling, general and administrative expenses [NOTES 1 AND 9]	**2,270,745**	21.7	2,081,393	19.6	1,882,416	20.1
Appliance exit costs [NOTE 12]	**1,670**	–	–	–	–	–
Interest expense [NOTES 1 AND 4]	**7,273**	0.1	13,844	0.1	21,926	0.2
TOTAL EXPENSES	**2,279,688**	21.8	2,095,237	19.7	1,904,342	20.3
Earnings from continuing operations before income taxes and Inter-Group Interest in the CarMax Group	**185,875**	1.8	526,955	5.0	379,630	4.1
Provision for income taxes [NOTES 1 AND 5]	**70,637**	0.7	200,243	1.9	144,646	1.6
EARNINGS FROM CONTINUING OPERATIONS BEFORE INTER-GROUP INTEREST IN THE CARMAX GROUP	**115,238**	1.1	326,712	3.1	234,984	2.5
Net earnings (loss) related to Inter-Group Interest in the CarMax Group [NOTES 1 AND 2]	**34,009**	0.3	862	0.0	(18,057)	(0.2)
EARNINGS FROM CONTINUING OPERATIONS	**149,247**	1.4	327,574	3.1	216,927	2.3
Discontinued operations [NOTE 13]:						
Loss from discontinued operations of Divx, less income tax benefit	**–**	–	(16,215)	(0.1)	(68,546)	(0.7)
Loss on disposal of Divx, less income tax benefit	**–**	–	(114,025)	(1.1)	–	–
Loss from discontinued operations	**–**	–	(130,240)	(1.2)	(68,546)	(0.7)
NET EARNINGS	**$ 149,247**	1.4	$ 197,334	1.9	$ 148,381	1.6

See accompanying notes to Group financial statements.

Circuit City Group Balance Sheets

(Amounts in thousands)	At February 28 or 29 2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 437,329**	$ 633,952
Net accounts receivable [NOTE 10]	**451,099**	464,023
Merchandise inventory	**1,410,527**	1,405,617
Prepaid expenses and other current assets	**55,317**	13,353
TOTAL CURRENT ASSETS	**2,354,272**	2,516,945
Property and equipment, net [NOTES 3 AND 4]	**796,789**	753,325
Inter-Group Interest in the CarMax Group [NOTE 2]	**292,179**	257,535
Other assets	**9,319**	9,583
TOTAL ASSETS	**$3,452,559**	$3,537,388
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 4 AND 8]	**$ 24,237**	$ 85,735
Accounts payable	**820,077**	884,172
Short-term debt [NOTE 4]	**213**	1,453
Accrued expenses and other current liabilities	**146,818**	184,705
Deferred income taxes [NOTE 5]	**74,317**	53,971
TOTAL CURRENT LIABILITIES	**1,065,662**	1,210,036
Long-term debt, excluding current installments [NOTES 4 AND 8]	**33,080**	127,984
Deferred revenue and other liabilities	**85,329**	122,771
Deferred income taxes [NOTE 5]	**11,329**	21,877
TOTAL LIABILITIES	**1,195,400**	1,482,668
GROUP EQUITY	**2,257,159**	2,054,720
Commitments and contingent liabilities [NOTES 1, 7, 8, 10, 11, 12, AND 13]		
TOTAL LIABILITIES AND GROUP EQUITY	**$3,452,559**	$3,537,388

See accompanying notes to Group financial statements.

Circuit City Group Statements of Cash Flows

(Amounts in thousands)	Years Ended February 28 or 29 2001	2000	1999
OPERATING ACTIVITIES:			
Net earnings	**$ 149,247**	$ 197,334	$ 148,381
Adjustments to reconcile net earnings to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations [NOTE 13]	**–**	16,215	68,546
Loss on disposal of discontinued operations [NOTE 13]	**–**	114,025	–
Net (earnings) loss related to Inter-Group Interest in the CarMax Group	**(34,009)**	(862)	18,057
Depreciation and amortization	**126,297**	132,923	119,724
Loss (gain) on sales of property and equipment	**4,259**	(418)	3,087
Provision for deferred income taxes	**11,007**	41,828	5,951
Decrease in deferred revenue and other liabilities	**(17,442)**	(17,799)	(32,771)
Decrease in net accounts receivable	**12,950**	12,967	60,138
Increase in merchandise inventory	**(4,910)**	(144,598)	(16,107)
(Increase) decrease in prepaid expenses and other current assets	**(41,964)**	83,540	5,543
Decrease (increase) in other assets	**588**	(1,015)	202
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	**(68,074)**	216,043	18,609
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**137,949**	650,183	399,360
INVESTING ACTIVITIES:			
Purchases of property and equipment	**(274,722)**	(176,873)	(214,085)
Proceeds from sales of property and equipment	**100,189**	74,811	134,315
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	**(174,533)**	(102,062)	(79,770)
FINANCING ACTIVITIES:			
Decrease in allocated short-term debt, net	**(1,240)**	(1,958)	(2,180)
Decrease in allocated long-term debt, net	**(156,402)**	(74,603)	(109,885)
Equity issuances, net	**38,123**	18,591	34,301
Dividends paid	**(14,346)**	(14,207)	(13,981)
NET CASH USED IN FINANCING ACTIVITIES OF CONTINUING OPERATIONS	**(133,865)**	(72,177)	(91,745)
CASH USED IN DISCONTINUED OPERATIONS [NOTE 13]	**(26,174)**	(90,193)	(69,844)
(Decrease) increase in cash and cash equivalents	**(196,623)**	385,751	158,001
Cash and cash equivalents at beginning of year	**633,952**	248,201	90,200
Cash and cash equivalents at end of year	**$ 437,329**	$ 633,952	$ 248,201

See accompanying notes to Group financial statements.

Circuit City Group Statements of Group Equity

(Amounts in thousands)	
BALANCE AT MARCH 1, 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
Net earnings	197,334
Equity issuances, net	50,205
Cash dividends	(14,207)
Inter-Group Interest adjustment [NOTE 2]	(4,085)
BALANCE AT FEBRUARY 29, 2000	2,054,720
Net earnings	149,247
Equity issuances, net	66,903
Cash dividends	(14,346)
Inter-Group Interest adjustment [NOTE 2]	635
BALANCE AT FEBRUARY 28, 2001	**$2,257,159**

See accompanying notes to Group financial statements.

Notes to Circuit City Group Financial Statements

1. BASIS OF PRESENTATION

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued (see Note 13). 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 Group's operations. The Inter-Group Interest is not considered outstanding CarMax Group Common 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 74.6 percent interest in the CarMax Group at February 28, 2001, a 74.7 percent interest at February 29, 2000, and a 76.6 percent interest at February 28, 1999. The terms of each series of common stock are discussed in detail in the Company's Form 8-A registration statement on file with the SEC.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the Circuit City Group and the CarMax Group for the purposes of preparing the financial statements, holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Net losses of either Group, and dividends or distributions on, or repurchases of, Circuit City Group Common Stock or CarMax Group Common Stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the Circuit City Group financial statements included herein should be read in conjunction with the Company's consolidated financial statements, the CarMax Group financial statements and the Company's SEC filings.

The Circuit City Group's financial statements reflect the application of the management and allocation policies adopted by the board of directors. These policies may be modified or rescinded, or new policies may be adopted, at the sole discretion of the board of directors, although the board of directors has no present plans to do so. These management and allocation policies include the following:

(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, if any, 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.

(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 are 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 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 are allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to each 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CASH AND CASH EQUIVALENTS: Cash equivalents of $408,778,000 at February 28, 2001, and $581,736,000 at February 29, 2000, consist of highly liquid debt securities with original maturities of three months or less.

(B) TRANSFERS AND SERVICING OF FINANCIAL ASSETS: For transfers of financial assets that qualify as sales, the Company may retain interest-only strips, one or more subordinated tranches, residual interests in a securitization trust, servicing rights and a cash reserve account, all of which are retained interests in the securitized receivables. These retained interests are measured based on the fair value at the date of transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions such as finance charge income, default rates, payment rates, forward yield curves and discount rates appropriate for the type of asset and risk. Retained interests are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings.

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company enters into financial instruments on behalf of the Circuit City Group. 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 because of 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.

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

(E) 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.

(F) COMPUTER SOFTWARE COSTS: The Company accounts for computer software costs in accordance with 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 SOP 98-1 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) PRE-OPENING EXPENSES: Effective March 1, 1999, the Company adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires costs of start-up activities, including organization and pre-opening costs, to be expensed as incurred. Prior to fiscal 2000, the Company capitalized pre-opening costs for new store locations. Beginning in the month after the store opened for business, the pre-opening costs were amortized over the remainder of the fiscal year.

(H) 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.

(I) REVENUE RECOGNITION: The Circuit City Group recognizes revenue when the earnings process is complete, generally at either the time of sale to a customer or upon delivery to a customer.

(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. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale because the third parties are the primary obligors under these contracts. Inasmuch as Circuit City is the primary obligor on its own contracts, all revenue from the sale of these 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.

(K) INTER-GROUP INTEREST: The Circuit City Group held a 74.6 percent Inter-Group Interest in the CarMax Group at February 28, 2001, a 74.7 percent Inter-Group Interest at February 29, 2000, and a 76.6 percent Inter-Group Interest at February 28, 1999. For purposes of the Circuit City 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 earnings (loss) of the CarMax Group attributed to the Circuit City Group's Inter-Group Interest are reflected as "Net earnings (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 adjusted proportionally for the net earnings (loss) of the CarMax Group. In addition, in the event of any dividend or other distribution on CarMax Group Common Stock, an amount that is proportionate to the aggregate amount paid in respect to shares of CarMax Group Common 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) STOCK-BASED COMPENSATION: The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and provides the pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation."

(O) RISKS AND UNCERTAINTIES: The Circuit City Group is a leading national retailer of brand-name consumer electronics, personal computers and entertainment software. The diversity of the Circuit City Group's products, customers, suppliers and geographic operations 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 Circuit City Group's operating results.

Because of the Inter-Group Interest, the Circuit City Group also is subject to risks and uncertainties related to the CarMax Group. 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, competition or sources of supply. However, because of 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 accounting principles generally accepted in the United States of America 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.

(P) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 2001.

3. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Land and buildings (20 to 25 years)	$ 76,660	$ 98,537
Land held for sale	2,759	–
Construction in progress	44,335	51,378
Furniture, fixtures and equipment (3 to 8 years)	809,501	690,512
Leasehold improvements (10 to 15 years)	598,586	566,103
Capital leases, primarily buildings (20 years)	12,471	12,471
	1,544,312	1,419,001
Less accumulated depreciation and amortization	747,523	665,676
Property and equipment, net	$ 796,789	$ 753,325

4. DEBT

Long-term debt of the Company at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Term loans	$230,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.5% to 6.7%	4,400	5,419
Obligations under capital leases [NOTE 8]	12,049	12,416
Note payable	2,076	3,750
Total long-term debt	248,525	426,585
Less current installments	132,388	177,344
Long-term debt, excluding current installments	116,137	249,241
Portion of long-term debt allocated to the Circuit City Group	$ 57,317	$ 213,719

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, 2001, the interest rate on the term loan was 5.97 percent.

In May 1995, the Company entered into a five-year, $175,000,000 unsecured bank term loan. As scheduled, the Company used existing working capital to repay this term loan in May 2000.

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, 2001, the interest rate on the term loan was 5.73 percent. This term loan is due in June 2001 and was classified as a current liability at February 28, 2001. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 0.18 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, 2001, or February 29, 2000.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately $6,243,000 at February 28, 2001, and $8,404,000 at February 29, 2000.

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, 2001, and February 29, 2000.

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 or 29 2001	2000
Average short-term debt outstanding	$ 56,065	$ 44,692
Maximum short-term debt outstanding	$365,275	$411,791
Aggregate committed lines of credit	$360,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 6.8 percent during fiscal 2001, 5.6 percent during fiscal 2000 and 5.1 percent during fiscal 1999.

Interest expense allocated by the Company to the Circuit City Group, excluding interest capitalized, was $7,273,000 in fiscal 2001, $13,844,000 in fiscal 2000 and $21,926,000 in fiscal 1999. The Circuit City Group capitalizes interest in connection with the construction of certain facilities and the development or purchase of software for internal use. Interest capitalized amounted to $2,121,000 in fiscal 2001, $2,166,000 in fiscal 2000 and $2,749,000 in fiscal 1999.

5. INCOME TAXES

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

(Amounts in thousands)	Years Ended February 28 or 29 2001	2000	1999
Current:			
Federal	$52,846	$ 141,514	$ 123,001
State	7,993	16,901	15,694
	60,839	158,415	138,695
Deferred:			
Federal	9,505	40,572	5,773
State	293	1,256	178
	9,798	41,828	5,951
Provision for income taxes	$70,637	$200,243	$144,646

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

	Years Ended February 28 or 29 2001	2000	1999
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	3.0%	3.0%	3.1%
Effective income tax rate	38.0%	38.0%	38.1%

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 or 29 are as follows:

(Amounts in thousands)	2001	2000
Deferred tax assets:		
Inventory	$ –	$ 7,264
Accrued expenses	42,953	27,974
Other	7,311	7,167
Total gross deferred tax assets	50,264	42,405
Deferred tax liabilities:		
Depreciation and amortization	42,488	44,854
Deferred revenue	32,825	29,656
Securitized receivables	36,257	14,069
Inventory	9,927	–
Prepaid expenses	10,788	23,023
Other	3,625	6,651
Total gross deferred tax liabilities	135,910	118,253
Net deferred tax liability	$ 85,646	$ 75,848

Based on the Company's historical and current pretax earnings, management believes the amount of gross deferred tax assets will more likely than not be realized through future taxable income; therefore, no valuation allowance is necessary.

6. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(k) PLAN: Effective August 1, 1999, the Company began sponsoring a 401(k) Plan for all employees meeting certain eligibility criteria. Under the Plan, eligible employees can contribute up to 15 percent of their salaries, and the Company matches a portion of those associate contributions. The Company's expense for this plan for Circuit City Group associates was $3,996,000 in fiscal 2001 and $2,158,000 in fiscal 2000.

(B) 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 Group Common 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 eight-hundredth of a share of Cumulative Participating Preferred Stock, Series E, $20 par value, at an exercise price of $125 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.

(C) 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 Group Common Stock shall have one vote and (ii) each outstanding share of CarMax Group Common Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Group Common Stock to a share of Circuit City Group Common 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.

(D) 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 Group Common Stock. Shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire three to seven years from the date of grant. Total restricted stock awards of 1,483,358 shares of Circuit City Group Common Stock were granted to eligible employees in fiscal 2001. Approximately 1,047,000 of those shares were granted as a one-for-one replacement for cancelled options that were originally granted on June 13, 2000. Options held by senior management were excluded from this replacement grant. Approximately 782,000 of those shares vest two-and-one-half years from the date of grant and approximately 265,000 shares vest four to five years from the grant date with accelerated vesting if certain performance factors are met. The market value at the date of grant of all shares granted has been recorded as unearned compensation and is a component of stockholders' equity. Unearned compensation is expensed over the restriction periods. In fiscal 2001, a total of $11,211,200 was charged to operations ($11,648,700 in fiscal 2000 and $8,741,100 in fiscal 1999). As of February 28, 2001, 2,364,051 restricted shares of Circuit City Group Common Stock were outstanding.

(E) EMPLOYEE STOCK PURCHASE PLANS: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. Under the Circuit City Group Plan, eligible employees may purchase shares of Circuit City Group Common Stock, subject to certain limitations. For each $1.00 contributed by employees under the Plan, the Company matches $0.15. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of $7,500 per year. At February 28, 2001, a total of 2,501,731 shares remained available under the Circuit City Group Plan. During fiscal 2001, 862,315 shares were issued to or purchased on the open market for employees (501,984 shares in fiscal 2000 and 858,710 shares in fiscal 1999). The average price per share purchased under the Plan was $29.93 in fiscal 2001, $41.70 in fiscal 2000 and $21.69 in fiscal 1999. The Company match or purchase price discount for the Circuit City Group totaled $2,519,500 in fiscal 2001, $2,682,300 in fiscal 2000 and $2,716,400 in fiscal 1999.

(F) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of Circuit City Group Common Stock. The exercise price for nonqualified options is equal to, or greater than, the market value at the date of grant. Options generally are exercisable over a period of 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, 2001, February 29, 2000, and February 28, 1999, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 2001.

TABLE 1	2001		2000		1999	
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	7,380	$25.07	8,894	$18.25	9,988	$16.00
Granted	4,280	34.80	1,564	40.75	1,080	21.17
Exercised	(1,526)	23.64	(2,864)	12.65	(2,008)	8.77
Cancelled	(1,414)	34.25	(214)	22.06	(166)	16.80
Outstanding at end of year	8,720	$28.60	7,380	$25.07	8,894	$18.25
Options exercisable at end of year	3,158	$21.86	1,258	$13.89	2,966	$12.02

TABLE 2	Options Outstanding			Options Exercisable	
(Shares in thousands) Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 9.09 to 14.75	1,344	3.8	$14.10	879	$13.93
15.18 to 18.00	1,067	3.0	17.24	876	17.23
18.43 to 25.28	864	4.1	21.11	212	20.78
29.50	1,000	1.1	29.50	1,000	29.50
34.84 to 35.21	3,038	7.2	35.21	—	—
35.22 to 47.53	1,407	5.4	40.72	191	40.81
Total	8,720	4.9	$28.60	3,158	$21.86

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 net earnings attributed to the Circuit City Group would have changed to the pro forma amounts indicated in the following table. 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 2001 may not be representative of the pro forma effects on net earnings for future years.

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Earnings from continuing operations:			
As reported	$149,247	$327,574	$216,927
Pro forma	136,957	319,337	211,025
Net earnings:			
As reported	$149,247	$197,334	$148,381
Pro forma	136,957	189,097	142,479

For the purpose of computing the pro forma amounts, 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:

	2001	2000	1999
Expected dividend yield	0.2%	0.2%	0.4%
Expected stock volatility	49%	38%	33%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	5	5	5

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the Circuit City Group is $17 in fiscal 2001, $17 in fiscal 2000 and $8 in fiscal 1999.

7. PENSION PLANS

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 160,000 shares of Circuit City Group Common Stock at February 28, 2001, and February 29, 2000. 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 Pension Plan's financial status and amounts recognized in the balance sheets as of February 28 or 29:

(Amounts in thousands)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$109,337	$ 110,001
Service cost	12,617	13,428
Interest cost	8,690	7,384
Actuarial loss (gain)	20,262	(17,325)
Benefits paid	(2,994)	(4,151)
Benefit obligation at end of year	$147,912	$109,337
Change in plan assets:		
Fair value of plan assets at beginning of year	$129,638	$ 94,125
Actual return on plan assets	(10,396)	28,166
Employer contributions	14,103	11,498
Benefits paid	(2,994)	(4,151)
Fair value of plan assets at end of year	$130,351	$129,638
Reconciliation of funded status:		
Funded status	$ (17,561)	$ 20,301
Unrecognized actuarial loss (gain)	13,922	(27,924)
Unrecognized transition asset	(199)	(398)
Unrecognized prior service benefit	(281)	(421)
Net amount recognized	$ (4,119)	$ (8,442)

The components of net pension expense are as follows:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Service cost	$12,617	$13,428	$10,479
Interest cost	8,690	7,384	6,135
Expected return on plan assets	(10,914)	(8,919)	(7,675)
Amortization of prior service cost	(140)	(132)	(104)
Amortization of transitional asset	(199)	(199)	(199)
Recognized actuarial (gain) loss	(274)	10	–
Net pension expense	$ 9,780	$11,572	$ 8,636

Assumptions used in the accounting for the Pension Plan were:

	Years Ended February 28 or 29		
	2001	2000	1999
Weighted average discount rate	7.5%	8.0%	6.8%
Rate of increase in compensation levels	6.0%	6.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

The Company also has an unfunded nonqualified plan that restores retirement benefits for certain senior executives who are affected by Internal Revenue Code limitations on benefits provided under the Company's Pension Plan. The projected benefit obligation under this plan and allocated to the Circuit City Group was $9.9 million at February 28, 2001, and $6.3 million at February 29, 2000.

8. 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:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Minimum rentals	$305,177	$288,037	$273,185
Rentals based on sales volume	1,229	1,327	1,247
Sublease income	(15,242)	(16,425)	(14,857)
Net rental expense	$291,164	$272,939	$259,575

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 operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 20 years; however, most of the leases have options providing for additional lease terms of five 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, 2001, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
2002	$ 1,725	$ 293,829	$(13,350)
2003	1,726	290,899	(12,638)
2004	1,768	288,436	(11,142)
2005	1,798	286,700	(10,193)
2006	1,807	284,673	(9,132)
After 2006	12,859	2,828,888	(34,437)
Total minimum lease payments	21,683	$4,273,425	$(90,892)
Less amounts representing interest	(9,634)		
Present value of net minimum capital lease payments [NOTE 4]	$12,049		

In fiscal 2001, the Company entered into sale-leaseback transactions with unrelated parties on behalf of the Circuit City Group at an aggregate selling price of $61,526,000 ($24,295,000 in fiscal 2000 and $103,750,000 in fiscal 1999). Neither the Company nor the Circuit City Group has continuing involvement under the sale-leaseback transactions.

9. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION
Advertising expense from continuing operations, which is included in selling, general and administrative expenses in the accompanying statements of earnings, amounted to $422,874,000 (4.0 percent of net sales and operating revenues) in fiscal 2001, $390,144,000 (3.7 percent of net sales and operating revenues) in fiscal 2000 and $376,316,000 (4.0 percent of net sales and operating revenues) in fiscal 1999.

10. 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 finance operation. In these securitizations, the Company retains servicing rights and subordinated interests.

Private-label credit card receivables are financed through a master trust securitization program. During fiscal year 2001, a $300 million, five-year public securitization related to the private-label card matured and was paid off. The Company entered into a $275 million, three-year public securitization in fiscal 2001. As of February 28, 2001, the master trust securitization program had a capacity of $1.31 billion. The master trust agreement has no recourse provisions.

Bankcard receivables also are financed through a master trust securitization program. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on $188 million of the receivables sold. The Company believes that as of February 28, 2001, no liability existed under the recourse provisions. The bankcard securitization program had a total program capacity of $1.94 billion as of February 28, 2001.

At February 28, 2001, the total principal amount of loans managed or securitized was $2,799 million. Of the total loans, the principal amount of loans securitized was $2,754 million and the principal amount of loans held for sale was $45 million. The principal amount of loans that were 31 days or more delinquent was $192.3 million at February 28, 2001. The credit losses net of recoveries were $229.9 million for fiscal 2001.

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

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

(Amounts in thousands)	Year Ended February 28, 2001
Proceeds from new securitizations	$1,092,500
Proceeds from collections reinvested in previous credit card securitizations	$1,730,511
Servicing fees received	$ 52,044
Other cash flows received on retained interests*	$ 173,775

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

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

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $131.0 million at February 28, 2001, and are included in net accounts receivable. Gains on sales of $182.6 million were recorded in fiscal 2001.

The fair value of retained interests at February 28, 2001, was $246.1 million with a weighted-average life ranging from 0.4 years to 3 years. The table below shows the key economic assumptions used in measuring the fair value of retained interests at February 28, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at February 28, 2001, are not materially different than assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Payment rate	7.1 – 11.3%	$10,592	$20,107
Default rate	7.0 – 14.3%	$21,159	$42,318
Discount rate	10.0 – 15.0%	$ 2,973	$ 5,892

Circuit City Group

11. CONTINGENT LIABILITIES

In the normal course of business, the Company is involved in various legal proceedings. Based upon the 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.

12. APPLIANCE EXIT COSTS

On July 25, 2000, the Company announced plans to exit the major appliance category to expand its selection of key consumer electronics and home office products in all Circuit City Superstores. This decision reflected significant sales weakness and increased competition in the major appliance category and management's earnings expectations for these other products. To exit the appliance business, the Company closed six distribution centers and seven service centers in fiscal 2001 and expects to close two distribution centers and one service center by July 31, 2001. The majority of these properties are leased. The Company is in the process of marketing these properties to be subleased. Circuit City maintains control over its in-home major appliance repair business, although repairs are subcontracted to an unrelated third party. In the second quarter of fiscal 2001, the Company recorded appliance exit costs of $30 million. Most of these expenses are included in cost of sales, buying and warehousing on the statement of earnings for fiscal 2001. There were no adjustments to the exit costs as of February 28, 2001.

Approximately 850 employees have been terminated and approximately 100 employees will be terminated as locations close or consolidate. These reductions were mainly in the service, distribution and merchandising functions. Because severance is being paid to employees on a bi-weekly schedule based on years of service, cash payments lag job eliminations. The exit costs also include $17.8 million for lease termination costs and $5.0 million, net of salvage value, for the write-down of fixed assets.

(Amounts in millions)	Total Exit Costs	Expenses Paid or Assets Written Off	Liability at February 28, 2001
Lease termination costs	$17.8	$ 1.8	$16.0
Fixed asset write-downs	5.0	5.0	–
Employee termination benefits	4.4	2.2	2.2
Other	2.8	2.8	–
Appliance exit costs	$30.0	$11.8	$18.2

13. DISCONTINUED OPERATIONS

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

For fiscal 2001, the discontinued Divx operations had no impact on the net earnings of the Circuit City Group. The loss from the discontinued Divx operations totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000 and $68.5 million after an income tax benefit of $42.0 million in fiscal 1999. The loss on the disposal of the Divx business totaled $114.0 million after an income tax benefit of $69.9 million in fiscal 2000. The loss on the disposal includes a provision for operating losses to be incurred during the phase-out period. It also includes provisions for commitments under licensing agreements with motion picture distributors, the write-down of assets to net realizable value, lease termination costs, employee severance and benefit costs and other contractual commitments.

The net liabilities of the discontinued Divx operations reflected in the accompanying Group balance sheets as of February 28 or 29 are comprised of the following:

(Amounts in thousands)	2001	2000
Current assets	$ 8	$ 612
Property and equipment, net	–	513
Other assets	324	–
Current liabilities	(27,522)	(32,650)
Other liabilities	(14,082)	(35,291)
Net liabilities of discontinued operations	$(41,272)	$(66,816)

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands)	First Quarter 2001	First Quarter 2000	Second Quarter 2001	Second Quarter 2000	Third Quarter 2001	Third Quarter 2000	Fourth Quarter 2001	Fourth Quarter 2000	Year 2001	Year 2000
Net sales and operating revenues	$2,449,110	$2,204,919	$2,506,220	$2,422,667	$2,325,576	$2,495,649	$3,177,131	$3,476,171	$10,458,037	$10,599,406
Gross profit	$ 597,800	$ 540,731	$ 582,916	$ 604,503	$ 510,449	$ 618,182	$ 774,398	$ 858,776	$ 2,465,563	$ 2,622,192
Earnings (loss) from continuing operations before Inter-Group Interest in the CarMax Group	$ 46,714	$ 39,311	$ 43,196	$ 71,234	$ (70,055)	$ 54,714	$ 95,383	$ 161,453	$ 115,238	$ 326,712
Earnings (loss) from continuing operations	$ 57,123	$ 41,398	$ 55,341	$ 73,692	$ (64,407)	$ 52,335	$ 101,190	$ 160,149	$ 149,247	$ 327,574
Loss from discontinued operations	$ —	$ (130,240)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (130,240)
Net earnings (loss)	$ 57,123	$ (88,842)	$ 55,341	$ 73,692	$ (64,407)	$ 52,335	$ 101,190	$ 160,149	$ 149,247	$ 197,334

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, 2001 and February 29, 2000 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, 2001. 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 auditing standards generally accepted in the United States of America. 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. Accounting principles generally accepted in the United States of America 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, 2001 and February 29, 2000 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 28, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Richmond, Virginia
April 2, 2001

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

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The CarMax Group Common Stock is intended to track the performance of the CarMax stores and related operations. The Circuit City Group Common Stock is intended to track the performance of the Circuit City business and related operations and the Group's retained interest in the CarMax Group. The Circuit City Group's retained interest is not considered outstanding CarMax Group Common Stock.

Holders of Circuit City Group Common Stock and holders of CarMax Group Common Stock are shareholders of the Company and as such are subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. The discussion and analysis for the CarMax Group presented below should be read in conjunction with the discussion and analysis for Circuit City Stores, Inc. and for the Circuit City Group and in conjunction with all the Company's SEC filings.

Reported earnings and losses attributed to the CarMax Group Common Stock exclude the earnings and losses attributed to the Circuit City Group's retained interest, which was 74.6 percent at February 28, 2001, 74.7 percent at February 29, 2000, and 76.6 percent at February 28, 1999.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the CarMax Group increased 24 percent in fiscal 2001 to $2.50 billion. In fiscal 2000, total sales increased 37 percent to $2.01 billion from $1.47 billion in fiscal 1999. The fiscal 2001 total sales increase reflects a 17 percent increase in the comparable store sales of the CarMax business, driven by higher-than-anticipated used-car sales, and the net addition of two used-car superstores, two prototype satellite stores and six new-car franchises since the end of fiscal 1999. The new stores and four of the franchises moved into the comparable store sales base throughout fiscal 2001.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

Fiscal	Total	Comparable
2001	24%	17 %
2000	37%	2 %
1999	68%	(2)%
1998	71%	6 %
1997	85%	23 %

PERCENT VEHICLE SALES BY CATEGORY

Fiscal	2001	2000	1999	1998	1997
Vehicle Dollars:					
Used Vehicles	81%	79%	90%	89%	88%
New Vehicles	19%	21%	10%	11%	12%
Vehicle Units:					
Used Vehicles	87%	86%	94%	93%	92%
New Vehicles	13%	14%	6%	7%	8%

We believe CarMax's fiscal 2001 sales performance primarily reflects the improved execution of the CarMax offer at individual stores, increased awareness and use of the CarMax Web site and the exit of CarMax's primary used-car superstore competitor late in fiscal 2000. We believe this competitor's exit from five multi-store markets helped eliminate consumer confusion over the two offers. CarMax's used-car comparable store sales growth remained strong through the fiscal 2001 anniversary of this competitor's exit from the used-car superstore business. We also believe that the continuation of CarMax's robust used-car sales growth during the second half of the fiscal year indicates that the CarMax used-car concept offers strong consumer value and can generate steady sales growth in an economic downturn.

Geographic expansion of the CarMax used-car superstore concept and the addition of new-car franchises were the primary contributors to CarMax's total sales growth from fiscal 1999 through the first half of fiscal 2000. Throughout this period, weak used-car sales more than offset CarMax's strong comparable store sales growth in new cars. Late in fiscal 1999, CarMax adopted a hub and satellite operating strategy in existing multi-store markets. Under the hub and satellite operating model, a satellite store delivers the same consumer offer as a hub store, but uses the reconditioning, purchasing and business office operations of a nearby hub store. The prototype satellites require one-half to one-third the acreage of a standard "A" store. In fiscal 1999, we converted five CarMax superstores in multi-store markets to satellite operations and opened two prototype satellite stores. During fiscal 2000, we opened two CarMax used-car superstores, two prototype satellite used-car superstores, five stand-alone new-car stores and one new-car franchise that was integrated with a used-car superstore. CarMax also converted one existing store into a satellite operation and relocated one franchise next to a used-car superstore.

In the second half of fiscal 2000, CarMax limited its geographic expansion to focus on building sales and profitability in existing markets. The sales pace improved at CarMax's used-car superstores, including those stores with integrated new-car franchises, and the Group generated comparable store sales growth for the last two quarters and for the fiscal year. That success continued in fiscal 2001 with strong comparable store sales throughout the year and used-car sales that exceeded expectations in all four quarters. During the year, CarMax added two new-car franchises, integrating them with existing used-car superstores.

Although the performance of the used-car superstores and integrated used- and new-car superstores exceeded expectations in fiscal 2001, we have been disappointed by the performance of the stand-alone new-car stores. Operations at these stores have improved significantly versus their levels prior to acquisition; however, they remain below our expectations.

RETAIL UNITS*

Fiscal	Retail Units at Year-End 2001	2000	1999	1998	1997
"C" and "B" Stores	14	14	13	8	2
"A" Stores	17	17	16	10	5
Prototype Satellite Stores	4	4	2	—	—
Stand-Alone New-Car Stores	5	5	—	—	—
Total	40	40	31	18	7

** CarMax opened two prototype satellite stores in late fiscal 1999 and two prototype satellite stores in late fiscal 2000. In addition to the four prototype satellite stores in operation, six "A," "B" or "C" stores have been converted to satellite operations. "C" stores represent the largest format.*

NEW-CAR FRANCHISES

Fiscal	New-Car Franchises at Year-End 2001	2000	1999	1998	1997
Integrated/Co-Located New-Car Franchises	17	15	16	2	1
Stand-Alone New-Car Franchises	5	5	—	—	—
Total New-Car Franchises	22	20	16	2	1

In most states, the Group sells extended warranties on behalf of unrelated third parties who are the primary obligors. Under this third-party warranty program, we have no contractual liability to the customer. In states where third-party warranty sales were not permitted, the Group has sold its own extended warranty for which we are the primary obligor. Gross dollar sales from all extended warranty programs were 4.0 percent of total sales of the CarMax business in fiscal 2001, 3.7 percent in fiscal 2000 and 4.3 percent in fiscal 1999. The fiscal 2001 increase reflects the increase in used-car sales as a percentage of the overall mix, enhanced manufacturers' programs on new cars and improved warranty penetration. Used cars achieve a higher warranty penetration rate than new cars. The fiscal 2000 decrease reflects the increase in new-car sales as a percentage of the overall mix. Total extended warranty revenue, which is reported in total sales, was 1.8 percent of total sales in fiscal 2001, 1.6 percent in fiscal 2000 and 2.0 percent in fiscal 1999. Third-party extended warranty revenue was 1.8 percent of total sales in fiscal 2001, 1.6 percent in fiscal 2000 and 1.9 percent in fiscal 1999.

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

Cost of Sales

The gross profit margin was 13.2 percent in fiscal 2001, 11.9 percent in fiscal 2000 and 11.7 percent in fiscal 1999. At the end of fiscal 1998, CarMax instituted a profit improvement plan that included better inventory management, increased retail service sales, pricing adjustments and the addition of consumer electronics accessory sales. CarMax's gross profit margins have improved significantly since that time. In fiscal 2001, the increase in used-car sales as a percent of the total sales mix and continued strong inventory management throughout the year, especially during the second half when the model-year transition occurs in the new-car segment, contributed to a higher gross margin. Significant increases in unit sales of new cars as a percentage of total unit sales limited the gross margin improvement in fiscal 2000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 9.8 percent of sales in fiscal 2001, 11.3 percent of sales in fiscal 2000 and 13.9 percent of sales in fiscal 1999. The fiscal 2001 selling, general and administrative expense ratio continued the improvement experienced in fiscal 2000 and reflects the leverage achieved from strong total and comparable store sales growth; more efficient advertising expenditures; overall improvements in store productivity, including those achieved through the hub and satellite operating strategy we adopted in multi-store markets; and a favorable contribution from the finance operation. The fiscal 2001 improvements were partly offset by an $8.7 million write-off of goodwill associated with two underperforming stand-alone new-car franchises. Excluding these costs, the fiscal 2001 expense ratio would have been 9.4 percent of sales. The fiscal 2000 improvements were partly offset by $4.8 million in charges related to lease termination costs on undeveloped property and a write-down of assets associated with excess property for sale. Excluding these costs, the fiscal 2000 expense ratio would have been 11.1 percent of sales. The higher ratio in fiscal 1999 reflects the costs associated with the expansion of CarMax superstores and the below-plan sales in a number of multi-store metropolitan markets. 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 relatively unchanged as a percent of sales across the three-year period, at 0.5 percent of sales in fiscal 2001 and fiscal 2000 and 0.4 percent of sales in fiscal 1999. Interest expense was incurred primarily on allocated debt to fund new store growth, franchise acquisitions and working capital, including inventory.

Earnings (Loss) Before Income Taxes

Earnings before income taxes were $73.5 million in fiscal 2001, significantly exceeding our original expectations. Fiscal 2000 earnings before income taxes were $1.8 million. In the fourth quarter of fiscal 2001, CarMax recorded a pretax charge of $8.7 million relating to the write-off of goodwill associated with two underperforming stand-alone new-car franchises. Excluding these charges, earnings before income taxes were $82.2 million. In the fourth quarter of fiscal 2000, CarMax recorded a pretax charge of $4.8 million relating to lease termination costs on undeveloped property and the write-down of assets associated with excess property for sale. Excluding these charges, earnings before income taxes were $6.6 million. For fiscal 1999, CarMax recorded a pretax loss of $38.5 million.

Income Taxes

The Group's effective income tax rate was 38.0 percent in fiscal 2001 and fiscal 2000, compared with 39.0 percent in fiscal 1999. In fiscal 1999, the CarMax Group generated a loss and therefore recorded related income tax benefits.

Net Earnings (Loss)

Net earnings were $45.6 million in fiscal 2001, compared with net earnings of $1.1 million in fiscal 2000 and a net loss of $23.5 million in fiscal 1999. Excluding the write-off of goodwill, net earnings would have been $51.0 million in fiscal 2001. Excluding lease termination costs and the write-down of assets, net earnings would have been $4.1 million in fiscal 2000.

Net earnings attributed to the CarMax Group Common Stock were $11.6 million in fiscal 2001, compared with $256,000 in fiscal 2000 and a net loss of $5.5 million in fiscal 1999.

Operations Outlook

We believe that the higher-than-expected sales and earnings growth produced in fiscal 2001 indicates that the CarMax business has developed a store concept that can generate sustained profits. We believe that we have in place the infrastructure that will enable CarMax to maintain its improved level of execution, generate additional comparable store sales growth and resume geographic expansion.

In single-store markets, our most mature CarMax stores have captured market shares of 8 percent to 10 percent. We have identified approximately 35 additional markets that could support an "A" store, the standard CarMax store size going forward. We expect to enter two of these markets, Sacramento, Calif., and Greensboro, N.C., in late fiscal 2002. We also believe that we can add another 10 satellite CarMax stores in our existing multi-store markets. Assuming the CarMax used-car business continues to meet our expectations, we plan to open, in fiscal 2003, four to six stores, including openings in single-store markets and satellite stores in existing multi-store markets, and, in fiscal 2004 through fiscal 2006, six to eight stores per year, again focusing near-term growth on single-store markets or satellites.

Based on the performance of the existing used-car superstores, we believe that a standard "A" store in a single-store market will at maturity produce sales in the $50 million to $100 million range and a pretax, before non-store overhead, store operating profit margin in the range of 5.0 percent to 9.5 percent. We believe a satellite store at maturity will produce sales in the $36 million to $72 million range and a pretax, before non-store overhead, store operating profit margin in the range of 5.0 percent to 9.3 percent. In both cases, maturity is assumed to be the fifth year of operation. If we meet our store opening and sales per store objectives, we believe that CarMax can produce annual sales volumes of $5 billion within five years. Non-store overhead, which includes all field operating expenses outside the store as well as corporate overhead, was 2.3 percent of sales in fiscal 2001, and we estimate it will decline to approximately 1.7 percent of sales when annual volumes reach $5 billion.

Given the strong fiscal 2001 performance, we are highly optimistic about our growth plan for CarMax. Nevertheless, we will proceed cautiously as we seek to ensure that all sales growth is profitable sales growth and that we are delivering an attractive return on investment.

RECENT ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL CONDITION

In fiscal 2001, net cash provided by CarMax operating activities was $17.8 million. The fiscal 2001 increase reflects a $44.4 million increase in net earnings, offset by an increase in inventory. Net cash used in operating activities was $24.0 million in fiscal 2000 and $80.3 million in fiscal 1999. For the three-year period, cash primarily was used to purchase inventory related to comparable store sales growth, store openings and additional new-car franchises. In fiscal 1999, cash also was used to fund net losses.

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 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.

During fiscal 2001, a term loan totaling $175 million was repaid using the Company's existing working capital. In addition, a term loan totaling $130 million and due in June 2001 was classified as a current liability. Although we have the ability to refinance this debt, we intend to repay it using existing working capital. Payment of corporate pooled debt does not necessarily result in a reduction of CarMax Group allocated debt.

The CarMax Group's capital expenditures were $10.8 million in fiscal 2001, $45.4 million in fiscal 2000 and $138.3 million in fiscal 1999. In fiscal 2001, CarMax's capital expenditures primarily were related to equipment purchases. CarMax's capital expenditures through fiscal 2000 primarily were related to store expansion. Capital expenditures for the CarMax Group have been funded through sale-leaseback transactions, landlord reimbursements and allocated short- and long-term debt. In fiscal 2002, CarMax anticipates capital expenditures of approximately $80 million, primarily related to new store construction. Fixed asset sales, sale-leasebacks and landlord reimbursements transactions totaled $15.5 million in fiscal 2001, $25.3 million in fiscal 2000 and $139.3 million in fiscal 1999.

During fiscal 2001, CarMax acquired one new-car franchise for a total of $1.3 million. In fiscal 2000, CarMax acquired five new-car franchises for a total of $34.8 million. These acquisitions were financed through available cash resources, including allocated debt. Costs in excess of the acquired net tangible assets, which were primarily inventory, were recorded as goodwill and covenants not to compete.

The Company has an asset securitization program operated through a special purpose subsidiary on behalf of CarMax. At the end of fiscal 2001, that program allowed the transfer of up to $450 million in automobile loan receivables. In October 1999, the Company formed an owner trust securitization facility that allowed for a $644 million securitization of automobile loan receivables in the public market. At February 28, 2001, the program had a capacity of $329 million. In January 2001, the Company formed an additional owner trust securitization facility that allowed for a $655 million securitization of automobile loan receivables in the public market. The program had a capacity of $655 million at the end of fiscal 2001. Securitized receivables under all CarMax programs totaled $1.28 billion at the end of fiscal 2001. Under the securitization programs, receivables are sold to unaffiliated third parties with the servicing rights retained. We expect that these securitization programs can be expanded to accommodate future receivables growth.

CarMax expects to open two used-car superstores late in fiscal 2002 and assuming the business continues to meet our expectations, as many as 30 stores over the following four years. The initial cash investment per store is expected to be in the range of $22 million to $30 million for an “A” store and $11 million to $18 million for a satellite store. The initial investment includes the land and building; furniture, fixtures and equipment; inventory; and CarMax’s seller’s interest in the automobile loan receivables of the Group’s finance operation. These investments are expected primarily to be funded through sale-leasebacks, securitization of receivables or floor plan financing for inventory. If CarMax takes full advantage of building and land sale-leaseback and inventory financing, the net cash investment per store is expected to be $4 million to $6 million for an “A” store and $2 million to $3 million for a satellite store.

We believe that the proceeds from sales of property and equipment and receivables, future increases in the Company’s debt allocated to the CarMax Group, Inter-Group loans, floor plan financing and cash generated by operations will be sufficient to fund the capital expenditures and operations of the CarMax business.

MARKET RISK

The Company manages the automobile installment loan portfolio of the CarMax finance operation. A portion of this portfolio is securitized and, therefore, is not presented on the Group’s balance sheets. 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, 2001, and February 29, 2000, was as follows:

(Amounts in millions)	2001	2000
Fixed APR	$1,296	$932

Financing for these receivables is achieved through asset securitization programs that, in turn, issue both fixed- and floating-rate securities. Interest rate exposure is hedged through the use of interest rate swaps matched to projected payoffs. Receivables held by the Company for sale are financed with working capital. Financings at February 28, 2001, and February 29, 2000, were as follows:

(Amounts in millions)	2001	2000
Fixed-rate securitizations	$ 984	$559
Floating-rate securitizations		
synthetically altered to fixed	299	327
Floating-rate securitizations	1	1
Held by the Company:		
For investment*	9	22
For sale	3	23
Total	$1,296	$932

** Held by a bankruptcy remote special purpose company.*

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 28, 2001, or February 29, 2000. The Company has a program in place to manage interest rate exposure relating to its installment loan portfolio and expects to experience relatively little impact as interest rates fluctuate.

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management’s expectations for fiscal year 2002 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)	2001	%	2000	%	1999	%
			Years Ended February 28 or 29			
NET SALES AND OPERATING REVENUES	**$2,500,991**	100.0	$2,014,984	100.0	$1,466,298	100.0
Cost of sales	**2,171,232**	86.8	1,774,619	88.1	1,294,032	88.3
GROSS PROFIT	**329,759**	13.2	240,365	11.9	172,266	11.7
Selling, general and administrative expenses [NOTES 1 and 10]	**244,167**	9.8	228,200	11.3	204,422	13.9
Interest expense [NOTES 1 AND 5]	**12,110**	0.5	10,362	0.5	6,393	0.4
TOTAL EXPENSES	**256,277**	10.3	238,562	11.8	210,815	14.3
Earnings (loss) before income taxes	**73,482**	2.9	1,803	0.1	(38,549)	(2.6)
Income tax provision (benefit) [NOTES 1 AND 6]	**27,918**	1.1	685	0.0	(15,035)	(1.0)
NET EARNINGS (LOSS)	**$ 45,564**	1.8	$ 1,118	0.1	$ (23,514)	(1.6)
Net earnings (loss) attributed to [NOTE 1]:						
Circuit City Group Common Stock	**$ 34,009**		$ 862		$ (18,057)	
CarMax Group Common Stock	**11,555**		256		(5,457)	
	$ 45,564		$ 1,118		$ (23,514)	

See accompanying notes to Group financial statements.

CarMax Group Balance Sheets

(Amounts in thousands)	At February 28 or 29 2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 8,802**	$ 9,981
Net accounts receivable [NOTE 11]	**134,662**	129,253
Inventory	**347,137**	283,592
Prepaid expenses and other current assets	**2,306**	2,844
TOTAL CURRENT ASSETS	**492,907**	425,670
Property and equipment, net [NOTES 4 AND 5]	**192,158**	211,856
Other assets	**25,888**	37,969
TOTAL ASSETS	**$710,953**	$675,495
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTE 5]	**108,151**	$ 91,609
Accounts payable	**82,483**	75,959
Short-term debt [NOTE 5]	**987**	1,552
Accrued expenses and other current liabilities	**16,154**	19,856
Deferred income taxes [NOTE 6]	**18,162**	7,147
TOTAL CURRENT LIABILITIES	**225,937**	196,123
Long-term debt, excluding current installments [NOTE 5]	**83,057**	121,257
Deferred revenue and other liabilities	**6,836**	7,249
Deferred income taxes [NOTE 6]	**3,620**	5,877
TOTAL LIABILITIES	**319,450**	330,506
GROUP EQUITY	**391,503**	344,989
Commitments and contingent liabilities [NOTES 1, 8, 9, 11, 12 AND 13]		
TOTAL LIABILITIES AND GROUP EQUITY	**$710,953**	$675,495

See accompanying notes to Group financial statements.

Carmax Group

CarMax Group Statements of Cash Flows

(Amounts in thousands)	2001	2000	1999
		Years Ended February 28 or 29	
OPERATING ACTIVITIES:			
Net earnings (loss)	**$ 45,564**	$ 1,118	$ (23,514)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**18,116**	15,241	10,003
Write-down of assets and lease termination costs [NOTE 10]	**8,677**	4,755	–
Loss (gain) on disposition of property and equipment	**415**	(820)	–
Provision for deferred income taxes	**8,758**	1,225	11,284
Changes in operating assets and liabilities, net of effects from business acquisitions:			
(Decrease) increase in deferred revenue and other liabilities	**(413)**	2,234	(251)
Increase in net accounts receivable	**(5,409)**	(31,889)	(36,498)
Increase in inventory	**(62,745)**	(39,909)	(81,490)
Decrease (increase) in prepaid expenses and other current assets	**538**	(2,224)	25,714
Decrease (increase) in other assets	**424**	1,255	(809)
Increase in accounts payable, accrued expenses and other current liabilities	**3,881**	25,016	15,229
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**17,806**	(23,998)	(80,332)
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 3]	**(1,325)**	(34,849)	(41,562)
Purchases of property and equipment	**(10,834)**	(45,395)	(138,299)
Proceeds from sales of property and equipment	**15,506**	25,340	139,332
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**3,347**	(54,904)	(40,529)
FINANCING ACTIVITIES:			
(Decrease) increase in allocated short-term debt, net	**(565)**	(3,053)	1,220
(Decrease) increase in allocated long-term debt, net	**(21,658)**	71,896	108,584
Equity issuances, net	**(109)**	2,361	2,324
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(22,332)**	71,204	112,128
Decrease in cash and cash equivalents	**(1,179)**	(7,698)	(8,733)
Cash and cash equivalents at beginning of year	**9,981**	17,679	26,412
Cash and cash equivalents at end of year	**$ 8,802**	$ 9,981	$ 17,679

See accompanying notes to Group financial statements.

CarMax Group Statements of Group Equity

(Amounts in thousands)	
BALANCE AT MARCH 1, 1998	$ 359,946
Net loss	(23,514)
Equity issuances, net	3,983
BALANCE AT FEBRUARY 28, 1999	340,415
Net earnings	1,118
Equity issuances, net	3,456
BALANCE AT FEBRUARY 29, 2000	344,989
Net earnings	45,564
Equity issuances, net	950
BALANCE AT FEBRUARY 28, 2001	**$391,503**

See accompanying notes to Group financial statements.

Carmax Group

1. BASIS OF PRESENTATION

The common stock of Circuit City Stores, Inc. consists of two common stock series, which are intended to reflect the performance of the Company's two businesses. The Circuit City Group Common Stock is intended to track the performance of the Circuit City store-related operations, the Group's retained interest in the CarMax Group and the Company's investment in Digital Video Express, which has been discontinued. 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 Group's operations. The Inter-Group Interest is not considered outstanding CarMax Group Common 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 74.6 percent interest in the CarMax Group at February 28, 2001, a 74.7 percent interest in the CarMax Group at February 29, 2000, and a 76.6 percent interest at February 28, 1999. The terms of each series of common stock are discussed in detail in the Company's Form 8-A registration statement on file with the SEC.

Notwithstanding the attribution of the Company's assets and liabilities, including contingent liabilities, and stockholders' equity between the CarMax Group and the Circuit City Group for the purposes of preparing the financial statements, holders of CarMax Group Common Stock and holders of Circuit City Group Common Stock are shareholders of the Company and continue to be subject to all of the risks associated with an investment in the Company and all of its businesses, assets and liabilities. Such attribution and the equity structure of the Company do not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The results of operations or financial condition of one Group could affect the results of operations or financial condition of the other Group. Net losses of either Group, and dividends or distributions on, or repurchases of, Circuit City Group Common Stock or CarMax Group Common Stock will reduce funds legally available for dividends on, or repurchases of, both stocks. Accordingly, the CarMax Group financial statements included herein should be read in conjunction with the Company's consolidated financial statements, the Circuit City Group financial statements and the Company's SEC filings.

The CarMax Group's financial statements reflect the application of the management and allocation policies adopted by the board of directors. These policies may be modified or rescinded, or new policies may be adopted, at the sole discretion of the board of directors, although the board of directors has no present plans to do so. These management and allocation policies include the following:

(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, if any, that are allocated between the Groups. 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.

(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 are 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 $4.0 million for fiscal 2001, $5.6 million for fiscal 2000 and $7.5 million for fiscal 1999.

(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 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 are allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to each 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CASH AND CASH EQUIVALENTS: The CarMax Group had no cash equivalents at February 28, 2001. Cash equivalents of $1,770,000 at February 29, 2000, consist of highly liquid debt securities with original maturities of three months or less.

(B) TRANSFERS AND SERVICING OF FINANCIAL ASSETS: For transfers of financial assets that qualify as sales, the Company may retain interest-only strips, one or more subordinated tranches, residual interests in a securitization trust, servicing rights and a cash reserve account, all of which are retained interests in the securitized receivables. These retained interests are measured based on the fair value at the date of transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions such as finance charge income, default rates, prepayment rates and discount rates appropriate for the type of asset and risk. Retained interests are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings.

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company enters into financial instruments on behalf of the CarMax Group.

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 because of 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.

(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: The Company accounts for computer software costs in accordance with 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 SOP 98-1 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 values of intangible assets are periodically reviewed by the Company and impairments are recognized when the expected future undiscounted operating cash flows expected from such intangible assets are less than the carrying values.

(H) PRE-OPENING EXPENSES: Effective March 1, 1999, the Company adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires costs of start-up activities, including organization and pre-opening costs, to be expensed as incurred. Prior to fiscal 2000, the Company capitalized pre-opening costs for new store locations. Beginning in the month after the store opened for business, the pre-opening costs were amortized over the remainder 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) REVENUE RECOGNITION: The CarMax Group recognizes revenue when the earnings process is complete, generally at either the time of sale to a customer or upon delivery to a customer.

(K) 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 sales were not permitted. Contracts usually have terms of coverage between 12 and 72 months. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale, because the third parties are the primary obligors under these contracts. Inasmuch as CarMax is the primary obligor on its own contracts, all revenue from the sale of these contracts was 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 were deferred and charged to expense in proportion to the revenue recognized.

(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) STOCK-BASED COMPENSATION: The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees," and provides the pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation."

(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. 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 to be 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, competition or sources of supply. However, because of 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 accounting principles generally accepted in the United States of America 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 2001.

3. BUSINESS ACQUISITIONS

The CarMax Group acquired the franchise rights and the related assets of one new-car dealership for an aggregate cost of $1.3 million in fiscal 2001, five new-car dealerships for an aggregate cost of $34.8 million in fiscal 2000 and four new-car dealerships for an aggregate cost of $49.6 million in fiscal year 1999. These acquisitions were financed through available cash resources, including allocated debt and, in fiscal 1999, 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 each acquired franchise were included in the accompanying CarMax Group financial statements since the dates of acquisition. Unaudited pro forma information related to these acquisitions is not included because the impact of these acquisitions on the accompanying CarMax Group financial statements is not material.

4. PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Land and buildings (20 to 25 years)	$101,382	$ 81,885
Land held for sale	27,971	41,850
Land held for development	4,285	17,697
Construction in progress	14,324	18,010
Furniture, fixtures and equipment (3 to 8 years)	64,866	60,225
Leasehold improvements (10 to 15 years)	21,196	19,902
	234,024	239,569
Less accumulated depreciation	41,866	27,713
Property and equipment, net	$192,158	$211,856

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

5. DEBT

Long-term debt of the Company at February 28 or 29 is summarized as follows:

(Amounts in thousands)	2001	2000
Term loans	$230,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.5% to 6.7%	4,400	5,419
Obligations under capital leases	12,049	12,416
Note payable	2,076	3,750
Total long-term debt	248,525	426,585
Less current installments	132,388	177,344
Long-term debt, excluding current installments	$116,137	$249,241
Portion of long-term debt allocated to the CarMax Group	$191,208	$212,866

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, 2001, the interest rate on the term loan was 5.97 percent.

In May 1995, the Company entered into a five-year, $175,000,000 unsecured bank term loan. As scheduled, the Company used existing working capital to repay this term loan in May 2000.

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, 2001, the interest rate on the term loan was 5.73 percent. This term loan is due in June 2001 and was classified as a current liability at February 28, 2001. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 0.18 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, 2001, or February 29, 2000.

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

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, 2001, and February 29, 2000.

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:

	Years Ended February 28 or 29	
(Amounts in thousands)	2001	2000
Average short-term debt outstanding	$ 56,065	$ 44,692
Maximum short-term debt outstanding	$365,275	$411,791
Aggregate committed lines of credit	$360,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 6.8 percent during fiscal 2001, 5.6 percent during fiscal 2000 and 5.1 percent during fiscal 1999.

Interest expense allocated by the Company to the CarMax Group, excluding interest capitalized, was $12,110,000 in fiscal 2001, $10,362,000 in fiscal 2000 and $6,393,000 in fiscal 1999. The CarMax Group capitalizes interest in connection with the construction of certain facilities. There was no interest capitalized in fiscal 2001. Interest capitalized amounted to $1,254,000 in fiscal 2000 and $2,674,000 in fiscal 1999.

6. INCOME TAXES

The components of the income tax provision (benefit) on net earnings (loss) are as follows:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Current:			
Federal	$16,986	$(1,395)	$(23,773)
State	2,174	855	(2,546)
	19,160	(540)	(26,319)
Deferred:			
Federal	8,494	1,190	10,945
State	264	35	339
	8,758	1,225	11,284
Income tax provision (benefit)	$27,918	$ 685	$(15,035)

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

	Years Ended February 28 or 29		
	2001	2000	1999
Federal statutory income tax rate	35%	35%	35%
State and local income taxes, net of federal benefit	3%	3%	4%
Effective income tax rate	38%	38%	39%

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 or 29 are as follows:

(Amounts in thousands)	2001	2000
Deferred tax assets:		
Accrued expenses	$ 5,173	$ 5,510
Other	235	309
Total gross deferred tax assets	5,408	5,819
Deferred tax liabilities:		
Depreciation	3,850	6,181
Securitized receivables	15,262	4,919
Inventory	6,449	4,655
Prepaid expenses	1,629	3,088
Total gross deferred tax liabilities	27,190	18,843
Net deferred tax liability	$21,782	$13,024

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, 2001, and February 29, 2000, will be realized by the CarMax Group; therefore, no valuation allowance is necessary.

7. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(k) PLAN: Effective August 1, 1999, the Company began sponsoring a 401(k) Plan for all employees meeting certain eligibility criteria. Under the Plan, eligible employees can contribute up to 15 percent of their salaries, and the Company matches a portion of those associate contributions. The Company's expense for this plan for CarMax Group associates was $686,000 in fiscal 2001 and $317,000 in fiscal 2000.

(B) 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 Group Common 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. 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.

(C) 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 Group Common Stock shall have one vote and (ii) each outstanding share of CarMax Group Common Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Group Common Stock to a share of Circuit City Group Common 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.

(D) 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 Group Common Stock. Shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. Restrictions on the awards generally expire four to five years from the date of grant. 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 2001, a total of $153,500 was charged to operations ($447,200 in fiscal 2000 and $426,600 in fiscal 1999). As of February 28, 2001, 56,667 restricted shares were outstanding.

(E) EMPLOYEE STOCK PURCHASE PLAN: The Company has Employee Stock Purchase Plans for all employees meeting certain eligibility criteria. The CarMax Group Plan allows eligible employees to purchase shares of CarMax Group Common Stock, subject to certain limitations. For each $1.00 contributed by employees under the Plan, the Company matches $0.15. Purchases are limited to 10 percent of an employee's eligible compensation, up to a maximum of $7,500 per year. At February 28, 2001, a total of 581,599 shares remained available under the CarMax Group Plan. During fiscal 2001, 477,094 shares were issued to or purchased on the open market on behalf of employees (580,000 in fiscal 2000 and 268,532 in fiscal 1999). The average price per share purchased under the Plan was $4.18 in fiscal 2001, $3.68 in fiscal 2000 and $7.56 in fiscal 1999. The Company match or purchase price discount for the CarMax Group totaled $247,000 in fiscal 2001, $221,500 in fiscal 2000 and $268,100 in fiscal 1999.

(F) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of CarMax Group Common Stock. The exercise price for nonqualified options 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, 2001, February 29, 2000, and February 28, 1999, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 28, 2001.

TABLE 1

	2001		2000		1999	
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,324	$3.87	4,380	$1.77	4,822	$ 1.49
Granted	1,281	1.70	1,132	5.89	205	8.63
Exercised	(56)	0.22	(2,027)	0.22	(543)	0.22
Cancelled	(442)	4.67	(161)	6.94	(104)	10.54
Outstanding at end of year	4,107	$3.16	3,324	$3.87	4,380	$ 1.77
Options exercisable at end of year	1,943	$2.94	1,203	$2.54	1,566	$ 0.96

TABLE 2

	Options Outstanding			Options Exercisable	
(Shares in thousands) Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.22	1,578	1.0	$ 0.22	1,338	$ 0.22
1.63	1,094	6.0	1.63	—	—
3.22 to 6.25	1,011	4.7	5.89	305	6.07
8.68 to 16.31	424	3.4	11.55	300	11.91
Total	4,107	3.5	$ 3.16	1,943	$ 2.94

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 net earnings (loss) attributed to the CarMax Group would have changed 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 (loss) 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 2001 may not be representative of the pro forma effects on net earnings (loss) for future years.

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Net earnings (loss):			
As reported	$11,555	$256	$(5,457)
Pro forma	11,345	75	(5,537)

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:

	2001	2000	1999
Expected dividend yield	–	–	–
Expected stock volatility	71%	62%	50%
Risk-free interest rates	7%	6%	6%
Expected lives (in years)	4	4	3

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the CarMax Group is $1 in fiscal 2001, $3 in fiscal 2000 and $3 in fiscal 1999.

8. PENSION PLANS

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 160,000 shares of Circuit City Group Common Stock at February 28, 2001, and February 29, 2000. 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 Pension Plan's financial status and amounts recognized in the balance sheets as of February 28 or 29:

(Amounts in thousands)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 4,443	$ 2,565
Service cost	1,525	1,250
Interest cost	355	173
Actuarial loss	1,514	455
Benefit obligation at end of year	$ 7,837	$ 4,443
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,715	$ 1,553
Actual return on plan assets	(271)	537
Employer contributions	1,630	625
Fair value of plan assets at end of year	$ 4,074	$ 2,715
Reconciliation of funded status:		
Funded status	$(3,763)	$(1,728)
Unrecognized actuarial loss	3,039	1,062
Unrecognized transition asset	(3)	(6)
Unrecognized prior service benefit	(4)	(6)
Net amount recognized	$ (731)	$ (678)

The components of net pension expense are as follows:

	Years Ended February 28 or 29		
(Amounts in thousands)	2001	2000	1999
Service cost	$1,525	$1,250	$ 525
Interest cost	355	173	67
Expected return on plan assets	(283)	(159)	(119)
Amortization of prior service cost	(2)	(2)	(1)
Amortization of transitional asset	(3)	(3)	(3)
Recognized actuarial loss	91	77	–
Net pension expense	$1,683	$1,336	$ 469

Assumptions used in the accounting for the Pension Plan were:

	Years Ended February 28 or 29		
	2001	2000	1999
Weighted average discount rate	7.5%	8.0%	6.8%
Rate of increase in compensation levels	6.0%	6.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

The Company also has an unfunded nonqualified plan that restores retirement benefits for certain senior executives who are affected by Internal Revenue Code limitations on benefits provided under the Company's Pension Plan. The projected benefit obligation under this plan and allocated to the CarMax Group was $500,000 at February 28, 2001, and $300,000 at February 29, 2000.

9. 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 expense for all operating leases was $35,945,000 in fiscal 2001, $34,561,000 in fiscal 2000 and $23,521,000 in fiscal 1999. In fiscal 2001, CarMax also had sublease income of $91,000. Most leases provide that the CarMax Group pay taxes, maintenance, insurance and operating expenses applicable to the premises.

The initial term of most real property leases will expire within the next 20 years; however, most of the leases have options providing for additional lease terms of 10 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, 2001, were:

(Amounts in thousands) Fiscal	Operating Lease Commitments
2002	$34,376
2003	34,217
2004	33,636
2005	33,338
2006	32,606
After 2006	426,262
Total minimum lease payments	$594,435

In fiscal 2001, the Company did not enter into any sale-leaseback transactions on behalf of the CarMax Group with unrelated parties. The aggregate selling price of sale-leaseback transactions was $12,500,000 in fiscal 2000 and $131,750,000 in fiscal 1999. Neither the Company nor the CarMax Group has continuing involvement under the sale-leaseback transactions.

10. 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 $44,912,000 (1.8 percent of net sales and operating revenues) in fiscal 2001, $48,637,000 (2.4 percent of net sales and operating revenues) in fiscal 2000 and $50,042,000 (3.4 percent of net sales and operating revenues) in fiscal 1999.

(B) WRITE-DOWN OF ASSETS AND LEASE TERMINATION COSTS: In the fourth quarter of fiscal 2001, CarMax recorded $8.7 million for the write-off of goodwill associated with two underperforming stand-alone new-car franchises. In the fourth quarter of fiscal 2000, CarMax recorded $4.8 million in charges related to lease termination costs on undeveloped property and a write-down of assets associated with excess property for sale at several locations. The loss related to operating leases was calculated based on expected lease termination costs and costs associated with subleasing the property.

11. SECURITIZATIONS

The Company has an asset securitization program, operated through a special purpose subsidiary on behalf of the CarMax Group, to finance the consumer installment credit receivables generated by its automobile loan finance operation. This automobile loan securitization program had a total program capacity of $450 million as of February 28, 2001, with no recourse provisions. In October 1999, the Company formed a second securitization facility that allowed for a $644 million securitization of automobile loan receivables in the public market. Because of the amortization of the automobile loan receivables and corresponding securities in this facility, the program had a capacity of $329 million as of February 28, 2001, with no recourse provisions. In January 2001, the Company sold $655 million of receivables in the public market through an additional owner trust structure. The program had a capacity of $655 million as of February 28, 2001, with no recourse provisions. In these securitizations, the Company retains servicing rights and subordinated interests. The Company's retained interests are subject to credit and prepayment risks on the transferred financial assets.

At February 28, 2001, the total principal amount of loans managed or securitized was $1,296 million. Of the total loans, the principal amount of loans securitized was $1,284 million and the principal amount of loans held for sale or investment was $12 million. The principal amount of loans that were 31 days or more delinquent was $18.1 million at February 28, 2001. The credit losses net of recoveries were $7.2 million for fiscal 2001.

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

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

(Amounts in thousands)	Year Ended February 28, 2001
Proceeds from new securitizations	$619,525
Proceeds from collections reinvested in previous automobile loan securitizations	$313,827
Servicing fees received	$ 10,474
Other cash flows received on retained interests*	$ 39,265

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

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

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $42.0 million at February 28, 2001, and are included in net accounts receivable. Gains on sales of $35.4 million were recorded in fiscal 2001.

The fair value of retained interests at February 28, 2001, was $74.1 million with a weighted-average life ranging from 1.5 years to 1.8 years. The table below shows the key economic assumptions used in measuring the fair value of retained interests at February 28, 2001, and a sensitivity analysis showing the hypothetical effect on the fair value of those interests when there are unfavorable variations from the assumptions used. Key economic assumptions at February 28, 2001, are not materially different than assumptions used to measure the fair value of retained interests at the time of securitization. These sensitivities are hypothetical and should be used with caution. In this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

(Dollar amounts in thousands)	Assumptions Used (Annual)	Impact on Fair Value of 10% Adverse Change	Impact on Fair Value of 20% Adverse Change
Prepayment speed	1.5 – 1.6%	$1,840	$3,864
Default rate	1.0 – 1.2%	$1,471	$3,050
Discount rate	12.0%	$ 890	$1,786

12. INTEREST RATE SWAPS

The Company enters into amortizing swaps relating to automobile loan receivable securitizations to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. The Company entered into nine 40-month amortizing swaps with notional amounts totaling approximately $735 million in fiscal 2001, four 40-month amortizing swaps with notional amounts totaling approximately $344 million in fiscal 2000 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 or loss on sales of receivables. The remaining total notional amount of all swaps related to the automobile loan receivable securitizations was approximately $299 million at February 28, 2001, $327 million at February 29, 2000, and $499 million at February 28, 1999. The reduction in the total notional amount of the CarMax interest rate swaps in fiscal 2001 and in fiscal 2000 relates to the replacement of floating-rate securitizations with a $655 million fixed-rate securitization in January 2001 and $644 million fixed-rate securitization in October 1999.

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

13. 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.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
(Amounts in thousands)	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Net sales and operating revenues	$625,741	$486,063	$673,561	$535,727	$561,693	$488,958	$639,996	$504,236	$2,500,991	$2,014,984
Gross profit	$ 85,462	$ 61,996	$ 90,549	$ 63,780	$ 71,679	$ 52,728	$ 82,069	$ 61,861	$ 329,759	$ 240,365
Net earnings (loss)	$ 13,944	$ 2,733	$ 16,271	$ 3,233	$ 7,568	$ (3,136)	$ 7,781	$ (1,712)	$ 45,564	$ 1,118
Net earnings (loss) attributed to CarMax Group Common Stock	$ 3,535	$ 646	$ 4,126	$ 775	$ 1,920	$ (757)	$ 1,974	$ (408)	$ 11,555	$ 256

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, 2001 and February 29, 2000 and the related statements of operations, group equity and cash flows for each of the fiscal years in the three-year period ended February 28, 2001. 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 auditing standards generally accepted in the United States of America. 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, 2001 and February 29, 2000 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 28, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Richmond, Virginia
April 2, 2001

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 accounting principles generally accepted in the United States of America 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. Accounting principles generally accepted in the United States of America 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. 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 auditing standards generally accepted in the United States of America, express opinions as to the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. 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.

W. Alan McCollough
President and Chief Executive Officer

Michael T. Chalifoux
Executive Vice President, Chief Financial Officer
and Corporate Secretary
April 2, 2001

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Vice Chairman of the Board

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President and Chief Executive Officer

Michael T. Chalifoux [3]
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Boston, Massachusetts

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Worldwide Director of Strategic Services,
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Chairman, President and
Chief Executive Officer,
CSX Corporation;
Richmond, Virginia

(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

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Operations

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

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Merchandising

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Senior Vice President
Store Innovation and Development

Dennis J. Bowman
Senior Vice President and
Chief Information Officer

W. Stephen Cannon
Senior Vice President and
General Counsel

Fiona P. Dias
Senior Vice President
Marketing

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Treasurer and Controller

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Senior Vice President
Automotive

Gary M. Mierenfeld
Senior Vice President
Distribution and National Service

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Senior Vice President
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Central Division President

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General Merchandise Manager

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CARMAX OFFICERS

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