CIRCUIT CITY STORES, INC. ANNUAL REPORT 2000

Circuit City

CARMAX

MAKING IT EASIER.

Making it easier.

Easier to learn about new technologies through knowledgeable sales help and effective displays. Easier to find the real price of a car through low, no-haggle prices. Easier to buy any way the consumer wants to buy—in our stores and online. Serving the consumer by making it easier.

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

Circuit City Group Common Stock (NYSE: CC). Circuit City is a leading national retailer of brand-name consumer electronics, personal computers, major appliances and entertainment software. At the end of fiscal year 2000, the Circuit City business included 571 Superstores in 155 markets and 45 Circuit City Express mall stores. The Circuit City Group also includes a retained interest in the equity value 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 2000, CarMax operated 40 locations, including 34 used-car superstores and 20 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 value 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.

(Dollar amounts in thousands except per share data)	Years Ended February 29 or 28 2000	1999	1998
CIRCUIT CITY STORES, INC.			
Net Sales and Operating Revenues	**$12,614,390**	$10,810,468	$8,870,797
Earnings from Continuing Operations	**$ 327,830**	$ 211,470	$ 124,947
Total Assets	**$ 3,955,348**	$ 3,445,266	$3,231,701
Total Stockholders' Equity	**$ 2,142,174**	$ 1,905,130	$1,730,039
Working Capital	**$ 1,536,456**	$ 1,430,710	$1,240,523
CIRCUIT CITY GROUP			
Net Sales and Operating Revenues	**$10,599,406**	$ 9,344,170	$7,996,591
Earnings from Continuing Operations Before Inter-Group Interest in the CarMax Group	**$ 326,712**	$ 234,984	$ 159,170
Earnings from Continuing Operations	**$ 327,574**	$ 216,927	$ 132,710
Earnings per Share from Continuing Operations:			
Basic	**$ 1.63**	$ 1.09	$ 0.68
Diluted	**$ 1.60**	$ 1.08	$ 0.67
Number of Circuit City Superstores	**571**	537	500
CARMAX GROUP			
Net Sales and Operating Revenues	**$ 2,014,984**	$ 1,466,298	$ 874,206
Net Earnings (Loss)	**$ 1,118**	$ (23,514)	$ (34,223)
Net Earnings (Loss) per Share:			
Basic	**$ 0.01**	$ (0.24)	$ (0.35)
Diluted	**$ 0.01**	$ (0.24)	$ (0.35)
Number of CarMax Stores	**40**	31	18

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.

RICHARD L. SHARP

In fiscal 2000, we began to see the exciting potential that the digital product cycle brings to our Circuit City business. At CarMax, we produced marked operating improvement in our core business–the used-car superstores.

I am pleased to report that fiscal 2000 produced the most successful year ever for our Circuit City business and meaningful progress for our CarMax auto superstores.

Circuit City Stores, Inc. reported consolidated sales growth of 17 percent, reaching $12.61 billion in total sales. Earnings from continuing operations rose 55 percent to $327.8 million. In our Circuit City business, total sales grew 13 percent to $10.60 billion, comparable store sales increased 8 percent and earnings rose 39 percent to $326.7 million. CarMax produced total sales of $2.01 billion, a 37 percent increase, while comparable store sales rose 2 percent. CarMax exceeded the financial goals we established at the beginning of the year, producing a profit of $1.1 million compared with a net loss of $23.5 million in fiscal 1999.

Yet, the year was not without disappointments. In June, we discontinued Digital Video Express. Although this innovative system for watching movies was adopted enthusiastically by consumers, Divx did not obtain the studio support necessary for long-term success. Consolidated and Circuit City Group net earnings for fiscal 2000 include after-tax losses of $16.2 million from the discontinued Divx operations and $114.0 million on the disposal of the Divx business.

CIRCUIT CITY: MAXIMIZING AN ENORMOUS SALES OPPORTUNITY

For Circuit City, the promise of the digital product cycle is becoming reality as new technologies continue to drive industry growth. This cycle is dominated by feature-rich products that offer new and often complicated functionality for the consumer—an ideal fit for our high-service store format. We believe this new product cycle can last throughout the decade. We are also enjoying sales strength in more traditional products, as evidenced by a record year for VCR unit sales. As we enter the new decade, we are focused on maximizing the sales of new and existing products in our Circuit City Superstores.

In fiscal 2000, personal computers remained our strongest product category, reflecting continued increases in household penetration, higher consumer use of the Internet and new capabilities such as digital imaging and recording. We saw high demand for related products, including digital still cameras, digital camcorders and MP3 audio products. In the consumer electronics categories, our DVD player sales rose rapidly, DIRECTV and wireless communications maintained their high growth rates and big-screen television sales remained healthy. In the fall, we introduced the first digital televisions in our stores.

Circuit City is poised for continued success in this exciting industry cycle. When industry growth was minimal, our financial resources allowed us to continue our geographic expansion and maintain our commitment to outstanding customer service. As a result, we entered this new period as the only specialty retailer in our categories with a well-trained and knowledgeable sales force and a nationwide presence. Our investments in sales training have yielded an outstanding training program, which we will improve even further with programs to be delivered via the Internet. Our long history of successful consumer electronics product introductions and our national store base enabled us to establish alliances with America Online, Inc., the world's leading interactive services company, and Sony Electronics Inc., the world's leading consumer electronics company, to introduce their latest technologies beginning in fiscal 2001.

In fiscal 2000, we undertook significant initiatives to make it even easier for consumers to shop at Circuit City. We became the first national brick-and-mortar specialty retailer to sell consumer electronics on the Internet. We also enhanced our Superstore design to help ensure that we are maximizing the sales opportunity in all areas, adding displays for digital televisions, digital imaging and broadband Internet access. In all stores opened during the fall, we significantly expanded the number of products that consumers can select and take directly to the cash register, if they choose.

In fiscal 2001, we will add or improve displays for the newer technologies in all stores nationwide. These improvements will help ensure that we are in the best position to capture the sales opportunity presented by the digital cycle. We also will remodel 30 to 35 stores in central and south Florida and in Richmond, Va., providing easier access to self-service products and expanding our assortments in key areas.

CARMAX: A STEADY FOCUS AND STEADY PROGRESS

At CarMax, we slowed geographic growth in fiscal 2000 to concentrate on improving operations and profitability. With comparable store sales growth in our used-car business at year-end, our first annual profit and a strong finish, we surpassed our financial goals for the year. The marked operating improvement is particularly significant because it came from our core used-car superstores, including those with integrated new-car franchises. The improvement reflects:

- ongoing productivity improvements in sales and operations;
- better results from the profit improvement plan initiated at the end of fiscal 1998;
- our hub and satellite operating strategy;
- the continued integration of new-car franchises with our used-car superstores; and,
- the exit of a significant competitor from the used-car superstore business.

As we enter fiscal 2001, we continue to devote our energies to our existing markets. Transforming the car-buying experience to make it dramatically easier for the consumer remains the cornerstone of the CarMax concept. CarMax locations in single-store markets and in the Atlanta and Washington/Baltimore multi-store markets are producing outstanding results consistent with their history and our initial expectations for the CarMax concept. Our used-car locations also have proven to be strong traffic drivers for new-car franchises.

In south Florida, Texas and Chicago, we believe that we can further improve our results with increased consumer awareness and additional satellite stores, including two prototype stores opened late in fiscal 2000. We also are seeking appropriate opportunities to integrate new-car franchises with existing used-car superstores.

CarMax is aggressively leveraging the opportunities of the Internet. At the end of fiscal 2000, we introduced a redesigned CarMax Web site that provides online access to all the vehicle information available at our stores. Consistent with our commitment to service, carmax.com offers dedicated Internet sales consultants for customers who want to buy online. Recognizing that consumers use a variety of well-known Internet resources to research purchases, CarMax also is testing relationships with the leading automotive sites. These services can be nationwide mechanisms for building CarMax's consumer awareness.

In fiscal 2001, we will focus on growing sales in existing markets. Significant opportunities remain in these markets, and we believe that a continued focus on maximizing these opportunities should yield solid profitability for CarMax.

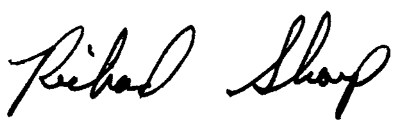
LEADERSHIP CHANGES

In December, we announced a succession plan as we prepared for me to leave the day-to-day operations of the company. Effective in June 2000, Alan McCollough, currently president and chief operating officer, will add the title of chief executive officer. In his expanded role, Alan will lead our Circuit City and CarMax businesses. Alan is a 12-year Circuit City veteran. As general manager of corporate operations, president of our central operating division and senior vice president of merchandising, Alan gained extensive experience in the two principal operating components of our business—store operations and merchandising. He was named to his present position in March 1997. Alan's experience, his intense commitment to customer service and the support he engenders among our Associates and our vendors will help him to ensure that the company maximizes the exciting opportunities ahead.

Other management changes include the promotion last summer of Philip Dunn to senior vice president. Phil joined Circuit City in 1984. He was named treasurer in 1991, was promoted to vice president in 1992 and added the title of controller in 1996.

As I conclude fiscal 2000 and my tenure as chief executive officer of Circuit City Stores, I believe that the company is well positioned for the future. By focusing on the consumer and developing a truly outstanding team of Associates, we have built a company with the financial strength to perform extraordinarily well in good times and to more than weather the down cycles. Our Circuit City and CarMax Associates are talented and enthusiastic. I would like to express my deepest appreciation to them and their families, our shareholders, our vendors and our customers for their support.

Sincerely,



Richard L. Sharp
Chairman and Chief Executive Officer
Circuit City Stores, Inc.
April 6, 2000

W. ALAN MCCOLLOUGH

The new digital cycle with its full-featured, often complex, technologies creates an ideal opportunity for Circuit City. A long history of sales training, a national store base and alliances with industry-leading vendors will help position us at the forefront of this cycle.

Our company is entering an exciting period.

At Circuit City, the focus is on the future. We are entering the new decade in a strong financial position, with a long heritage of customer service and a continuing commitment to knowledgeable sales assistance. We will build on this foundation, introducing consumers to new products with new capabilities and revamping our merchandise presentations to display, explain and sell a full range of products and services. I am particularly pleased to face the future with talented Associates whose number one goal is providing consumers the best possible shopping experience.

CIRCUIT CITY: THE DIGITAL AGE

Fiscal 2000 marked the real beginning of what I believe will be the most exciting time ever for Circuit City. Amazing new applications of digital technology had a positive impact on products throughout our stores, opening up new possibilities for consumers. And, I believe the best is yet to come.

Last fall, consumers saw for the first time the extraordinary picture delivered by digital televisions, and demand quickly exceeded the limited industry supply. As digital content increases and pricing becomes more attractive, we anticipate growing demand for both 4:3 and 16:9 wide-screen sets. Development of display technologies such as plasma and liquid crystal hybrids add to the industry's television sales potential.

Fiscal 2000 was the second full year DVD players were available. With attractive entry prices as low as $159, the industry sold three times as many units in calendar 1999 as in 1998. As we introduce more brands and features, such as multi-disc changers that allow a single unit to serve as both a primary CD player and DVD player, consumer appeal will expand significantly.

DIRECTV sales continue rapid growth with household penetration of direct broadcast satellite signals still at only 13 percent. Access to local stations, high-definition programming and built-in features such as personal video recording technology and Internet access are further increasing the functionality of DIRECTV and should contribute to continued strong sales growth.

Like DIRECTV, wireless communications exemplifies the marriage between hardware capability and service offerings. The consumer's choices have exploded and now include numerous analog and digital options. Many rate plans and packages offer long-distance service and Internet access. With penetration at only about 30 percent, the growth opportunity in wireless remains enormous.

Still in its infancy, broadband Internet access is another product and service combination that offers new capabilities. In fiscal 2000, Circuit City became one of the nation's first retailers to sell CableLabs-certified DOCSIS modems. These cable modems provide Internet access up to 50 times faster than the standard telephone modem. Similar capabilities using telephone-based digital subscriber lines are now available, and we expect broadband access via satellite in the near future. Once again, our customers will be faced with multiple digital product and service options, and our professional sales Associates will be available to assist.

In fiscal 2000, personal computers remained our strongest major category despite difficult year-over-year comparisons and continued erosion in average retail prices. Advances in technology—PIII, digital imaging, voice recognition, digital audio recording, to name a few—reinforce our belief that the home office category will provide further sales and profit increases in fiscal 2001.

With advances in technology, digital audio recording capability is available in both the consumer electronics and personal computer categories. Audio CD recorders allow consumers to customize CD recordings for personal enjoyment. With a computer and Internet access, consumers can download compressed music for playback on a portable MP3 player.

In major appliances, we are seeing significant technological and competitive changes. Technology is creating ovens that cook faster; front-loading, super-efficient washers; and refrigerators with digitally controlled temperature zones. Our sales remained healthy throughout fiscal 2000, and we will test a new store concept that may help us build an even more distinctive consumer offer in the coming decade.

CIRCUIT CITY: MAKING IT EASIER

The products are exciting; the opportunity is enormous. But, this explosion of new products, services and functionality can be confusing, and consumers will not tolerate confusion. Our job is to unravel the complexities of the developing technology. We start with our longstanding commitment to customer service and a knowledgeable sales team. In addition, we are introducing powerful store displays that we believe will maximize sales across all product lines.

In fiscal 2001, our planned 25 new stores and all 571 existing Superstores will feature displays designed to highlight the latest advances in technology. These displays will include AOL Internet Centers, part of our strategic alliance with America Online, Inc.; a Sony Memory Stick Interactive Universe to introduce this portable digital memory device that extends across a family of products; significantly expanded displays highlighting the latest in digital audio recording technology; redesigned wireless phone displays that help consumers compare products, features and services; enhanced DVD, DIRECTV and personal video recording areas to more prominently emphasize the latest video technology; and an expanded digital television display to accommodate DTV's rapidly growing assortment.

Even as we make it easier for consumers to understand what these complex new products and services can do for them, we recognize that some customers require less help with more familiar products. During the second half of fiscal 2000, we added self-service displays to our new stores. Telephony products, software, VCRs, portable audio products and accessories are directly accessible by the customer in these areas. Yet even for the most basic products, help is available for customers who want it. This year, we will further expand self-service areas in all our new and remodeled stores.

We will concentrate our fiscal 2001 full remodels in central and south Florida and in Richmond, Va. The Superstores in these markets will be dedicated to consumer electronics and personal computers, creating a high-energy environment for new technologies and permitting expanded assortments of video game hardware and software, entertainment and computer software, peripherals and accessories. All Superstores opened after the first fiscal quarter will follow this exciting consumer electronics design. In addition, in the remodel markets, we will test a new selling strategy for appliances. In these markets, we will open a limited number of stand-alone major appliance stores, which we believe will increase consumer awareness of our appliance selection and provide an improved selling environment for these products.

E-COMMERCE

Consistent with our commitment to sell the way customers want to buy, in fiscal 2000, we became the first national brick-and-mortar specialty retailer to sell consumer electronics over the Internet. Unlike many competitors, we have tightly integrated our e-Superstore, circuitcity.com, with our brick-and-mortar locations.

We are delivering a combination of in-depth product comparison information, broad product selection and convenient purchase and delivery options, including immediate in-store pickup. Approximately 50 percent of our Internet shoppers choose the convenience of in-store pickup for products available in the store and on the Web.

We are exceptionally pleased with our e-commerce performance, especially during our first high-traffic holiday season. And, we continue to enhance the site. Beginning in April, all sales counselors were able to access our Web store inventory from any point-of-sale terminal, and customers were able to conveniently access our site via our premiere position on AOL's Shop@ locations. While no one can be certain what industry Web sales may be, we are committed to providing this option to our customers and to being the best on the Web in our categories.

I look forward to the expanding opportunities in our Circuit City business and to working with the exceptional management team and all our Associates who can realize Circuit City's full potential.

OUTSTANDING PROGRESS AT CARMAX

I also am energized by our opportunities at CarMax. Austin Ligon and the CarMax Associates have made enormous strides as we have continued to revolutionize the auto industry. In a tough, competitive environment, they exceeded their financial goals in fiscal 2000, producing a profit for the year. Austin outlines CarMax's fiscal 2000 accomplishments and objectives for the coming year in his letter.

I thank all our Associates as we enter this new decade and focus on building value for shareholders in both the Circuit City and CarMax businesses.

Sincerely,

W. Alan McCollough
President and Chief Operating Officer
Circuit City Stores, Inc.
April 6, 2000

W. AUSTIN LIGON

In fiscal 2000, CarMax made great strides in improving our operations and better understanding all aspects of the automotive market. In fiscal 2001, we will focus on solidifying this foundation in our existing markets.

I am happy to report that CarMax exceeded its fiscal 2000 objectives. In February 1999, we announced plans to slow our rapid geographic growth so that we could concentrate on improving profitability in under-performing markets and continue building on an already successful foundation in other markets. In fiscal 2000, with a balanced focus on adding revenues and improving margins, we:

- increased our vehicle unit, service and accessory sales;
- increased our financing and extended warranty sales; and,
- implemented productivity enhancements that improved efficiency and reduced costs.

These accomplishments improved our pretax operating results by more than $40 million, bringing us to a profitable position for the year. We believe our improved operating results and continued changes in the competitive landscape set the foundation for solid profitability in fiscal 2001.

EXPANSION HISTORY

When we initiated our aggressive national expansion plan in June 1996, we had just achieved impressive results in our Norcross, Ga., superstore—the largest store we had open at that time. We believed that this store model would be equally successful in other major metropolitan markets. We also were racing to gain first-entry advantage over another superstore competitor who had committed to high-square-footage, high-acreage locations. We moved too quickly, and the pace of our growth resulted in 10 significantly overbuilt stores.

At CarMax, we now know that most of our multi-store markets need more, but smaller, stores to properly serve their trade areas. We have adopted a hub and satellite strategy that is improving performance in Miami, Tampa, Houston, Dallas and Chicago. In these markets, we have converted a total of six CarMax superstores to satellite operations that share reconditioning, purchasing and business office functions with a nearby hub store. While the satellite store presents exactly the same offer to the consumer, its annual operating costs are much lower, significantly improving the profitability in these multi-store markets.

The satellite prototype calls for a display capacity of 250 to 400 vehicles on a four- to six-acre site. A 12,000- to 14,000-square-foot building houses sales offices, a showroom and four to seven service bays for regular maintenance and warranty service. In the first quarter of fiscal 2000, we grand-opened a prototype satellite superstore, in Rockville, Md., enhancing the performance of the already strong Washington/Baltimore market. In addition, at the end of fiscal 2000, we constructed two prototype satellite stores, one in Dallas and one in Houston.

While CarMax has continued to improve sales and profitability, our major used-car superstore competitor was less successful with their effort to copy our store format. Our competitor exited the used-car superstore business completely at the end of calendar 1999. We believe their exit is already improving sales by eliminating consumer confusion over our competing store formats and allowing CarMax to clearly emerge as the successful used-car superstore standard.

CONSUMER ENTHUSIASM

The opportunities afforded by making it easier and more fun for consumers at every step of the car-buying process are what led us into the business. Our experience convinces us that CarMax continues to offer the best shopping experience for the automotive consumer. CarMax's success in single-store markets and in the metropolitan multi-store markets of Atlanta, Washington and Baltimore and the rising volumes in our other metro markets is clear evidence of consumers' enthusiasm for the CarMax offer. CarMax used-car superstores are the highest volume auto retailing locations in the industry. While the average new-car dealer sells 1,150 new and used vehicles per year, the average CarMax superstore sells more than 4,100 used vehicles alone per year. Our Laurel, Md., superstore produces the largest used-car sales volume in the nation, with used-car sales 20 times the used-car sales of the average dealer.

Market research further validates that CarMax customers like our unique approach. Ninety percent of customers are satisfied with their CarMax experience and would recommend CarMax to family and friends.

We also are achieving success when we extend the ease of the CarMax buying process to new cars. We are uniformly successful in the sale of new cars when our franchises are integrated or co-located with CarMax used-car superstores. Within their first year of operation, our integrated new-car franchises ranked among the leading locations for their brands in the markets they serve, and half are number one. Our Norcross, Ga., store in the Atlanta market remains the number one Chrysler-Plymouth dealer in the U.S. and has received the Five Star rating, DaimlerChrysler's highest honor for customer service excellence, for two years in a row.

We have been disappointed, however, with the performance of our stand-alone new-car franchises. Although their volumes have improved significantly versus their levels prior to acquisition, sales remain below our expectations. We are actively pursuing opportunities to integrate or co-locate as many of these franchises with our used-car operations as possible. In January, we moved our Laurel, Md., Toyota franchise to a site adjacent to the CarMax Auto Superstore in Laurel. The new Laurel Toyota location is the first facility CarMax has built exclusively to sell new cars. The move already has begun to generate dramatically higher sales volumes.

With the popularity of the CarMax offer proven among CarMax customers, our challenge is to increase consumer awareness, exposing more consumers to The CarMax Way so that they fully understand and appreciate the benefits of doing business with CarMax. We know that CarMax store sales are directly correlated with the number of consumer store visits. If we increase awareness and visits, we increase sales and profits.

In fiscal 2000, to increase consumer awareness in our markets, we launched a new television advertising campaign focused on the key reasons to shop at CarMax:

- Low prices
- No haggling
- Hassle-free financing
- Broad selection
- Certified high quality
- On-site maintenance and repair service
- Online prices and daily inventory updates

CARMAX ONLINE

At the end of fiscal 2000, we continued to enhance CarMax's uniquely natural Internet integration. Since 1997, carmax.com has allowed consumers to search CarMax's entire 10,000 new- and used-car inventory, which is updated daily, and see the price and basic description of each vehicle. With the enhancements, they now also can compare any new or used vehicles side-by-side, see photographs of each vehicle, compare pricing of used cars with Kelley Blue Book prices, see the MSRP and manufacturer's invoice price for new cars, and estimate monthly payments. Earlier in the year, we launched our Insta-Price℠ Online New-Car Buying Service, the first online service to offer firm prices on all new vehicles. In addition, we began testing alliances with popular online automotive sites that refer consumers to carmax.com. Our online buying service is staffed by dedicated Internet sales consultants, and by the end of the fiscal year, it was producing 10 percent of our new-car sales transactions.

In fiscal 2000, CarMax made great strides in laying the groundwork for sustaining profitable growth. In fiscal 2001, our focus will remain on solidifying this foundation and securing our role as the nation's leading specialty used-car retailer as well as a growing retailer of new cars. We plan to concentrate on our hub and satellite strategy in existing markets and to take advantage of appropriate opportunities to integrate or co-locate new-car franchises with existing used-car superstores. We believe this continued emphasis on revenue growth and operating margin enhancement will deliver solid profitability in fiscal 2001 and allow us to resume moderate and profitable geographic growth thereafter.

I want to thank our CarMax Associates for all the hard work that made possible the extraordinary progress in fiscal 2000. Their continuing, enthusiastic commitment to The CarMax Way is critical to our success.

Sincerely,

W. Austin Ligon
President
CarMax
April 6, 2000

Making it easier to the benefits of new

understand and enjoy technology.

At Circuit City, we are making it easier for consumers to understand and add new consumer electronics and personal computing technologies to their lives. Knowledgeable sales assistance, compelling product and technology demonstrations and in-store informational displays help explain the amazing products and services emerging in today's exciting environment of digital advances. And, we are offering consumers new ways to shop, with an expanded assortment of self-service products in many stores and a Web site that is fully integrated with our Superstores nationwide.

Consumers are rapidly embracing the high quality and flexibility of digital camcorders.

New video game platforms and digital audio recording products such as MP3 offer sales growth opportunities.

Consumers can see the amazing picture quality of digital television at side-by-side displays.

At Circuit City, consumers experience technology with interactive displays.

Circuit City's AOL Internet Centers demonstrate how the Internet becomes a part of everyday life through multiple connecting options.

Circuit City is bringing the digital product revolution to consumers. We believe the result will be a strong, long-term growth cycle for shareholders.

Circuit City has long led the way in sales of cutting-edge consumer electronics technologies. As the swift pace of technological advances adds complex products and services to our selection, Circuit City is making it easier for consumers to understand, purchase and incorporate the benefits of these technologies into their lives. We achieve this objective by offering a full spectrum of merchandise, competitive prices and clear, but comprehensive, product information. Finally, we give consumers the ability to shop the way they want to shop—either in our stores or through the dynamic new medium, the Internet.

IN THE STORE

Merchandise Selection. Customers have a variety of needs. Today, a couple may be choosing between an analog big-screen or a digital-ready television for their family room. Tomorrow, the same couple may select a 13-inch small-screen television for a child's bedroom. Whatever the need, we want Circuit City to be their store of choice.

Broad selection allows consumers to choose the products and services that fit their particular circumstances. Within each product line, our buyers provide an array of brands, products and services that range from the most basic to the most feature-rich. We also introduce new technologies early in their cycle. We were one of the first retailers, and are today the nation's leading retailer, of DIRECTV.

Price. To meet our growth goals, Circuit City must remain price-competitive. The American retail environment caters to a value-conscious consumer. In addition to comparing prices across brick-and-mortar retailers, consumers now can compare prices across a growing number of Internet retailers. The competitive nature of the consumer electronics industry means Circuit City customers often find store prices that are lower than prices on a variety of Web sites.

Information. Given selection and attractive prices, the key to making shopping easier is making it easy for consumers to get product information. We provide that information through a well-trained, knowledgeable sales force and displays that allow hands-on product demonstrations.

To assure that Circuit City sales counselors are up to date with the newest product information, we emphasize continuous learning that covers product and service technologies, customer service and store operations. In fiscal 2001, we will begin to introduce state-of-the-art interactive Web-based training for store, service center and distribution Associates. By maintaining and delivering training programs on the Web, we can update training as rapidly as the product cycle develops. Integration with our existing store systems adds a quality-control element, ensuring that sales counselors have completed required training programs before interacting with customers. All sales training will take place online, saving the time and expense of off-site travel. Online access allows

Portable memory devices such as Memory Stick allow today's products to offer ease of use in a compact size.

New technology displays and increased self-service merchandise displays are features of our newest store design.

Informative merchandise displays help consumers sort through complex choices.

sales counselors to easily and quickly retrieve information from training materials or online mentors. In short, Web-delivered training is faster, better and more effective.

For new, complex technologies, a product demonstration and explanation of features and benefits are the best way to help consumers understand which products and services best fit their lifestyles. In fiscal 2000, new television displays gave side-by-side comparisons of big-screen analog televisions with the newer digital televisions. In markets where high-speed cable service is available, customers could see a demonstration of the features that broadband Internet access provides. And, digital imaging displays showed consumers how to edit vacation pictures and e-mail them to friends and family.

Beginning in the summer of 2000, Circuit City Superstores will feature AOL Centers offering an array of interactive products and services. Circuit City will demonstrate for consumers everything they need for home connectivity, including Internet access via AOL. As broadband technologies become available through AOL, we expect to add these demonstrations to the AOL Centers.

Also by the summer of 2000, every Circuit City Superstore will feature a Memory Stick Interactive Universe dedicated to introducing customers to Sony's diverse line of Memory Stick products, including cameras, camcorders, printers, portable music players, VAIO personal computers and Memory Stick media. We also are enhancing our wireless communications,

The key to making shopping easier is taking the mystery out of technology. Well-trained, knowledgeable sales counselors and hands-on product demonstrations help Circuit City customers understand and purchase the new technologies that are driving industry growth.

digital video and digital audio displays to highlight expanding product selections and related services.

In new and remodeled stores, we are adding "take-with" displays where customers easily can pick up products they know about right from the shelves. Today, some customers need less sales assistance when choosing items such as telephones, portable radios and VCRs, which have high household penetration and relatively low prices. And yet, even for these product lines, sales assistance is always available if customers prefer it.

Service After the Sale. Circuit City's commitment to satisfied customers does not end with the sale. Circuit City Associates deliver and install televisions, ranges, refrigerators, washers and dryers with the same high level of knowledge our customers experience in our stores and the same commitment to service. More than 95 percent of our home deliveries occur within one day of the product purchase.

We provide factory-authorized repairs at 35 service centers nationwide and through 1,700 trained technicians. Customers simply take the product requiring repair to their closest Circuit City Superstore, and we express ship it to our nearest service center. In-home repair service is available for big-screen televisions and major appliances, and a third-party warranty provider supplies in-home service for personal computer products.

Customers can exchange their products and, if necessary, receive a refund at any Circuit City store, even if they have misplaced their receipt. Finally, if a customer has an issue that is not resolved through our stores or in our product service centers, he or she has toll-free access to customer service representatives who can usually quickly resolve the problem.

ON THE WEB

In July 1999, Circuit City launched its e-commerce Web site, extending the Circuit City offer to Internet shoppers and delivering a combination of options that only a retailer with a national

Customers who order online have the option of Express Pickup at a convenient Circuit City Superstore.

Circuitcity.com tightly integrates cyber-shopping with our nationwide brick-and-mortar presence.

In our test lab, consumers provide valuable input into the development of circuitcity.com.

Superior customer service is the number one goal of Associates throughout our organization.

store base can provide. We have tightly integrated circuitcity.com with our Circuit City Superstores, offering the best of cyber-shopping and traditional retailing. Our Web site provides the same commitment to selection, price, information and service found in Circuit City stores.

We have tightly integrated circuitcity.com with our Circuit City Superstores. Customers can choose to pick up products at the store or have them shipped to their home. Our online customers shop with the confidence and knowledge that Circuit City stands behind every purchase.

Merchandise Selection. At the end of fiscal 2000, circuitcity.com offered more than 1,500 products for sale and information on more than 2,100 products. We continue to expand the product selection with plans to add wireless and broadband services, an expanded assortment of game hardware and a full assortment of game software in fiscal 2001.

Circuit City gives Internet shoppers the ability to check the inventory of up to three Circuit City Superstores in their market, as well as the in-stock availability directly from the e-Superstore. The inventory information is updated every day and verified in real time when the customer chooses to purchase an item. The customer can choose to have the product shipped through the e-Superstore for normal shipping costs or can use the Express Pickup service and avoid shipping charges. When a customer chooses a product from local store inventory, he or she completes the purchase transaction online, and the purchased item is removed from store inventory and reserved for the customer to pick up. Using the Express Pickup feature, customers can cyber-shop at lunch time and pick up their purchases on their way home from work.

Price. Customers who choose the Express Pickup option automatically receive the lower of the e-Superstore price on the day of their purchase or the in-store price at their selected Superstore on the day of pickup. When the customer goes to the point-of-sale register, the transaction is automatically checked by the register system against the in-store price, and the customer receives the lower price. In addition, the e-Superstore offers Web-only specials on items that are not available in sufficient quantity to supply our nearly 600 Superstores nationwide.

Information. Consumers can find in-depth product information on circuitcity.com, beginning with a basic overview of key features and model choices in each product line. In addition, the overview includes a glossary of terms, answers frequently asked questions and provides technical details. Consumers then can compare side-by-side the product features and prices of as many models as they wish to select. For example, at the end of the fiscal year, consumers could compare as many as 35 features of 25 camcorders, 16 features of 17 DVD players, or 38 features of 116 refrigerators.

Service After the Sale. Circuit City's online customers shop with the confidence and knowledge that Circuit City stands behind every purchase. Customer service via e-mail is available seven days a week. If a product needs service, online customers can take the product to their local Superstore where it receives the same factory-authorized repair service available for in-store purchases. Customers can exchange or return an e-Superstore product at any Circuit City Superstore location, with refunds available immediately.

Whether consumers choose to buy in the store or online, Circuit City is committed to being the retailer of choice for consumer electronics, personal computers and appliances. Making it easier to embrace new technology and to shop for all products will help bring our Circuit City customers and our shareholders the rewards of the digital product revolution.

Making it easier at car-buying process.

every step of the

At CarMax, we are making it easier for consumers to buy the car that is right for them. The CarMax offer—low, no-haggle pricing; broad selection; certified quality and friendly service—lets our sales consultants focus on the customer, not "the deal." And, these sales consultants help the customer throughout the transaction, extending our price commitment to trade-ins, financing and warranties. Shopping for a car The CarMax Way is shopping for a car the consumer's way.

All CarMax customers receive low prices without having to negotiate.

Browsing our extensive selection is easy with our customer-friendly online inventory system.

The CarMax goal: make buying a car easy.

CarMax has set new standards in automobile retailing. In pricing, in selection, in quality and in service, more and more consumers are finding their way is The CarMax Way.

Making it easier for consumers at every step of the car-buying process is the core of the CarMax offer. Using what consumers have told us they want—in pricing, selection and service—CarMax has set new industry standards for the car-buying experience.

PAYING THE RIGHT PRICE

Independent auto industry experts continue to find that consumers believe negotiating the right price is the most difficult and unpleasant part of buying a car. At CarMax, we have solved that problem with low, no-haggle prices at every stage of the transaction. On most cars, CarMax used-car prices average $1,300 below Kelley Blue Book prices; more than 80 percent of our new cars are priced below manufacturer's invoice. For both new and used cars, all CarMax customers receive these competitively low prices without having to negotiate. Best of all, with low, no-haggle pricing, CarMax sales consultants can focus solely on helping customers find the vehicles that meet their individual needs.

As part of the no-haggle philosophy, trade-ins are handled as a separate transaction. In fact, consumers may sell their car to CarMax whether they are buying a car from us or not. On virtually every car we appraise, CarMax provides a written purchase offer that is good for seven days or 300 miles. Customers may apply their appraisal voucher to a purchase or simply receive a check. This process increases the trust between CarMax and the consumer, provides our most important source of used cars and allows us to match our inventory with the tastes of local purchasers.

The same sales consultant who facilitates the car purchase also explains our no-haggle, competitively priced financing and warranty programs. For financing, the sales consultant simply enters basic credit information directly into the CarMax system. First North American Credit, CarMax's finance operation, and Bank of America provide primary credit. Customers approved by both sources can see and select from the terms and rates offered. Sub-prime financing is available from a variety of third-party lenders. Warranty terms and rates also are provided online, and the customer sees and selects from the available choices.

FINDING THE RIGHT CAR

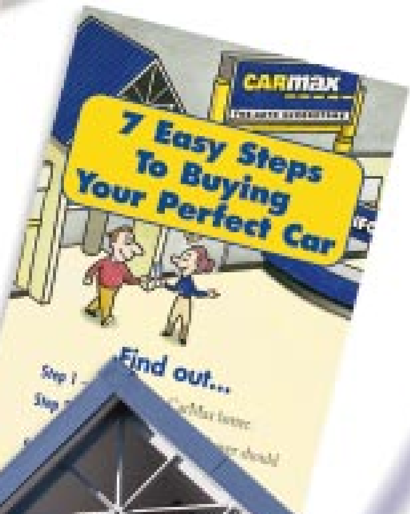
CarMax superstores offer consumers the broadest selection in the used-car industry. Consumers may select from as many as 600 used cars on a single CarMax lot, choosing from a wide variety of subcompact, mid-size or luxury cars, sport utility vehicles, trucks and minivans. To assure that the selection reflects the preferences of consumers in the market, the majority of our vehicles are purchased locally, either from consumers in the market or at regional auctions. As a result, we are able to offer the brand names and vehicle models that are in high demand.

CarMax used cars are less than six years old and have fewer than 60,000 miles. They generally range in price from $6,500 to $30,000. We also offer a selection of top-quality older cars for the most cost-conscious consumer. Called ValuMax®, these vehicles are either older than six years or have more than 60,000 miles. Their prices range from $4,000 to $19,000.

In addition to selling used cars, CarMax operates 20 new-car franchises. Fifteen are integrated or co-located with CarMax used-car superstores. Five franchises operate as stand-alone new-car locations. As with used cars, CarMax employs its low-price, no-haggle selling process with new cars. At all new-car locations, the full selection of the manufacturer's models is available. CarMax new-car franchises include Chrysler, Plymouth,

On carmax.com, customers find comprehensive information and prices on each vehicle from the comfort of their home. The 10,000-vehicle inventory is updated daily.

CarMax certifies the quality of each vehicle following a thorough inspection and reconditioning.



CarMax Associates are setting a new industry standard by giving consumers what they have asked for in a car-buying experience.

Dodge, Jeep, Mitsubishi, Nissan, Toyota, BMW, Chevrolet and Ford.

Providing a full selection helps ensure that customers find a vehicle that meets their needs. We make the selection process even easier with touch-screen online inventory kiosks. At in-store display terminals, customers quickly sort through the entire selection and compare makes, models, features, specifications and prices. Of course, customers also are free to walk through the selection on the lot. All information, including the low, no-haggle price, is clearly marked on each vehicle. A sales consultant will assist the customer when he or she is ready, answering questions or facilitating test drives. These sales consultants also can provide instant, online information on the entire 10,000-car inventory available from our 40 locations. Online inventory information is updated daily, and 2,000 to 3,000 vehicles are new to the inventory each week. And finally, our supervised For Kids Only℠ play areas provide entertainment for children so Mom and Dad can focus on their vehicle purchase.

OWNING A CARMAX CAR

Customers purchasing a CarMax car are guaranteed a high-quality vehicle. Every CarMax used vehicle must pass the comprehensive CarMax Certified Quality Inspection℠. We conduct our own thorough reconditioning to assure that every vehicle meets CarMax's mechanical, electrical, safety and cosmetic standards. ValuMax vehicles must meet the same CarMax mechanical, electrical and safety standards, ensuring the customer receives a quality vehicle at an economical price.

A five-day, 250-mile return guarantee and a limited 30-day warranty back every used car. MaxCare® and ValuServ℠ extended warranties provide comprehensive mechanical protection with terms ranging from six months to 72 months. Warranty service is available at any CarMax location and at 14,000 independent service providers nationwide. Factory-authorized service also is provided at all new-car franchises.

CarMax Associates are key to the execution of the CarMax offer. All Associates receive formal training in their job functions and in the CarMax customer service philosophy.

CARMAX.COM: UNIQUELY NATURAL INTERNET INTEGRATION

From day one, the CarMax concept was built around a proprietary, enterprise-wide, real-time information system. This information system and our no-haggle price commitment made early integration with the Internet a uniquely natural opportunity for CarMax. Consequently, since 1997, carmax.com has been a pioneer in extending complete inventory and pricing search capabilities into the consumer's home 24 hours a day. In fiscal 2000, we updated the site to include all the detailed vehicle information available at the store. At carmax.com, consumers can find a picture of each vehicle, prices, features, specifications and the store location. Inventory information on the more than 10,000 available cars is updated daily.

In fiscal 2000, we also launched our Insta-Price℠ Online New-Car Buying Service. The service is available in 10 major cities. After browsing our selection and prices, a consumer interested in buying a new car can contact a dedicated CarMax Internet sales consultant by e-mail, telephone or fax and receive fast, individual attention. The Internet sales consultant will answer all questions, including financing inquiries, and help the customer work out all the purchase details from the comfort of home. The customer then simply goes to the store to pick up the new vehicle. In the Los Angeles market, CarMax is testing free home delivery as part of this online service.

Traffic on carmax.com grew rapidly throughout the year, and by year end, 10 percent of all CarMax new-car transactions were completed by CarMax online sales consultants. To assure the broadest possible exposure during fiscal 2000, we added the Web site to all CarMax advertising and began testing partnerships with most major online automotive sites. Consumers who directly access carmax.com remain by far our largest source of online sales.

CARMAX ASSOCIATES

CarMax Associates are the key to the successful execution of the CarMax offer. All CarMax sales, service, appraisal and business office Associates receive formal training in their disciplines and in The CarMax Way. In addition, following formal training, all store Associates are mentored by experienced CarMax employees as they gain job experience.

More and more consumers are experiencing The CarMax Way. CarMax is continuing to strengthen its operations and enhance its marketing. CarMax is on its way to a successful, profitable fiscal 2001.

CONSOLIDATED SUMMARY OF EARNINGS FROM CONTINUING OPERATIONS

(Amounts in millions except per share data)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Net sales and operating revenues	**$12,614**	$10,810	$8,871	$7,664	$7,029	$5,583	$4,130	$3,270	$2,790	$2,367
Gross profit	**$ 2,863**	$ 2,456	$2,044	$1,761	$1,635	$1,385	$1,106	$ 924	$ 809	$ 690
Selling, general and administrative expenses	**$ 2,310**	$ 2,087	$1,815	$1,499	$1,315	$1,105	$ 892	$ 745	$ 676	$ 586
Earnings from continuing operations before income taxes	**$ 529**	$ 341	$ 202	$ 233	$ 295	$ 270	$ 209	$ 175	$ 124	$ 91
Earnings from continuing operations	**$ 328**	$ 211	$ 125	$ 144	$ 184	$ 169	$ 132	$ 110	$ 78	$ 57
Earnings (loss) per share from continuing operations:										
Circuit City Group:										
Basic	**$ 1.63**	$ 1.09	$ 0.68	$ 0.74	$ 0.95	$ 0.88	$ 0.70	$ 0.59	$ 0.43	$ 0.31
Diluted	**$ 1.60**	$ 1.08	$ 0.67	$ 0.73	$ 0.94	$ 0.87	$ 0.69	$ 0.58	$ 0.42	$ 0.31
CarMax Group:										
Basic	**$ 0.01**	$ (0.24)	$(0.35)	$(0.01)	$ –	$ –	$ –	$ –	$ –	$ –
Diluted	**$ 0.01**	$ (0.24)	$(0.35)	$(0.01)	$ –	$ –	$ –	$ –	$ –	$ –

CONSOLIDATED SUMMARY OF EARNINGS FROM CONTINUING OPERATIONS PERCENTAGES

(% to sales except effective tax rate)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Gross profit	**22.7**	22.7	23.0	23.0	23.3	24.8	26.8	28.3	29.0	29.1
Selling, general and administrative expenses	**18.3**	19.3	20.5	19.6	18.7	19.8	21.6	22.8	24.2	24.8
Earnings from continuing operations before income taxes	**4.2**	3.2	2.3	3.0	4.2	4.8	5.1	5.4	4.5	3.9
Effective tax rate	**38.0**	38.0	38.0	38.0	37.5	37.5	36.7	37.0	37.0	38.0
Earnings from continuing operations	**2.6**	2.0	1.4	1.9	2.6	3.0	3.2	3.4	2.8	2.4

CONSOLIDATED SUMMARY BALANCE SHEETS

(Amounts in millions)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Total current assets	**$ 2,943**	$ 2,394	$2,146	$2,163	$1,736	$1,387	$1,024	$ 791	$ 597	$ 450
Property and equipment, net	**$ 965**	$ 1,006	$1,049	$ 886	$ 774	$ 593	$ 438	$ 371	$ 319	$ 355
Deferred income taxes	**$ –**	$ –	$ –	$ –	$ –	$ 6	$ 79	$ 88	$ 68	$ 51
Other assets	**$ 47**	$ 45	$ 37	$ 32	$ 16	$ 18	$ 14	$ 13	$ 15	$ 18
Total assets	**$ 3,955**	$ 3,445	$3,232	$3,081	$2,526	$2,004	$1,555	$1,263	$ 999	$ 874
Total current liabilities	**$ 1,406**	$ 964	$ 906	$ 837	$ 831	$ 706	$ 546	$ 373	$ 279	$ 261
Long-term debt, excluding current installments	**$ 249**	$ 426	$ 424	$ 430	$ 399	$ 179	$ 30	$ 82	$ 85	$ 94
Deferred revenue and other liabilities	**$ 130**	$ 112	$ 145	$ 166	$ 214	$ 242	$ 268	$ 232	$ 187	$ 152
Deferred income taxes	**$ 28**	$ 38	$ 27	$ 33	$ 18	$ –	$ –	$ –	$ –	$ –
Total liabilities	**$ 1,813**	$ 1,540	$1,502	$1,466	$1,462	$1,127	$ 844	$ 687	$ 551	$ 507
Total stockholders' equity	**$ 2,142**	$ 1,905	$1,730	$1,615	$1,064	$ 877	$ 711	$ 576	$ 448	$ 367
Total liabilities and stockholders' equity	**$ 3,955**	$ 3,445	$3,232	$3,081	$2,526	$2,004	$1,555	$1,263	$ 999	$ 874

CONSOLIDATED STATEMENTS OF CASH FLOWS FROM CONTINUING OPERATIONS

(Amounts in millions)

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Depreciation and amortization	**$ 148**	$ 130	$ 115	$ 99	$ 80	$ 67	$ 55	$ 42	$ 36	$ 29
Cash flow from operating activities of continuing operations	**$ 593**	$ 310	$ 228	$ 23	$ (51)	$ 48	$ 108	$ 150	$ 66	$ 53
Capital expenditures	**$ 222**	$ 352	$ 576	$ 540	$ 517	$ 375	$ 252	$ 190	$ 110	$ 160

OTHER DATA

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Cash dividends per share paid on										
Circuit City Group common stock	**$ 0.07**	$ 0.07	$ 0.07	$ 0.07	$ 0.06	$ 0.05	$ 0.04	$ 0.03	$ 0.03	$ 0.03
Return on average stockholders' equity (%)	**9.8**	7.9	6.2	10.2	18.5	21.1	20.6	21.5	19.2	16.8
Number of Associates at year-end	**60,083**	53,710	46,691	42,312	37,086	31,413	23,625	20,107	16,635	14,982
Number of Circuit City retail units at year-end	**616**	587	556	493	419	352	294	260	228	185
Number of CarMax retail units at year-end	**40**	31	18	7	4	2	1	–	–	–

Amounts for 1991 assume change in accounting for extended warranties is retroactively applied. All earnings per share and dividend 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.

(Amounts in thousands except per share data)	2000	1999	1998	1997	1996
Net sales and operating revenues	**$12,614,390**	$10,810,468	$8,870,797	$7,663,811	$7,029,123
Earnings from continuing operations	**$ 327,830**	$ 211,470	$ 124,947	$ 144,234	$ 184,184
Loss from discontinued operations	**$ (130,240)**	$ (68,546)	$ (20,636)	$ (7,820)	$ (4,809)
Net earnings	**$ 197,590**	$ 142,924	$ 104,311	$ 136,414	$ 179,375
Net earnings (loss) per share:					
Circuit City Group:					
Basic:					
Continuing operations	**$ 1.63**	$ 1.09	$ 0.68	$ 0.74	$ 0.95
Discontinued operations	**$ (0.65)**	$ (0.34)	$ (0.11)	$ (0.04)	$ (0.02)
Net earnings	**$ 0.98**	$ 0.75	$ 0.57	$ 0.70	$ 0.93
Diluted:					
Continuing operations	**$ 1.60**	$ 1.08	$ 0.67	$ 0.73	$ 0.94
Discontinued operations	**$ (0.64)**	$ (0.34)	$ (0.10)	$ (0.04)	$ (0.02)
Net earnings	**$ 0.96**	$ 0.74	$ 0.57	$ 0.69	$ 0.92
CarMax Group:					
Basic	**$ 0.01**	$ (0.24)	$ (0.35)	$ (0.01)	$ –
Diluted	**$ 0.01**	$ (0.24)	$ (0.35)	$ (0.01)	$ –
Total assets	**$ 3,955,348**	$ 3,445,266	$3,231,701	$3,081,173	$2,526,022
Long-term debt, excluding current installments	**$ 249,241**	$ 426,585	$ 424,292	$ 430,290	$ 399,161
Deferred revenue and other liabilities	**$ 130,020**	$ 112,085	$ 145,107	$ 166,295	$ 214,001
Cash dividends per share paid on					
Circuit City Group common stock	**$ 0.07**	$ 0.07	$ 0.07	$ 0.07	$ 0.06

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 stores 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." Over 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 Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, the net earnings or losses attributed to the Inter-Group Interest are not included in the CarMax Group's per share calculations.

The following discussion and analysis refers to Circuit City Stores, Inc., which includes the operations related to both Groups. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for each Group.

RESULTS OF OPERATIONS

Sales Growth

Total sales for Circuit City Stores, Inc. increased 17 percent in fiscal 2000 to $12.61 billion. In fiscal 1999, total sales increased 22 percent to $10.81 billion from $8.87 billion in fiscal 1998.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

	Circuit City Stores, Inc.	Circuit City Group		CarMax Group	
Fiscal	Total	Total	Comparable	Total	Comparable
2000	17%	13%	8 %	37%	2 %
1999	22%	17%	8 %	68%	(2)%
1998	16%	12%	(1)%	71%	6 %
1997	9%	6%	(8)%	85%	23 %
1996	26%	23%	5 %	258%	12 %

THE CIRCUIT CITY GROUP. During the past five years, industry growth, the addition of new product categories and geographic expansion of the Group's Superstore base have made varying contributions to total sales growth. Early in the period, geographic expansion and the addition of product categories such as personal computers were the primary contributors to growth. In fiscal 1996, a 25 percent increase in Superstore square footage, which included entry into 19 markets, was a significant contributor to the Group's total sales growth. In that same year, home office products rose to 26 percent of sales from 20 percent in the prior year. From mid fiscal 1996 through fiscal 1998, a lack of significant consumer electronics product introductions resulted in weak industry sales. The industry began to emerge from this period of declining sales in fiscal 1999, and that trend continued in fiscal 2000. Management believes that this period of industry growth, driven by digital product technology, can last throughout the decade and will be the primary contributor to the Group's total sales growth in the foreseeable future.

Fiscal 2000 sales reflected strong consumer demand across all major product categories. Home office was the strongest category, reflecting continued increases in household penetration of personal computers, increased consumer use of the Internet and new capabilities such as digital imaging and digital audio recording. In the consumer electronics categories, the Circuit City Group experienced significant demand for better-featured products and new technologies, including DVD players, DIRECTV, digital camcorders, wireless communications and big-screen televisions.

In most states, the Circuit City Group sells extended warranty programs on behalf of unrelated third parties who are the primary obligors. Under these third-party warranty programs, the Company has no contractual liability to the customer. In states where third-party warranty sales are not permitted, the Group sells a Circuit City extended warranty for which the Company is the primary obligor. Gross dollar sales from all extended warranty programs were 5.4 percent of the Group's total sales in fiscal years 2000 and 1999, compared with 5.5 percent in fiscal 1998. Total extended warranty revenue, which is reported in the Group's total sales, was 4.4 percent of sales in fiscal 2000 and 4.6 percent of sales in fiscal years 1999 and 1998. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. Third-party extended warranty revenue was 4.1 percent of the Group's total sales in fiscal years 2000 and 1999 and 3.6 percent of the Group's total sales in fiscal 1998. The increase in third-party extended warranty revenue reflects the conversion of stores in 13 states to third-party warranty sales since early fiscal 1998.

THE CARMAX GROUP. During the past five years, geographic expansion of the CarMax used-car superstore concept and the addition of new-car franchises have been the primary contributors to CarMax's total sales growth. During the second half of fiscal 1998, the CarMax Group's used-car sales began to fall below management's expectations. New-car sales remained strong. These trends continued through fiscal 1999 when strong comparable store sales growth in new cars was more than offset by the weak used-car sales trend.

Late in fiscal 1999, CarMax adopted a hub and satellite operating strategy in existing multi-store markets. In fiscal 1999, five superstores were converted to satellite locations in the Miami, Houston, Dallas and Chicago markets. Under the hub and satellite operating process, a satellite store uses the reconditioning, purchasing and business office operations of a nearby hub store. The display capacity and consumer offer are identical in both the hub and satellite stores. A prototypical satellite store operates on a four- to six-acre site with a 12,000- to 14,000-square-foot facility that houses sales offices, a showroom and four to seven service bays for regular maintenance and warranty service. At the end of fiscal 1999, CarMax classified two stores as prototype satellite stores.

In fiscal 2000, CarMax limited its geographic expansion to focus on building sales and profitability in existing markets. During the year, CarMax opened one used-car superstore in Nashville, Tenn., and one in Duarte, Calif. CarMax converted one existing store into a satellite operation. In the markets of Dallas/Fort Worth and Houston, CarMax added two prototypical satellite stores at year-end. The sales pace at CarMax's used-car superstores, including those stores with integrated new-car franchises, improved, and the Group generated comparable store sales growth for the last two quarters and for the fiscal year.

In fiscal 2000, CarMax also opened five stand-alone new-car stores, relocated its Laurel, Md., Toyota franchise next to its Laurel superstore and acquired a Nissan franchise that was added to an existing used-car superstore location in the Washington, D.C./Baltimore market. While the performance of the used-car superstores and integrated used- and new-car superstores exceeded expectations, management was disappointed in the performance of the stand-alone new-car stores during fiscal 2000. Although operations at these stores have improved significantly versus their levels prior to acquisition, they remain below management's expectations. CarMax is actively pursuing opportunities to integrate or co-locate as many of these franchises with existing used-car superstores as possible.

Late in fiscal 2000, CarMax's primary competitor exited the used-car superstore business. Management believes their exit from the Dallas/Fort Worth, Houston, San Antonio, Tampa and Miami markets, where the two companies competed, will help eliminate consumer confusion over the two offers and increase customer flow for CarMax.

In most states, CarMax sells extended warranties on behalf of an unrelated third party who is the primary obligor. Under this third-party warranty program, the Company has no contractual liability to the customer. In states where third-party warranty sales are not permitted, CarMax has sold its own extended warranty for which the Company is the primary obligor. Gross dollar sales from all extended warranty programs were 3.7 percent of the Group's total sales in fiscal 2000, 4.3 percent in fiscal 1999 and 3.8 percent in fiscal 1998. The fiscal 2000 decrease reflects the increase in new-car sales as a percentage of the overall mix. The fiscal 1999 increase reflects pricing adjustments and a higher penetration rate achieved by extending warranty coverage to more vehicles. Total extended warranty revenue, which is reported in the Group's total sales, was 1.6 percent of total sales in fiscal 2000, 2.0 percent in fiscal 1999 and 1.5 percent in fiscal 1998. Third-party extended warranty revenue was

1.6 percent of total sales in fiscal 2000, 1.9 percent in fiscal 1999 and 1.4 percent in fiscal 1998.

IMPACT OF INFLATION. Inflation has not been a significant contributor to the Company's results. For the Circuit City Group, 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, management expects no significant short-term change overall. Because the Group purchases substantially all products in U.S. dollars, prices are not directly impacted by the value of the dollar in relation to other foreign currencies, including the Japanese yen.

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

Cost of Sales, Buying and Warehousing

The gross profit margin was 22.7 percent of sales in fiscal 2000 and fiscal 1999 compared with 23.0 percent in fiscal 1998. The fiscal 2000 gross profit margin includes higher gross profit margins for both the Circuit City and CarMax businesses. The Circuit City improvement reflects a higher percentage of sales from better-featured products and newer technologies, which carry higher gross margins, partly offset by the strength in personal computer sales, which carry lower gross margins. Continued improvements in inventory management also contributed to the Circuit City Group's gross margin increase. 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 electronic accessory sales. The success of this plan was the significant contributor to improved gross profit margins for that business in both fiscal 2000 and fiscal 1999. The significant increase in new-car sales as a percentage of total sales partly offset the improvements since new vehicles carry lower gross profit margins than used vehicles. Because the CarMax business produces lower gross margins than the Circuit City business, the increased sales contribution from CarMax reduces the Company's overall gross profit margin even though the CarMax Group's gross profit margin increased from fiscal 1999 to fiscal 2000. The Company's fiscal 1999 gross profit margin reflects, for the Circuit City Group, the strength of the personal computer business and the competitive price environment partly offset by better inventory management and increased sales of better-featured products and, for the CarMax Group, the impact of the profit improvement plan partly offset by the increase in new-car sales as a percentage of total sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 18.3 percent of sales in fiscal 2000, compared with 19.3 percent of sales in fiscal 1999 and 20.5 percent of sales in fiscal 1998. The fiscal 2000 expense ratio primarily reflects expense leverage from the comparable store sales increase for the Circuit City Group and expense leverage from the total and comparable store sales increases and productivity improvements resulting from the slower expansion rate, implementation of the hub and satellite operating strategy and operating expense controls for the CarMax Group. The improvement at CarMax was partly offset by $4.8 million in lease termination costs on undeveloped property and a write-down of assets associated with excess property for sale. The lower expense ratio in fiscal 1999 compared with fiscal 1998 primarily reflects the expense leverage generated by the Circuit City Group's comparable store sales increase. CarMax's expense ratio exceeded expectations in both years, reflecting the costs associated with expansion and below-plan sales in both years. Because CarMax operates with a lower expense structure, it reduces the Company's overall expense-to-sales ratio. Operating profits generated by the Company's finance operations are recorded as a reduction to selling, general and administrative expenses.

Interest Expense

Interest expense was 0.2 percent of sales in fiscal 2000, fiscal 1999 and fiscal 1998. Interest expense was incurred on debt used to fund store expansion and working capital, including inventory.

Earnings from Continuing Operations

Earnings from continuing operations for Circuit City Stores, Inc. increased 55 percent to $327.8 million in fiscal 2000. The increase reflects a 39 percent earnings increase achieved by the Circuit City business and a profit achieved by the CarMax Group. In fiscal 1999, earnings from continuing operations were $211.5 million compared with earnings from continuing operations of $124.9 million in fiscal 1998.

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.

For fiscal 2000, the loss from the discontinued operations of Divx totaled $16.2 million after an income tax benefit of $9.9 million. The loss from the discontinued operations of Divx totaled $68.5 million after an income tax benefit of $42.0 million in fiscal 1999 and $20.6 million after an income tax benefit of $12.6 million in fiscal 1998.

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 increased 38 percent to $197.6 million in fiscal 2000. In fiscal 1999, net earnings rose 37 percent to $142.9 million from $104.3 million in fiscal 1998.

Operations Outlook

For the Circuit City business, management expects that industry growth, primarily driven by the introduction of better-featured products and new technologies, will be the primary contributor to sales and earnings growth during the coming decade. Management anticipates that growth in the household penetration of products and services such as digital television, direct broadcast satellite systems, wireless communications, digital camcorders, DVD players, multi-function set-top boxes and broadband Internet access will contribute significantly to overall sales and earnings growth.

In fiscal 2001, the Circuit City Group will build on initiatives begun in fiscal 2000. The planned 25 new Superstores and all 571 existing Superstores will feature new displays designed to highlight the latest advances in technology. The Circuit City Group also will remodel 30 to 35 stores in the Richmond, Va., and the Miami, West Palm Beach, Tampa, Fort Myers and Orlando, Fla., markets. These remodeled Superstores will allow management to test a concept dedicated to consumer electronics and home office products. Superstores opened after the first fiscal quarter also will be dedicated to consumer electronics and home office products. In the remodel markets, Circuit City will test approximately six stand-alone major appliance stores to create better selling space for the new technologies in the appliance business and to increase consumer awareness of Circuit City's appliance offering. Management anticipates that the industry's growth, geographic expansion of Circuit City's Superstore concept, Superstore remodeling and continued strong operating controls will enable the Circuit City business to generate earnings growth of 20 percent to 25 percent in fiscal 2001.

In fiscal 2001, CarMax's management will continue to focus on revenue growth and operating margin enhancement in existing CarMax markets. Management will concentrate on the hub and satellite operating strategy for its used-car superstores and seek new-car franchises to integrate or co-locate with used-car superstores. Management anticipates that in fiscal 2001 and beyond new stores will be smaller "A" stores or satellite locations. Management believes that continued sales and profit improvement in the Group's existing markets will result in solid profitability in fiscal 2001 and allow the Group to resume moderate and profitable geographic growth thereafter.

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, is effective for quarters for fiscal years beginning after June 15, 2000. SFAS No. 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and requires that an entity recognize those items as either assets or liabilities and measure them at fair value. The Company does not expect SFAS No. 133 to have a material impact on its financial position, results of operations or cash flows.

FINANCIAL CONDITION

Liquidity and Capital Resources

In fiscal 2000, net cash provided by operating activities of continuing operations was $593.5 million compared with $309.5 million in fiscal 1999 and $228.2 million in fiscal 1998. The fiscal 2000 increase primarily reflects increased earnings from the Circuit City and CarMax businesses and increases in accounts payable for both Groups, partly offset by increases in inventory for both Groups. The fiscal 1999 increase primarily reflects a decrease in net accounts receivable and higher earnings for the Circuit City business, partly offset by increased inventory for both Circuit City and CarMax.

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

During fiscal 2000, a term loan totaling $175 million and due in May 2000 was classified as a current liability. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

Capital expenditures have been funded through sale-leaseback transactions, landlord reimbursements, proceeds from the February 1997 CarMax Group equity offering and short- and long-term debt. Capital expenditures of $222.3 million in fiscal 2000 reflect construction for Circuit City and CarMax stores opened or remodeled during the year and a portion of the stores opening in fiscal 2001. The sale-leaseback and landlord reimbursement transactions in fiscal 2000 totaled $100.2 million.

Capital expenditures of $352.4 million in fiscal 1999 and $575.9 million in fiscal 1998 were largely incurred in connection with the Company's expansion programs. Sale-leaseback and landlord reimbursement transactions were $273.6 million in fiscal 1999 and $297.1 million in fiscal 1998.

During fiscal 2000, the CarMax Group acquired the Chrysler-Plymouth-Jeep franchise rights and the related assets of Prince Chrysler-Plymouth-Jeep Company and the franchise rights and the related assets of LAX Dodge, Inc. in the Los Angeles market; the Jeep franchise rights and the related assets of Red Bird Jeep-Eagle and the franchise rights of Hilltop Chrysler-Plymouth, Inc. in the Dallas market; the franchise rights and related assets of Fairway Chrysler-Plymouth-Jeep, Inc. in the Orlando market; and the Nissan franchise rights and related assets of Town & Country Pontiac Nissan, Inc. in the Washington D.C./Baltimore market for a total of $34.8 million. These acquisitions were financed through cash resources. Costs in excess of the acquired net tangible assets, which are primarily inventory, have been recorded as goodwill and covenants not to compete.

During fiscal 1999, the CarMax Group acquired the Toyota franchise rights and the related assets of Laurel Automotive Group, Inc. in the Washington D.C./Baltimore market; the franchise rights and the related assets of Mauro Auto Mall, Inc. in the Chicago market; the franchise rights and the related assets of Nissan of Greenville, Inc. in the Greenville, S.C., market; and the Mitsubishi franchise rights and the related assets of Boomershine

Automotive, Inc. in the Atlanta market for a total of $49.6 million. These acquisitions were financed through cash payments totaling $41.6 million and the issuance of two promissory notes totaling $8.0 million. Costs in excess of the acquired net tangible assets, which are primarily inventory, 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 Group's finance operation has a master trust securitization facility for its private-label credit card that allows the transfer of up to $1.85 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to $1.75 billion in receivables related to the operation's bank card programs. Receivables securitized under the master trust facilities totaled $2.79 billion at February 29, 2000. In fiscal 1996, Circuit City Stores, Inc. initiated an asset securitization program on behalf of the CarMax Group. At the end of fiscal 2000, that program allowed for the transfer of up to $500 million in automobile loan receivables. In October 1999, the Company formed a second securitization facility on behalf of the CarMax Group that allowed for a $644 million securitization of automobile loan receivables in the public market. At February 29, 2000, the program had a capacity of $559.5 million. Securitized receivables on behalf of the CarMax Group totaled $887.2 million at the end of fiscal 2000. Under the securitization programs, receivables are sold to an unaffiliated third party with the servicing rights retained. Management expects that these securitization programs can be expanded to accommodate future receivables growth for both businesses.

In fiscal 1999, CarMax entered into a one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement had a total program capacity of $160 million at February 29, 2000, and was created to provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. During fiscal 2000 and fiscal 1999, the CarMax Group financed no inventory under this arrangement. This financing arrangement was terminated in the first quarter of fiscal 2001.

Capital Structure

Total assets at February 29, 2000, were $3.96 billion, up $510.1 million or 15 percent since February 28, 1999. A $378.1 million increase in cash and a $171.5 million increase in inventory contributed to the increase in total assets.

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

From fiscal 1999 to fiscal 2000, stockholders' equity increased 12 percent to $2.14 billion. Capitalization for the past five years is illustrated in the "Capitalization" table below. Higher earnings for the Circuit City business and the CarMax Group, partly offset by the loss on the discontinuance of the Divx business, produced a return on equity of 9.8 percent in fiscal 2000, compared with 7.9 percent in fiscal 1999.

Management anticipates that in fiscal 2001 capital expenditures of approximately $275 million will be funded through a combination of internally generated cash, sale-leaseback transactions and operating leases and that securitization transactions will finance the growth in receivables. At the end of fiscal 2000, the Company maintained a multi-year, $150 million unsecured revolving credit agreement and $370 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.

CAPITALIZATION

Fiscal	2000		1999		1998		1997		1996	
(Dollar amounts in millions)	$	%	$	%	$	%	$	%	$	%
Long-term debt, excluding current installments	249.2	10	426.6	17	424.3	18	430.3	19	399.2	23
Other long-term liabilities	157.8	6	149.7	6	171.5	7	199.4	9	231.8	14
Total stockholders' equity	2,142.2	84	1,905.1	77	1,730.0	75	1,614.8	72	1,063.9	63
Total capitalization	2,549.2	100	2,481.4	100	2,325.8	100	2,244.5	100	1,694.9	100

MARKET RISK

The Company manages the private-label and bank card revolving loan portfolios of the Circuit City Group's finance operation and the automobile installment loan portfolio of the CarMax Group's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Company's balance 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 bank card 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 29, 2000, and February 28, 1999, had the following APR structure:

(Amounts in millions)	2000	1999
Indexed to prime rate	$2,631	$2,714
Fixed APR	213	243
Total	$2,844	$2,957

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued either at floating rates based on LIBOR or at fixed rates. Certain of the fixed-rate issuances have been swapped to LIBOR. Receivables held by the Company for investment or sale are financed with working capital. At February 29, 2000, and February 28, 1999, financings were as follows:

(Amounts in millions)	2000	1999
Floating-rate (including synthetic alteration) securitizations	$2,544	$2,568
Fixed-rate securitizations	137	187
Held by the Company:		
For investment	145	162
For sale	18	40
Total	$2,844	$2,957

Automobile Installment Loans

Total principal outstanding for fixed-rate automobile loans at February 29, 2000, and February 28, 1999, was as follows:

(Amounts in millions)	2000	1999
Fixed APR	$932	$592

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 investment or sale are financed with working capital.

Financings at February 29, 2000, and February 28, 1999, were as follows:

(Amounts in millions)	2000	1999
Fixed-rate securitization	$559	$ –
Floating-rate securitizations synthetically altered to fixed	327	500
Floating-rate securitizations	1	39
Held by the Company:		
For investment*	22	38
For sale	23	15
Total	$932	$592

** 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 29, 2000, or February 28, 1999. Because programs are in place to manage interest rate exposure relating to the consumer loan portfolios, the Company expects to experience relatively little impact if 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.

YEAR 2000 CONVERSION

In fiscal 1997, the Company began a Year 2000 date conversion project to address necessary code changes, testing and implementation for its systems. Since the project began, the Company has expensed $17.1 million in project costs, including $3.9 million in fiscal 2000. These costs were in addition to the normal budget for information systems and were funded through operating cash flows. Because the CarMax computer systems were developed in recent years, they did not require significant remediation; therefore, the CarMax Group did not incur any material costs related to the Year 2000 issue. To date, because of the extensive testing and remediation efforts undertaken by the Company prior to January 1, 2000, no material adverse consequences have been experienced by the Circuit City Group or the CarMax Group resulting from the Year 2000 date change, and none are anticipated. In addition, as part of the Company's Year 2000 project, the Company identified its key third-party business partners and coordinated with them to address potential Year 2000 issues. To date, the Company has not experienced any material adverse consequences related to its key third-party business partners, and none are anticipated.

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 2001 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) the ability to retain and grow an effective management team in a dynamic environment or changes in the cost or availability of a suitable work force to manage and support the Company's service-driven operating strategies;

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

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

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

(j) the imposition of new restrictions or regulations regarding the sale of products 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;

(k) adverse results in significant litigation matters;

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

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

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

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.

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	2000		1999		2000	1999	2000		1999	
Quarter	HIGH	LOW	HIGH	LOW			HIGH	LOW	HIGH	LOW
1st	$39.19	$25.94	$24.82	$18.78	$.0175	$.0175	$5.50	$3.69	$13.50	$8.63
2nd	$52.97	$35.44	$27.25	$14.97	$.0175	$.0175	$7.13	$3.38	$11.00	$5.56
3rd	$53.88	$35.00	$19.78	$14.41	$.0175	$.0175	$4.00	$1.75	$ 8.00	$3.63
4th	$51.69	$32.50	$32.07	$17.69	$.0175	$.0175	$3.25	$1.31	$ 5.75	$3.94
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)	2000	%	1999	%	1998	%
	Years Ended February 29 or 28					
NET SALES AND OPERATING REVENUES	**$12,614,390**	100.0	$10,810,468	100.0	$8,870,797	100.0
Cost of sales, buying and warehousing	**9,751,833**	77.3	8,354,230	77.3	6,827,133	77.0
GROSS PROFIT	**2,862,557**	22.7	2,456,238	22.7	2,043,664	23.0
Selling, general and administrative expenses [NOTE 11]	**2,309,593**	18.3	2,086,838	19.3	1,815,275	20.5
Interest expense [NOTE 5]	**24,206**	0.2	28,319	0.2	26,861	0.2
TOTAL EXPENSES	**2,333,799**	18.5	2,115,157	19.5	1,842,136	20.7
Earnings from continuing operations before income taxes	**528,758**	4.2	341,081	3.2	201,528	2.3
Provision for income taxes [NOTE 6]	**200,928**	1.6	129,611	1.2	76,581	0.9
EARNINGS FROM CONTINUING OPERATIONS	**327,830**	2.6	211,470	2.0	124,947	1.4
Discontinued operations [NOTE 15]:						
Loss from discontinued operations of Divx, less income tax benefit	**(16,215)**	(0.1)	(68,546)	(0.7)	(20,636)	(0.2)
Loss on disposal of Divx, including provision for losses during phase-out period, less income tax benefit	**(114,025)**	(0.9)	–	–	–	–
Loss from discontinued operations	**(130,240)**	(1.0)	(68,546)	(0.7)	(20,636)	(0.2)
NET EARNINGS	**$ 197,590**	1.6	$ 142,924	1.3	$ 104,311	1.2
Net earnings (loss) attributed to [NOTES 1 AND 2]:						
Circuit City Group common stock:						
Continuing operations	**$ 327,574**		$ 216,927		$ 132,710	
Discontinued operations	**(130,240)**		(68,546)		(20,636)	
CarMax Group common stock	**256**		(5,457)		(7,763)	
	$ 197,590		$ 142,924		$ 104,311	
Weighted average common shares [NOTES 2 AND 8]:						
Circuit City Group:						
Basic	**201,345**		198,304		196,054	
Diluted	**204,321**		200,812		198,408	
CarMax Group:						
Basic	**23,778**		22,604		22,001	
Diluted	**25,788**		22,604		22,001	
NET EARNINGS (LOSS) PER SHARE [NOTES 2 AND 8]:						
Circuit City Group:						
Basic:						
Continuing operations	**$ 1.63**		$ 1.09		$ 0.68	
Discontinued operations	**(0.65)**		(0.34)		(0.11)	
Net earnings	**$ 0.98**		$ 0.75		$ 0.57	
Diluted:						
Continuing operations	**$ 1.60**		$ 1.08		$ 0.67	
Discontinued operations	**(0.64)**		(0.34)		(0.10)	
Net earnings	**$ 0.96**		$ 0.74		$ 0.57	
CarMax Group:						
Basic	**$ 0.01**		$ (0.24)		$ (0.35)	
Diluted	**$ 0.01**		$ (0.24)		$ (0.35)	

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except share data)	At February 29 or 28 2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 643,933**	$ 265,880
Net accounts receivable [NOTE 12]	**593,276**	574,316
Inventory	**1,689,209**	1,517,675
Prepaid expenses and other current assets	**16,197**	36,644
TOTAL CURRENT ASSETS	**2,942,615**	2,394,515
Property and equipment, net [NOTES 4 AND 5]	**965,181**	1,005,773
Other assets	**47,552**	44,978
TOTAL ASSETS	**$3,955,348**	$3,445,266
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 5 AND 10]	**$ 177,344**	$ 2,707
Accounts payable	**960,131**	799,733
Short-term debt [NOTE 5]	**3,005**	8,016
Accrued expenses and other current liabilities	**204,561**	143,585
Deferred income taxes [NOTE 6]	**61,118**	9,764
TOTAL CURRENT LIABILITIES	**1,406,159**	963,805
Long-term debt, excluding current installments [NOTES 5 AND 10]	**249,241**	426,585
Deferred revenue and other liabilities	**130,020**	112,085
Deferred income taxes [NOTE 6]	**27,754**	37,661
TOTAL LIABILITIES	**1,813,174**	1,540,136
STOCKHOLDERS' EQUITY [NOTES 1 AND 7]:		
Circuit City Group common stock, $0.50 par value; 350,000,000 shares authorized; 203,868,000 shares issued and outstanding (100,820,000 in 1999)	**101,934**	50,410
CarMax Group common stock, $0.50 par value; 175,000,000 shares authorized; 25,614,000 shares issued and outstanding (23,116,000 in 1999)	**12,807**	11,558
Capital in excess of par value	**576,574**	575,686
Retained earnings	**1,450,859**	1,267,476
TOTAL STOCKHOLDERS' EQUITY	**2,142,174**	1,905,130
Commitments and contingent liabilities [NOTES 1, 9, 10, 12, 13, 14 AND 15]		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$3,955,348**	$3,445,266

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
OPERATING ACTIVITIES:			
Net earnings	**$ 197,590**	$ 142,924	$ 104,311
Adjustments to reconcile net earnings to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations [NOTE 15]	**16,215**	68,546	20,636
Loss on disposal of discontinued operations [NOTE 15]	**114,025**	–	–
Depreciation and amortization	**148,164**	129,727	114,860
Loss on disposition of property and equipment	**17**	3,087	14,093
Provision for deferred income taxes	**43,053**	17,235	15,052
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Decrease in deferred revenue and other liabilities	**(15,565)**	(33,022)	(23,024)
(Increase) decrease in net accounts receivable	**(18,922)**	23,640	(66,061)
Increase in inventory	**(184,507)**	(97,597)	(18,182)
Decrease (increase) in prepaid expenses and other current assets	**81,316**	31,257	(6,113)
Decrease (increase) in other assets	**240**	(607)	10,359
Increase in accounts payable, accrued expenses and other current liabilities	**211,850**	24,315	62,276
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**593,476**	309,505	228,207
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 3]	**(34,849)**	(41,562)	–
Purchases of property and equipment	**(222,268)**	(352,384)	(575,860)
Proceeds from sales of property and equipment	**100,151**	273,647	297,126
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	**(156,966)**	(120,299)	(278,734)
FINANCING ACTIVITIES:			
(Payments on) proceeds from issuance of short-term debt, net	**(5,011)**	(960)	5,629
Principal payments on long-term debt	**(2,707)**	(1,301)	(6,187)
Issuances of Circuit City Group common stock, net	**50,205**	42,165	22,311
Issuances of CarMax Group common stock, net	**3,456**	3,983	2,353
Dividends paid on Circuit City Group common stock	**(14,207)**	(13,981)	(13,792)
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	**31,736**	29,906	10,314
CASH USED IN DISCONTINUED OPERATIONS [NOTE 15]	**(90,193)**	(69,844)	(45,818)
Increase (decrease) in cash and cash equivalents	**378,053**	149,268	(86,031)
Cash and cash equivalents at beginning of year	**265,880**	116,612	202,643
Cash and cash equivalents at end of year	**$ 643,933**	$ 265,880	$ 116,612
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	**$ 34,389**	$ 31,858	$ 26,697
Income taxes	**$ 14,908**	$ 53,528	$ 47,936

See accompanying notes to consolidated financial statements.

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

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 15). The CarMax Group Common Stock is intended to track the performance of the CarMax Group's operations. The Circuit City Group held a 74.7 percent interest in the CarMax Group at February 29, 2000, a 76.6 percent interest at February 28, 1999, and a 77.3 percent interest at February 28, 1998.

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

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 $583,506,000 at February 29, 2000, and $216,129,000 at February 28, 1999, 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 recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Finance charge income, default rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The present value of the resulting cash flow projections is calculated using a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 29, 2000, and February 28, 1999, cost approximates fair value.

(D) FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying value of the Company's financial instruments, excluding interest rate swaps held for hedging purposes, approximates fair value. Credit risk is the exposure created by the potential nonperformance of another material party to an agreement 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: Effective March 1, 1998, the Company adopted the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the capitalization criteria of the SOP have been met, external direct costs of materials and services used in the development of internal-use software and payroll and payroll-related costs for employees directly involved in the development of internal-use software are capitalized. Amounts capitalized are amortized on a straight-line basis over a period of three to five years.

(H) 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. Based upon the financial performance of the acquired businesses, the carrying values of intangible assets are periodically reviewed by the Company and impairments are recognized when the expected future undiscounted operating cash flows derived from such intangible assets are less than the carrying 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. Adoption of SOP 98-5 did not have a material impact on the Company's financial position, annual results of operations or liquidity. 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) 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. Inasmuch as the Company is the primary obligor on these contracts, revenue from the sale of the Circuit City Group's own extended warranty contracts is deferred and amortized on a straight-line basis over the life of the contracts. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale, since the third parties are the primary obligors under these contracts.

The CarMax Group sells service contracts on behalf of an unrelated third party 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. Inasmuch as the Company is the primary obligor on these contracts, all revenue from the sale of the CarMax Group's own service 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. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale, since the third party is the primary obligor under these contracts.

(L) 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.

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

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

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

(O) 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."

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

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

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

The CarMax Group is a used- and new-car retail business. The diversity of the CarMax Group's customers and suppliers reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base or sources of supply. However, 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

The provision for federal income taxes is determined on a consolidated basis. The financial statement provision is reflected in each Group's financial statements in accordance with the Company's tax allocation policy. In general, this policy provides that the consolidated tax provision is 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.

(S) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 2000.

3. BUSINESS ACQUISITIONS

The CarMax Group acquired the franchise rights and the related assets of six new-car dealerships for an aggregate cost of $34.8 million in fiscal 2000. These acquisitions were financed through available cash resources. During fiscal 1999, CarMax acquired the franchise rights and the related assets for four new-car dealerships for an aggregate cost of $49.6 million. These acquisitions were financed through available cash resources and the issuance of two promissory notes aggregating $8.0 million. Costs in excess of the fair value of the net tangible assets acquired (primarily inventory) have been recorded as goodwill and covenants not to compete. These acquisitions were accounted for under the purchase method and the results of the operations of the acquired franchises have been included in the accompanying consolidated financial statements since the date of acquisition. Unaudited pro-forma information related to these acquisitions is not included as the impact of these acquisitions on the accompanying consolidated financial statements is not material.

4. PROPERTY AND EQUIPMENT

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

(Amounts in thousands)	2000	1999
Land and buildings (20 to 25 years)	$ 180,422	$ 75,875
Land held for sale	41,850	31,435
Land held for development	17,697	28,781
Construction in progress	69,388	179,664
Furniture, fixtures and equipment (3 to 8 years)	750,737	705,660
Leasehold improvements (10 to 15 years)	586,005	549,673
Capital leases, primarily buildings (20 years)	12,471	12,471
	1,658,570	1,583,559
Less accumulated depreciation and amortization	693,389	577,786
Property and equipment, net	$ 965,181	$1,005,773

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 29 or 28 is summarized as follows:

(Amounts in thousands)	2000	1999
Term loans	$405,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.0% to 7.0%	5,419	6,564
Obligations under capital leases [NOTE 10]	12,416	12,728
Note payable	3,750	5,000
Total long-term debt	426,585	429,292
Less current installments	177,344	2,707
Long-term debt, excluding current installments	$249,241	$426,585

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 29, 2000, the interest rate on the term loan was 6.29 percent.

In May 1995, the Company entered into a five-year, $175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 29, 2000, the interest rate on the term loan was 6.23 percent. This term loan is due in May 2000 and has been classified as a current liability as of February 29,

2000. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 29, 2000, the interest rate on the term loan was 6.23 percent.

The Company maintains a multi-year, $150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.18 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 29, 2000, or February 28, 1999.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately $8,404,000 at February 29, 2000, and $10,740,000 at February 28, 1999.

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.

In fiscal 1999, the CarMax Group entered into a one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement had a total program capacity of $160 million at February 29, 2000, and was created to provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special-purpose company. During fiscal years 2000 and 1999, no inventory was financed by the CarMax Group under this arrangement. This financing arrangement was terminated in the first quarter of fiscal 2001.

The scheduled aggregate annual principal payments on long-term obligations for the next five fiscal years are as follows: 2001 - $177,344,000; 2002 - $132,485,000; 2003 - $102,594,000; 2004 - $1,507,000; 2005 - $2,521,000.

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 29, 2000, and February 28, 1999.

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

	Years Ended February 29 or 28	
(Amounts in thousands)	2000	1999
Average short-term debt outstanding	$ 44,692	$ 54,505
Maximum short-term debt outstanding	$411,791	$463,000
Aggregate committed lines of credit	$370,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 5.6 percent during fiscal 2000, 5.1 percent during fiscal 1999 and 5.7 percent during fiscal 1998.

The Company capitalizes interest in connection with the construction of certain facilities and software developed or obtained for internal use. In fiscal 2000, interest capitalized amounted to $3,420,000 ($5,423,000 in fiscal 1999 and $9,638,000 in fiscal 1998).

6. INCOME TAXES

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

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Current:			
Federal	$ 140,119	$ 99,228	$58,453
State	17,756	13,148	3,076
	157,875	112,376	61,529
Deferred:			
Federal	41,762	16,718	12,801
State	1,291	517	2,251
	43,053	17,235	15,052
Provision for income taxes	$200,928	$129,611	$76,581

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

	Years Ended February 29 or 28		
	2000	1999	1998
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	3.0	3.0	3.0
Effective income tax rate	38.0%	38.0%	38.0%

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 29 or 28 are as follows:

(Amounts in thousands)	2000	1999
Deferred tax assets:		
Deferred revenue	$ 1,146	$ 8,332
Inventory capitalization	2,609	2,578
Accrued expenses	33,484	27,080
Other	6,330	5,430
Total gross deferred tax assets	43,569	43,420
Deferred tax liabilities:		
Depreciation and amortization	51,035	48,035
Deferred revenue	29,656	6,903
Gain on sales of receivables	18,988	14,990
Other prepaid expenses	26,111	20,210
Other	6,651	707
Total gross deferred tax liabilities	132,441	90,845
Net deferred tax liability	$ 88,872	$47,425

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

7. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(K) PLAN: Effective August 1, 1999, the Company sponsors 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 contribution to this plan was $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 Stock and CarMax Group 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 Stock shall have one vote and (ii) each outstanding share of CarMax Group Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Group Stock to a share of Circuit City Group 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 Stock or CarMax Group 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 345,644 shares of Circuit City Group Stock and 30,000 shares of CarMax Group Stock were granted to eligible employees in fiscal 2000. The market value at the date of grant of these shares has been recorded as unearned compensation and is a component of stockholders' equity. Unearned compensation is expensed over the restriction periods. In fiscal 2000, a total of $12,095,900 was charged to operations ($9,167,700 in fiscal 1999 and $5,073,100 in fiscal 1998). As of February 29, 2000, 1,559,966 restricted shares of Circuit City Group Stock and 110,833 restricted shares of CarMax Group 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 Stock or CarMax Group 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 29, 2000, a total of 864,046 shares remained available under the Circuit City Group Plan and 1,058,693 shares remained available under the CarMax Group Plan. During fiscal 2000, 501,984 shares of Circuit City Group Stock were issued to or purchased on the open market for employees (858,710 shares in fiscal 1999 and 901,396 shares in fiscal 1998), and 580,000 shares of CarMax Group Stock were issued to or purchased on the open market on behalf of employees (268,532 in fiscal 1999 and 92,775 in fiscal 1998). The average price per share of Circuit City Group Stock purchased under the Plan was $41.70 in fiscal 2000, $21.69 in fiscal 1999 and $18.39 in fiscal 1998. The average price per share of CarMax Group Stock purchased under the Plan was $3.68 in fiscal 2000, $7.56 in fiscal 1999 and $12.73 in fiscal 1998. The Company match or purchase price discount charged to operations totaled $2,903,800 in fiscal 2000, $2,984,500 in fiscal 1999 and $2,670,400 in fiscal 1998.

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

A summary of the status of the Company's stock options and changes during the years ended February 29, 2000, and February 28, 1999 and 1998, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 29, 2000.

TABLE 1	2000		1999		1998	
(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	8,894	$18.25	9,988	$16.00	9,656	$14.88
Granted	1,564	40.75	1,080	21.17	1,452	17.61
Exercised	(2,864)	12.65	(2,008)	8.77	(966)	7.50
Cancelled	(214)	22.06	(166)	16.80	(154)	14.71
Outstanding at end of year	7,380	$25.07	8,894	$18.25	9,988	$16.00
Options exercisable at end of year	1,258	$13.89	2,966	$12.02	3,508	$ 9.84
CarMax Group:						
Outstanding at beginning of year	4,380	$ 1.77	4,822	$ 1.49	4,769	$ 0.51
Granted	1,132	5.89	205	8.63	413	13.04
Exercised	(2,027)	0.22	(543)	0.22	(273)	0.22
Cancelled	(161)	6.94	(104)	10.54	(87)	6.36
Outstanding at end of year	3,324	$ 3.87	4,380	$ 1.77	4,822	$ 1.49
Options exercisable at end of year	1,203	$ 2.54	1,566	$ 0.96	762	$ 0.37

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	1,723	3.9	$13.51	883	$12.33
15.18 to 18.00	1,176	4.0	17.31	288	16.74
18.43 to 25.28	958	4.7	21.12	87	20.43
29.50	2,000	2.1	29.50	–	–
34.63 to 47.53	1,523	6.0	40.81	–	–
Total	7,380	4.0	$25.07	1,258	$13.89
CarMax Group:					
$ 0.22	1,638	2.0	$ 0.22	934	$ 0.22
3.90 to 6.06	1,098	5.3	5.89	19	4.25
6.25 to 16.31	588	4.0	10.29	250	11.07
Total	3,324	3.4	$ 3.87	1,203	$ 2.54

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the Circuit City Group's net earnings and net earnings per share and the CarMax Group's net earnings (loss) and net earnings (loss) per share would have been changed to the pro forma amounts indicated in the chart that follows. 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 2000 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 29 or 28 2000	1999	1998
Circuit City Group:			
Earnings from continuing operations:			
As reported	$327,574	$216,927	$132,710
Pro forma	319,337	211,025	128,035
Net earnings:			
As reported	$197,334	$148,381	$112,074
Pro forma	189,097	142,479	107,399
Earnings per share from continuing operations:			
Basic—as reported	$ 1.63	$ 1.09	$ 0.68
Basic—pro forma	1.59	1.06	0.65
Diluted—as reported	$ 1.60	$ 1.08	$ 0.67
Diluted—pro forma	1.56	1.05	0.65
Net earnings per share:			
Basic—as reported	$ 0.98	$ 0.75	$ 0.57
Basic—pro forma	0.94	0.72	0.55
Diluted—as reported	$ 0.96	$ 0.74	$ 0.57
Diluted—pro forma	0.93	0.71	0.54
CarMax Group:			
Net earnings (loss):			
As reported	$ 256	$ (5,457)	$ (7,763)
Pro forma	75	(5,537)	(7,824)
Net earnings (loss) per share:			
Basic—as reported	$ 0.01	$ (0.24)	$ (0.35)
Basic—pro forma	0.00	(0.24)	(0.36)
Diluted—as reported	$ 0.01	$ (0.24)	$ (0.35)
Diluted—pro forma	0.00	(0.24)	(0.36)

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:

	2000	1999	1998
Circuit City Group:			
Expected dividend yield	0.2%	0.4%	0.4%
Expected stock volatility	38%	33%	33%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	5	5	4
CarMax Group:			
Expected dividend yield	–	–	–
Expected stock volatility	62%	50%	50%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	4	3	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 2000, $8 in fiscal 1999 and $7 in fiscal 1998; and for the CarMax Group, $3 in fiscal 2000, $3 in fiscal 1999 and $6 in fiscal 1998.

8. NET EARNINGS (LOSS) PER SHARE

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

(Amounts in thousands except per share data)	Years Ended February 29 or 28 2000	1999	1998
Circuit City Group:			
Weighted average common shares	201,345	198,304	196,054
Dilutive potential common shares:			
Options	2,145	1,700	1,684
Restricted stock	831	808	670
Weighted average common shares and dilutive potential common shares	204,321	200,812	198,408
Earnings from continuing operations available to common shareholders	$327,574	$216,927	$132,710
Basic earnings per share from continuing operations	$ 1.63	$ 1.09	$ 0.68
Diluted earnings per share from continuing operations	$ 1.60	$ 1.08	$ 0.67
CarMax Group:			
Weighted average common shares	23,778	22,604	22,001
Dilutive potential common shares:			
Options	1,814	–	–
Restricted stock	196	–	–
Weighted average common shares and dilutive potential common shares	25,788	22,604	22,001
Net earnings (loss) available to common shareholders	$ 256	$ (5,457)	$ (7,763)
Basic net earnings (loss) per share	$ 0.01	$ (0.24)	$ (0.35)
Diluted net earnings (loss) per share	$ 0.01	$ (0.24)	$ (0.35)

Certain options were not included in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 2,900 shares of Circuit City Group Stock ranging from $43.03 to $47.53 per share were outstanding and not included in the calculation at the end of fiscal 2000; 2,000,000 shares at $29.50 per share at the end of fiscal 1999; and 3,020,000 shares ranging from $17.74 to $29.50 per share at the end of fiscal 1998. Options to purchase 1,685,400 shares of CarMax Group Stock ranging from $3.90 to $16.31 per share were outstanding and not included in the calculation at the end of fiscal 2000. Prior to fiscal 2000, dilutive potential common shares of CarMax Group Stock were not included in the calculation of diluted net loss per share because the Group had a net loss for those periods.

9. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 160,000 shares of Circuit City Group Stock at February 29, 2000, and February 28, 1999. Contributions required were $12,123,000 in fiscal 2000, $10,306,000 in fiscal 1999 and $11,642,000 in fiscal 1998. The following tables set forth the Plan's financial status and amounts recognized in the consolidated balance sheets as of February 29 or 28:

(Amounts in thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$112,566	$89,124
Service cost	14,678	11,004
Interest cost	7,557	6,202
Actuarial (gain) loss	(16,870)	9,526
Benefits paid	(4,151)	(3,290)
Benefit obligation at end of year	$113,780	$112,566
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 95,678	$ 84,251
Actual return on plan assets	13,827	4,411
Employer contributions	12,123	10,306
Benefits paid	(4,151)	(3,290)
Fair value of plan assets at end of year	$117,477	$ 95,678
Reconciliation of funded status:		
Funded status	$ 3,697	$ (16,888)
Unrecognized actuarial (gain) loss	(11,986)	9,720
Unrecognized transition asset	(404)	(606)
Unrecognized prior service benefit	(427)	(560)
Net amount recognized	$ (9,120)	$ (8,334)

The components of net pension expense are as follows:

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Service cost	$14,678	$11,004	$ 8,584
Interest cost	7,557	6,202	5,260
Expected return on plan assets	(9,078)	(7,794)	(5,133)
Amortization of prior service cost	(202)	(105)	(105)
Amortization of transitional asset	(134)	(202)	(202)
Recognized actuarial loss	87	–	17
Net pension expense	$12,908	$ 9,105	$ 8,421

Assumptions used in the accounting for the pension plan were:

	Years Ended February 29 or 28		
	2000	1999	1998
Weighted average discount rate	8.0%	6.8%	7.0%
Rate of increase in compensation levels	6.0%	5.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

10. LEASE COMMITMENTS

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

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Minimum rentals	$322,598	$296,706	$248,383
Rentals based on sales volume	1,327	1,247	730
Sublease income	(16,425)	(14,857)	(12,879)
Net	$307,500	$283,096	$236,234

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

The initial term of most real property leases will expire within the next 22 years; however, most of the leases have options providing for additional lease terms of five years to 25 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the Company, as of February 29, 2000, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
2001	$ 1,681	$ 313,535	$(13,042)
2002	1,725	309,516	(11,791)
2003	1,726	305,503	(10,801)
2004	1,768	303,380	(9,238)
2005	1,798	301,155	(8,664)
After 2005	14,666	3,303,866	(44,935)
Total minimum lease payments	$23,364	$4,836,955	$(98,471)
Less amounts representing interest	10,948		
Present value of net minimum capital lease payments [NOTE 5]	$12,416		

In fiscal 2000, the Company entered into sale-leaseback transactions with unrelated parties at an aggregate selling price of $36,795,000 ($235,500,000 in fiscal 1999 and $218,768,000 in fiscal 1998). The Company does not have continuing involvement under the 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 $438,781,000 (3.5 percent of net sales and operating revenues) in fiscal 2000, $426,359,000 (3.9 percent of net sales and operating revenues) in fiscal 1999 and $399,619,000 (4.5 percent of net sales and operating revenues) in fiscal 1998.

12. SECURITIZATIONS

(A) CREDIT CARD SECURITIZATIONS: The Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by its wholly owned finance operation. The reduction in the aggregate securitized amount was $63.8 million for fiscal 2000, and proceeds from securitization transactions were $224.6 million for fiscal 1999 and $331.4 million for fiscal 1998.

Receivables relating to the securitization facilities consist of the following at February 29 or 28:

(Amounts in thousands)	2000	1999
Managed receivables	$2,844,377	$2,957,132
Receivables/residual interests held by the Company:		
For sale	(18,288)	(39,948)
For investment	(144,806)	(161,996)
Net receivables sold	$2,681,283	$2,755,188
Net receivables sold with recourse	$ 229,000	$ 322,000
Program capacity	$3,598,350	$3,127,000

Private-label credit card receivables are financed through securitization programs employing a master trust structure. As of February 29, 2000, these securitization programs had a capacity of $1.85 billion. The agreement has no recourse provisions.

During fiscal 1998, a bank card master trust securitization facility was established and issued two series from the trust. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on $229 million of the receivables sold. The finance charges from the transferred receivables are used to fund interest costs, charge-offs, servicing fees and other related costs. The Company believes that as of February 29, 2000, no liability existed under these recourse provisions. The bank card securitization program has a total program capacity of $1.75 billion.

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $37.3 million at February 29, 2000, $27.3 million at February 28, 1999, and $25.0 million at February 28, 1998, and are included in net accounts receivable. Changes in these retained interests consisted of originated retained interests of $52.9 million for fiscal 2000, $37.3 million for fiscal 1999 and $33.3 million for fiscal 1998, less amortization of $42.9 million in fiscal 2000, $35.0 million in fiscal 1999 and $11.5 million in fiscal 1998. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded. The finance operation's servicing revenue totaled $213.1 million for fiscal 2000, $210.4 million for fiscal 1999 and $195.7 million for fiscal 1998.

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

The APRs of the private-label card programs, excluding promotional balances, range from 22 percent to 24 percent, with default rates varying based on portfolio composition, but generally aggregating from 4 percent to 6 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 11 percent to 13 percent.

The bank card APRs are based on the prime rate and generally range from 10 percent to 23 percent, with default rates varying by portfolio composition, but generally aggregating from 8 percent to 12 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 7 percent to 9 percent.

Interest cost paid by the master trusts varies between series and, at February 29, 2000, ranged from 6.2 percent to 6.7 percent.

(B) AUTOMOBILE LOAN SECURITIZATION: In fiscal 1996, the Company entered into a securitization agreement to finance the consumer installment credit receivables generated by its wholly owned automobile loan finance operation. A restructuring of the facility during fiscal 1997 resulted in the recourse provisions being eliminated. Proceeds from the automobile loan securitization transaction were $348 million during fiscal 2000, $271 million during fiscal 1999 and $123 million during fiscal 1998. This auto loan securitization program has a total program capacity of $500 million.

In October 1999, the Company formed a second securitization facility that allowed for a $644 million securitization of auto loan receivables in the public market. The program had a capacity of $559 million as of February 29, 2000, with no recourse provisions.

Receivables relating to the securitization facilities consist of the following at February 29 or 28:

(Amounts in thousands)	2000	1999
Managed receivables	$ 931,745	$589,032
Receivables held by the Company:		
For sale	(23,477)	(14,690)
For investment*	(21,096)	(35,342)
Net receivables sold	$ 887,172	$539,000
Program capacity	$1,059,500	$575,000

**Held by a bankruptcy remote special purpose company*

The finance charges from the transferred receivables are used to fund interest costs, charge-offs and servicing fees. Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $15.5 million at February 29, 2000, $14.7 million at February 28, 1999, and $6.8 million at February 28, 1998, and are included in net accounts receivable. Changes in these retained interests consisted of originated retained interests of $17.5 million in fiscal 2000, $16.6 million in fiscal 1999 and $7.3 million in fiscal 1998, less amortization of $16.7 million in fiscal 2000, $8.7 million in fiscal 1999 and $3.6 million in fiscal 1998. The finance operation's servicing revenue totaled $36.9 million for fiscal 2000, $28.2 million for fiscal 1999 and $11.2 million for fiscal 1998. The servicing fee specified in the auto loan securitization agreements adequately compensates the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

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

The APRs range from 6 percent to 18 percent fixed, with default rates varying based on credit quality, but generally aggregating 0.75 percent to 1.25 percent. The weighted average life of the receivables is expected to be in the 18 month to 20 month range. Interest cost depends on the time at which accounts were originated, but is in the range of 6.4 percent to 6.6 percent at February 29, 2000.

13. INTEREST RATE SWAPS

In October 1994, the Company entered into five-year interest rate swap agreements with notional amounts totaling $300 million relating to a public issuance of securities by the master trust. As part of this issuance, $344 million of five-year, fixed-rate certificates were issued to fund consumer credit receivables. The credit card finance operation is servicer for the accounts, and as such, receives its monthly cash portfolio yield after deducting interest, charge-offs and other related costs. The underlying receivables are based on a floating rate. The swaps were put in place to better match funding costs to the receivables being securitized. As a result, the master trust pays fixed-rate interest, and the Company utilizes the swaps to convert the fixed-rate obligation to a floating-rate, LIBOR-based obligation. These swaps were entered into as part of the sales of receivables and are included in the gain on sales of receivables. In November 1999, these swaps terminated as the related securities in the master trust matured.

Concurrent with the funding of the $175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating $175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 29, 2000, would result in a loss of $90,000, and at February 28, 1999, would result in a loss of $2.2 million.

The Company enters into amortizing swaps relating to the auto loan receivable securitization to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. In November 1995, the Company entered into a 50-month amortizing swap with a notional amount of $75 million and, in October 1996, entered into a 40-month amortizing swap with a notional amount of $64 million. The Company entered into four 40-month amortizing swaps with notional amounts totaling approximately $162 million during fiscal 1998, four 40-month amortizing swaps with notional amounts totaling approximately $387 million in fiscal 1999, and four 40-month amortizing swaps with notional amounts totaling approximately $344 million in fiscal 2000. These swaps were entered into as part of sales of receivables and are included in the gain on sales of receivables. The remaining total notional amount of all swaps related to the auto loan receivable securitization was approximately $327 million at February 29, 2000, $499 million at February 28, 1999, and $224 million at February 28, 1998. The reduction in the total notional amount of the CarMax interest rate swaps relates to the replacement of floating rate securitizations with a $644 million fixed-rate securitization in October 1999.

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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. DISCONTINUED OPERATIONS

On June 16, 1999, Digital Video Express announced that it would cease marketing 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 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. The consolidated balance sheets, however, include Divx.

The loss from the discontinued Divx operations totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000, $68.5 million after an income tax benefit of $42.0 million in fiscal 1999 and $20.6 million after an income tax benefit of $12.6 million in fiscal 1998. 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. At February 29, 2000, the provision for operating losses during the phase-out period increased to $6.2 million from the original estimate of $3.0 million because of higher than expected operating costs during the early stages of discontinuing the business. This increase was offset by reductions in the provisions for non-operating costs.

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

(Amounts in thousands)	2000	1999
Current assets	$ 612	$ 25,630
Property and equipment, net	513	23,589
Other assets	–	7,895
Current liabilities	(32,650)	(23,126)
Other liabilities	(35,291)	(3,397)
Net (liabilities) assets of discontinued operations	$(66,816)	$ 30,591

16. OPERATING SEGMENT INFORMATION

The Company conducts business in two operating segments: the Circuit City Group and the CarMax Group. These segments are identified and managed by the Company based on the different products and services offered by each. The Circuit City Group refers to the retail operations bearing the Circuit City name and to all related operations, such as its finance operation. This segment is engaged in the business of selling brand-name consumer electronics, personal computers, major appliances and entertainment software. The CarMax Group refers to the used- and new-car retail locations bearing the CarMax name and to all related operations, such as its finance operation. Divx is no longer included as an operating segment because it was discontinued on June 16, 1999. Prior year financial information has been adjusted to reflect this change. Financial information for these segments for fiscal 2000, 1999 and 1998 are shown in Table 3.

TABLE 3

2000 *(Amounts in thousands)*	Circuit City Group	CarMax Group	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
Income tax provision	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 Group	CarMax Group	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

TABLE 3 (continued)

1998 (Amounts in thousands)	Circuit City Group	CarMax Group	Total Segments
Revenues from external customers	$ 7,996,591	$ 874,206	$ 8,870,797
Interest expense	25,072	1,789	26,861
Depreciation and amortization	110,283	4,577	114,860
Earnings (loss) from continuing operations before income taxes	257,632	(56,104)	201,528
Income tax provision (benefit)	98,462	(21,881)	76,581
Earnings (loss) from continuing operations	159,170	(34,223)	124,947
Total assets	$ 2,752,402	$ 448,322	$ 3,200,724

Earnings from continuing operations and total assets for the Circuit City Group exclude: (1) the Inter-Group Interest in the CarMax Group and (2) the discontinued Divx operations as discussed in Note 15.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
except per share data)	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Net sales and operating revenues	$2,690,982	$2,271,061	$2,958,394	$2,517,827	$2,984,607	$2,618,198	$3,980,407	$3,403,382	$12,614,390	$10,810,468
Gross profit	$ 602,727	$ 504,908	$ 668,283	$ 572,824	$ 670,910	$ 593,148	$ 920,637	$ 785,358	$ 2,862,557	$ 2,456,238
Net earnings (loss) attributed to:										
Circuit City Group Stock:										
Continuing operations	$ 41,398	$ 21,339	$ 73,692	$ 43,773	$ 52,335	$ 32,710	$ 160,149	$ 119,105	$ 327,574	$ 216,927
Discontinued operations	$ (130,240)	$ (8,070)	$ –	$ (11,626)	$ –	$ (16,765)	$ –	$ (32,085)	$ (130,240)	$ (68,546)
CarMax Group Stock	$ 646	$ (736)	$ 775	$ (685)	$ (757)	$ (1,701)	$ (408)	$ (2,335)	$ 256	$ (5,457)
Net earnings (loss) per share:										
Circuit City Group Stock:										
Basic:										
Continuing operations	$ 0.21	$ 0.11	$ 0.37	$ 0.22	$ 0.26	$ 0.16	$ 0.79	$ 0.60	$ 1.63	$ 1.09
Discontinued operations	$ (0.65)	$ (0.04)	$ –	$ (0.06)	$ –	$ (0.08)	$ –	$ (0.16)	$ (0.65)	$ (0.34)
Net (loss) earnings	$ (0.44)	$ 0.07	$ 0.37	$ 0.16	$ 0.26	$ 0.08	$ 0.79	$ 0.44	$ 0.98	$ 0.75
Diluted:										
Continuing operations	$ 0.20	$ 0.11	$ 0.36	$ 0.22	$ 0.26	$ 0.16	$ 0.78	$ 0.59	$ 1.60	$ 1.08
Discontinued operations	$ (0.64)	$ (0.04)	$ –	$ (0.06)	$ –	$ (0.08)	$ –	$ (0.16)	$ (0.64)	$ (0.34)
Net (loss) earnings	$ (0.44)	$ 0.07	$ 0.36	$ 0.16	$ 0.26	$ 0.08	$ 0.78	$ 0.43	$ 0.96	$ 0.74
CarMax Group Stock										
Basic	$ 0.03	$ (0.03)	$ 0.03	$ (0.03)	$ (0.03)	$ (0.07)	$ (0.02)	$ (0.10)	$ 0.01	$ (0.24)
Diluted	$ 0.03	$ (0.03)	$ 0.03	$ (0.03)	$ (0.03)	$ (0.07)	$ (0.02)	$ (0.10)	$ 0.01	$ (0.24)

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 29, 2000 and February 28, 1999 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 29, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Circuit City Stores, Inc. and subsidiaries as of February 29, 2000 and February 28, 1999 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 29, 2000 in conformity with generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
April 4, 2000

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 stores 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." Over 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 Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, the net earnings or losses attributed to the Inter-Group Interest are not included in the CarMax Group's per share calculations.

The following discussion and analysis relates to the Circuit City Group. The Circuit City Group held a 74.7 percent interest in the CarMax Group at February 29, 2000, a 76.6 percent interest at February 28, 1999, and a 77.3 percent interest at February 28, 1998. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for Circuit City Stores, Inc. and for the CarMax Group.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the Circuit City Group increased 13 percent in fiscal 2000 to $10.60 billion. In fiscal 1999, total sales were $9.34 billion, a 17 percent increase from $8.00 billion in fiscal 1998. The fiscal 2000 total sales increase reflects an 8 percent increase in comparable store sales and the net addition of 34 Circuit City Superstores into new and existing Circuit City markets.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

	Circuit City Group		
Fiscal	Total	Comparable	Industry*
2000	13%	8 %	6 %
1999	17%	8 %	5 %
1998	12%	(1)%	(3)%
1997	6%	(8)%	(8)%
1996	23%	5 %	6 %

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

PERCENTAGE SALES CHANGE FROM PRIOR YEAR. During the past five years, industry growth, the addition of new product categories and geographic expansion of the Group's Superstore base have made varying contributions to total sales growth. Early in the period, geographic expansion and the addition of product categories such as personal computers were the primary contributors to growth. In fiscal 1996, a 25 percent increase in Superstore square footage, which included entry into 19 markets, was a significant contributor to the Group's total sales growth. In that same year, home office products rose to 26 percent of sales from 20 percent in the prior year. From mid fiscal 1996 through fiscal 1998, a lack of significant consumer electronics product introductions resulted in weak industry sales. The industry began to emerge from this period of declining sales in fiscal 1999, and that trend continued in fiscal 2000. Management believes that this period of industry growth, driven by digital product technology, can last throughout the decade and will be the primary contributor to total sales growth in the foreseeable future.

PERCENT MERCHANDISE SALES BY CATEGORY

Fiscal	2000	1999	1998	1997	1996
TV	18%	18%	18%	18%	17%
VCR/Camcorders	13%	13%	13%	14%	13%
Audio	15%	16%	17%	18%	19%
Home Office	29%	27%	25%	24%	26%
Appliance	14%	15%	15%	15%	14%
Other	11%	11%	12%	11%	11%
Total	100%	100%	100%	100%	100%

MERCHANDISE SALES BY CATEGORY. Fiscal 2000 sales reflected strong consumer demand across all major product categories. Home office was the strongest category, reflecting continued increases in household penetration of personal computers, increased consumer use of the Internet and new capabilities such as digital imaging and digital audio recording. In the consumer electronics categories, the Group saw significant demand for better-featured products and new technologies, including DVD players, DIRECTV, digital camcorders, wireless communications and big-screen televisions.

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, the Company has no contractual liability to the customer. In states where third-party warranty sales are not permitted, the Group sells a Circuit City extended warranty for which the Company is the primary obligor. Gross dollar sales from all extended warranty programs were 5.4 percent of the Group's total sales in fiscal 2000 and fiscal 1999, compared with 5.5 percent in fiscal 1998. Total extended warranty revenue, which is reported in the Group's total sales, was 4.4 percent of sales in fiscal 2000 and 4.6 percent of sales in fiscal years 1999 and 1998. The gross profit margins on products sold with extended warranties are higher than the gross profit margins on products sold without extended warranties. Third-party extended warranty revenue was 4.1 percent of the Group's total sales in fiscal 2000 and fiscal 1999 and 3.6 percent of the Group's total sales in fiscal 1998. The increase in third-party extended warranty revenue reflects the conversion of stores in 13 states to third-party warranty sales since early fiscal 1998.

SUPERSTORE SALES PER TOTAL SQUARE FOOT

Fiscal	
2000	$555
1999	$514
1998	$478
1997	$499
1996	$577

SUPERSTORE SALES PER TOTAL SQUARE FOOT. The fiscal 2000 sales per square foot increase reflects the comparable store sales increase and management's commitment to maximizing sales in existing stores. The decline in Superstore sales per total square foot from fiscal 1996 through fiscal 1998 reflects the impact of the larger-format "D" stores, which generate lower sales per square foot than smaller stores, declines in comparable store sales and declines in industry sales.

STORE MIX

	Retail Units at Year-End				
Fiscal	2000	1999	1998	1997	1996
Superstore					
"D" Superstore	118	118	114	95	61
"C" Superstore	295	294	289	278	259
"B" Superstore	102	82	72	54	46
"A" Superstore	56	43	25	16	12
Electronics-Only	–	2	4	5	5
Circuit City Express	45	48	52	45	36
Total	616	587	556	493	419

STORE MIX. In fiscal 2000, the Group opened 38 Superstores. The openings include 32 Superstores in new and existing markets, the relocation of four existing Superstores and the replacement of the two remaining consumer electronics-only stores.

The Group classifies its Circuit City Superstores into four categories based on square footage. At the end of fiscal 2000, selling space for the "D"-format stores averaged about 23,000 square feet and total square footage for all "D" stores averaged 43,043. The "C" format constituted the largest percentage of the store base. At the end of fiscal 2000, selling space in the "C"-format stores averaged about 15,000 square feet, with total square footage for all "C" stores averaging 34,006; selling space in the "B" stores averaged approximately 13,000 square feet, with an average total square footage of 27,078; and selling space for all "A" stores averaged approximately 9,000 square feet with total square footage averaging 19,098.

The Group also operates 45 mall-based Circuit City Express stores. These stores are located in regional malls and are approximately 2,000 to 3,000 square feet in size.

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

Cost of Sales, Buying and Warehousing

The gross profit margin was 24.7 percent of sales in fiscal 2000, 24.4 percent of sales in fiscal 1999 and 24.6 percent of sales in fiscal 1998. The improvement in the gross margin primarily reflected the higher percentage of sales from better-featured products and newer technologies, which carry higher gross margins. The margin impact of these sales was partly offset by the strength in personal computer sales, which carry lower gross margins. Continued improvements in inventory management also contributed to the gross margin increase.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 19.6 percent of sales in fiscal 2000 compared with 20.1 percent of sales in fiscal 1999 and 21.1 percent of sales in fiscal 1998. The improved expense ratio in both years primarily reflects the leverage gained from the comparable store sales increase. Operating profits generated by the Group's finance operation are recorded as a reduction to selling, general and administrative expenses.

Interest Expense

Interest expense was 0.1 percent of sales in fiscal 2000, 0.2 percent of sales in fiscal 1999 and 0.3 percent of sales in fiscal 1998. Interest expense was incurred on allocated debt used to fund store expansion and working capital.

Income Taxes

The Group's effective income tax rate was 38.0 percent in fiscal year 2000, 38.1 percent in fiscal year 1999 and 38.3 percent in fiscal 1998. The shifts in the tax rates reflect variations in state tax rates and the percentage of sales produced in each state.

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

Earnings from continuing operations before the Inter-Group Interest in the CarMax Group increased 39 percent to $326.7 million, or $1.60 per share, in fiscal 2000. In fiscal 1999, earnings from continuing operations before the Inter-Group Interest in the CarMax Group increased 48 percent to $235.0 million, or 1.17 per share, from $159.2 million, or 80 cents per share, in fiscal 1998.

Net Earnings (Loss) Related to the 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 $862,000 in fiscal 2000, compared with a net loss of $18.1 million in fiscal 1999 and a net loss of $26.5 million in fiscal 1998.

Earnings from Continuing Operations

Earnings from continuing operations for the Circuit City Group were $327.6 million, or $1.60 per share, in fiscal 2000, $216.9 million, or $1.08 per share, in fiscal 1999 and $132.7 million, or 67 cents per share, in fiscal 1998. The 51 percent earnings increase in fiscal 2000 reflects the strength in the Company's Circuit City business and the profit produced by the CarMax Group. The 63 percent increase in fiscal 1999 reflects the renewed strength of the Circuit City business, partly offset by the losses at CarMax.

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.

For fiscal 2000, the loss from the discontinued operations of Divx totaled $16.2 million after an income tax benefit of $9.9 million. The loss from the discontinued operations of Divx totaled $68.5 million after an income tax benefit of $42.0 million in fiscal 1999 and $20.6 million after an income tax benefit of $12.6 million in fiscal 1998.

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 Circuit City Group rose 33 percent to $197.3 million, or 96 cents per share, in fiscal 2000. Net earnings for the Circuit City Group increased 32 percent to $148.4 million, or 74 cents per share, in fiscal 1999, from $112.1 million, or 57 cents per share, in fiscal 1998.

Operations Outlook
Management expects that industry growth, primarily driven by the introduction of better-featured products and new technologies, will be the primary contributor to sales and earnings growth for the Circuit City business during the coming decade. Management anticipates that growth in the household penetration of products and services such as digital television, direct broadcast satellite systems, wireless communications, digital camcorders, DVD players, multi-function set-top boxes and broadband Internet access will contribute significantly to overall sales and earnings growth.

During fiscal 2000, the Group undertook several significant merchandising initiatives. Consistent with past practice, the Group added displays for new products, which in fiscal 2000 included digital televisions, digital imaging and high-speed broadband Internet access. The Group also announced two significant vendor initiatives. Circuit City entered into a strategic alliance with America Online, Inc. to provide in-store promotion of AOL products and services and to increase Circuit City's presence on the Internet by featuring Circuit City as an anchor tenant on key Shop@ online destinations across several America Online, Inc. brands. Circuit City and Sony Electronics Inc. also announced plans to co-promote Memory Stick media and hardware. In virtually all of the Circuit City Superstores opened since the fall, the Group significantly expanded the number of self-service products. In July, the Group launched its electronic Superstore, circuitcity.com, and it has continued to develop the site. The Group's e-commerce business is tightly integrated with its brick-and-mortar locations, allowing for product pickup, returns and exchanges at the store.

In fiscal 2001, the Group will build on the initiatives begun in fiscal 2000. The planned 25 new Superstores and all 571 existing Superstores will feature new displays designed to highlight the latest advances in technology. These displays will include AOL Internet Centers; a Sony Memory Stick Interactive Universe; significantly expanded displays highlighting digital audio recording technology; redesigned wireless phone displays; more prominent digital video displays; and additional digital television displays and assortment. A full selection of video game hardware and software will be added to all new stores and to a significant percentage of existing stores. These enhancements will help ensure that Circuit City is in the best position to capture the sales opportunity presented by the digital cycle.

The Group also will remodel 30 to 35 stores in the Richmond, Va., and the Miami, West Palm Beach, Tampa, Fort Myers and Orlando, Fla., markets. These remodeled Superstores will allow management to test a concept dedicated to consumer electronics and home office products. These stores will feature the technology displays discussed above; expanded assortments of entertainment and computer software, peripherals and accessories; and additional self-service areas. Superstores opened after the first fiscal quarter also will be dedicated to consumer electronics and home office products. In the remodel markets, Circuit City will test approximately six stand-alone major appliance stores to create better selling space for the new technologies in the appliance business and to increase consumer awareness of Circuit City's appliance offering.

Circuit City has established its presence in virtually all of the nation's top 100 markets and will continue adding to the existing store base as attractive market opportunities arise. Management believes that the Group has the opportunity to operate approximately 800 Superstores within the United States. In fiscal 2001, the Group will continue to expand its Superstore concept into new trade areas, adding approximately 25 stores that are either new-market entries or fill-in locations in existing Circuit City markets.

Management anticipates that the industry's growth, geographic expansion, Superstore remodeling and continued strong operating controls will enable the Circuit City business to generate earnings growth of 20 percent to 25 percent in fiscal 2001. Management believes that continued emphasis on revenue growth and operating margin enhancements at CarMax will deliver solid profitability in fiscal 2001. The Circuit City Group's Inter-Group Interest in CarMax will partly reflect the CarMax results.

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 2000, net cash provided by operating activities of continuing operations was $618.6 million compared with $391.5 million in fiscal 1999 and $314.3 million in fiscal 1998. The fiscal 2000 increase reflects a 51 percent increase in earnings from continuing operations for the Circuit City Group and an increase in accounts payable, partly offset by an increase in inventory. The fiscal 1999 increase primarily reflects a decrease in net accounts receivable and improvements in net earnings for the Circuit City business.

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

In addition to the allocation of cash and debt, interest-bearing loans, with terms determined by the board of directors, are used to manage cash between the Groups. These loans are reflected as inter-group payables or receivables on the financial statements of each Group. During fiscal 1998, an inter-group note was issued by the Circuit City Group on behalf of the CarMax Group as a temporary financing vehicle for CarMax inventory. At the end of fiscal 2000 and fiscal 1999, the Circuit City Group maintained no inter-group notes, payables or receivables with the CarMax Group.

During fiscal 2000, a term loan totaling $175 million and due in May 2000 was classified as a current liability. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital. Payment of corporate debt will not necessarily reduce Circuit City Group allocated debt.

The Circuit City Group's capital expenditures were $176.9 million in fiscal 2000, $214.1 million in fiscal 1999 and $341.6 million in fiscal 1998. Circuit City's capital expenditures through fiscal 2000 primarily were related to Superstore expansion. 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 2001, the Group anticipates capital expenditures of approximately $245 million, primarily related to construction of new Superstores and the remodeling of 30 to 35 existing Superstores. Sale-leaseback and landlord reimbursement transactions totaled $74.8 million in fiscal 2000, $134.3 million in fiscal 1999 and $199.0 million in fiscal 1998.

The Group's finance operation primarily funds its credit card programs through securitization transactions that allow the operation to sell its receivables while retaining a small interest in them. The finance operation has a master trust securitization facility for its private-label credit card that allows the transfer of up to $1.85 billion in receivables through both private placement and the public market. A second master trust securitization program allows for the transfer of up to $1.75 billion in receivables related to the operation's bank card programs. Securitized receivables totaled $2.79 billion at February 29, 2000. Under the securitization programs, receivables are sold to an unaffiliated third party with the servicing rights retained. Management expects that both securitization programs can be expanded to accommodate future receivables growth.

At the end of fiscal 2000, the Circuit City Group retained a 74.7 percent interest in the equity of the CarMax Group. As of February 29, 2000, the Circuit City Group's equity in the CarMax Group was $257.5 million.

Management believes that proceeds from sales of property and equipment and receivables, future increases in Circuit City Stores, Inc. debt allocated to the Circuit City Group 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 bank card revolving loan portfolios of the Group's finance operation. Portions of these portfolios are securitized and, therefore, are not presented on the Group's balance 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.

Interest rates charged on the accounts in the managed private-label and bank card 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 29, 2000, and February 28, 1999, had the following APR structure:

(Amounts in millions)	2000	1999
Indexed to prime rate	$2,631	$2,714
Fixed APR	213	243
Total	$2,844	$2,957

Financing for the securitization programs is achieved primarily through the issuance of public market debt, which is issued either at floating rates based on LIBOR or at fixed rates. Certain of the fixed-rate issuances have been swapped to LIBOR. Receivables held by the Company for investment or sale are financed with working capital. At February 29, 2000, and February 28, 1999, financings were as follows:

(Amounts in millions)	2000	1999
Floating-rate (including synthetic alteration) securitizations	$2,544	$2,568
Fixed-rate securitizations	137	187
Held by the Company:		
For investment	145	162
For sale	18	40
Total	$2,844	$2,957

The Company has analyzed its interest rate exposure and has concluded that it did not represent a material market risk at February 29, 2000, or February 28, 1999. Because programs are in place to manage interest rate exposure relating to the consumer loan portfolios, the Company expects to experience relatively little impact if 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.

YEAR 2000 CONVERSION

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

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management's expectations for fiscal year 2001 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.

(Amounts in thousands except per share data)	Years Ended February 29 or 28 2000	%	1999	%	1998	%
NET SALES AND OPERATING REVENUES	**$10,599,406**	100.0	$9,344,170	100.0	$7,996,591	100.0
Cost of sales, buying and warehousing	**7,977,214**	75.3	7,060,198	75.6	6,026,434	75.4
GROSS PROFIT	**2,622,192**	24.7	2,283,972	24.4	1,970,157	24.6
Selling, general and administrative expenses [NOTES 3 AND 11]	**2,081,393**	19.6	1,882,416	20.1	1,687,453	21.1
Interest expense [NOTES 3 AND 5]	**13,844**	0.1	21,926	0.2	25,072	0.3
TOTAL EXPENSES	**2,095,237**	19.7	1,904,342	20.3	1,712,525	21.4
Earnings from continuing operations before income taxes and Inter-Group Interest in the CarMax Group	**526,955**	5.0	379,630	4.1	257,632	3.2
Provision for income taxes [NOTES 3 AND 6]	**200,243**	1.9	144,646	1.6	98,462	1.2
EARNINGS FROM CONTINUING OPERATIONS BEFORE INTER-GROUP INTEREST IN THE CARMAX GROUP	**326,712**	3.1	234,984	2.5	159,170	2.0
Net earnings (loss) related to Inter-Group Interest in the CarMax Group [NOTES 1 AND 2]	**862**	0.0	(18,057)	(0.2)	(26,460)	(0.3)
EARNINGS FROM CONTINUING OPERATIONS	**327,574**	3.1	216,927	2.3	132,710	1.7
Discontinued operations [NOTE 15]:						
Loss from discontinued operations of Divx, less income tax benefit	**(16,215)**	(0.1)	(68,546)	(0.7)	(20,636)	(0.3)
Loss on disposal of Divx, including provision for losses during phase-out period, less income tax benefit	**(114,025)**	(1.1)	–	–	–	–
Loss from discontinued operations	**(130,240)**	(1.2)	(68,546)	(0.7)	(20,636)	(0.3)
NET EARNINGS	**$ 197,334**	1.9	$ 148,381	1.6	$ 112,074	1.4
Weighted average common shares [NOTES 2 AND 8]:						
Basic	**201,345**		198,304		196,054	
Diluted	**204,321**		200,812		198,408	
NET EARNINGS (LOSS) PER SHARE [NOTES 2 AND 8]:						
Basic:						
Continuing operations	**$ 1.63**		$ 1.09		$ 0.68	
Discontinued operations	**(0.65)**		(0.34)		(0.11)	
Net earnings	**$ 0.98**		$ 0.75		$ 0.57	
Diluted:						
Continuing operations	**$ 1.60**		$ 1.08		$ 0.67	
Discontinued operations	**(0.64)**		(0.34)		(0.10)	
Net earnings	**$ 0.96**		$ 0.74		$ 0.57	

See accompanying notes to group financial statements.

(Amounts in thousands)	At February 29 or 28 2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 633,952**	$ 248,201
Net accounts receivable [NOTE 12]	**464,023**	476,952
Merchandise inventory	**1,405,617**	1,292,215
Prepaid expenses and other current assets	**13,353**	36,024
TOTAL CURRENT ASSETS	**2,516,945**	2,053,392
Property and equipment, net [NOTES 4 AND 5]	**753,325**	801,827
Inter-Group Interest in the CarMax Group [NOTE 2]	**257,535**	260,758
Other assets	**9,583**	18,849
TOTAL ASSETS	**$3,537,388**	$3,134,826
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTES 5 AND 10]	**$ 85,735**	$ 1,457
Accounts payable	**884,172**	739,895
Short-term debt [NOTE 5]	**1,453**	3,411
Accrued expenses and other current liabilities	**184,705**	135,029
Deferred income taxes [NOTE 6]	**53,971**	2,090
TOTAL CURRENT LIABILITIES	**1,210,036**	881,882
Long-term debt, excluding current installments [NOTES 5 AND 10]	**127,984**	286,865
Deferred revenue and other liabilities	**122,771**	107,070
Deferred income taxes [NOTE 6]	**21,877**	33,536
TOTAL LIABILITIES	**1,482,668**	1,309,353
GROUP EQUITY	**2,054,720**	1,825,473
Commitments and contingent liabilities [NOTES 1, 9, 10, 12, 13, 14 AND 15]		
TOTAL LIABILITIES AND GROUP EQUITY	**$3,537,388**	$3,134,826

See accompanying notes to group financial statements.

(Amounts in thousands)	Years Ended February 29 or 28 2000	1999	1998
OPERATING ACTIVITIES:			
Net earnings	**$ 197,334**	$ 148,381	$ 112,074
Adjustments to reconcile net earnings to net cash provided by operating activities of continuing operations:			
Loss from discontinued operations [NOTE 15]	**16,215**	68,546	20,636
Loss on disposal of discontinued operations [NOTE 15]	**114,025**	–	–
Net (earnings) loss related to Inter-Group Interest in the CarMax Group	**(862)**	18,057	26,460
Depreciation and amortization	**132,923**	119,724	110,283
(Gain) loss on sales of property and equipment	**(418)**	3,087	2,593
Provision for deferred income taxes	**41,828**	5,951	16,919
Decrease in deferred revenue and other liabilities	**(17,799)**	(32,771)	(23,859)
Decrease (increase) in net accounts receivable	**12,967**	60,138	(33,545)
(Increase) decrease in merchandise inventory	**(144,598)**	(16,107)	43,528
Decrease (increase) in prepaid expenses and other current assets	**83,540**	5,543	(8,856)
(Increase) decrease in other assets	**(1,015)**	202	10,296
Increase in accounts payable, accrued expenses and other current liabilities	**184,429**	10,745	37,804
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**618,569**	391,496	314,333
INVESTING ACTIVITIES:			
Purchases of property and equipment	**(176,873)**	(214,085)	(341,608)
Proceeds from sales of property and equipment	**74,811**	134,315	199,028
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	**(102,062)**	(79,770)	(142,580)
FINANCING ACTIVITIES:			
(Decrease) increase in allocated short-term debt, net	**(1,958)**	(2,180)	5,244
Decrease in inter-group payable	**–**	–	(48,147)
Decrease in allocated long-term debt, net	**(74,603)**	(109,885)	(33,573)
Equity issuances, net	**50,205**	42,165	22,311
Dividends paid	**(14,207)**	(13,981)	(13,792)
NET CASH USED IN FINANCING ACTIVITIES OF CONTINUING OPERATIONS	**(40,563)**	(83,881)	(67,957)
CASH USED IN DISCONTINUED OPERATIONS [NOTE 15]	**(90,193)**	(69,844)	(45,818)
Increase in cash and cash equivalents	**385,751**	158,001	57,978
Cash and cash equivalents at beginning of year	**248,201**	90,200	32,222
Cash and cash equivalents at end of year	**$ 633,952**	$ 248,201	$ 90,200

See accompanying notes to group financial statements.

(Amounts in thousands)

BALANCE AT MARCH 1, 1997	$ 1,526,697
Net earnings	112,074
Equity issuances, net	22,311
Cash dividends	(13,792)
Inter-Group Interest adjustment [NOTE 2]	1,042
BALANCE AT FEBRUARY 28, 1998	1,648,332
Net earnings	148,381
Equity issuances, net	42,165
Cash dividends	(13,981)
Inter-Group Interest adjustment [NOTE 2]	576
BALANCE AT FEBRUARY 28, 1999	1,825,473
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**

See accompanying notes to 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 15). The effects of this retained interest on the Circuit City Group's financial statements are identified by the term "Inter-Group." The CarMax Group Common Stock is intended to track the performance of the CarMax operations. The Inter-Group Interest is not considered outstanding CarMax Group Stock. Therefore, any net earnings or loss attributed to the Inter-Group Interest is not included in the CarMax Group's per share calculations. The Circuit City Group held a 74.7 percent interest in the CarMax Group at February 29, 2000, a 76.6 percent interest at February 28, 1999, and a 77.3 percent interest at February 28, 1998.

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

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 Group financial statements reflect this stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CASH AND CASH EQUIVALENTS: Allocated cash equivalents of $581,736,000 at February 29, 2000, and $201,379,000 at February 28, 1999, 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 recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Finance charge income, default rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The present value of the resulting cash flow projections is calculated using a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 29, 2000, and February 28, 1999, cost approximates fair value.

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

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

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

(G) 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. Adoption of SOP 98-5 did not have a material impact on the Group's financial position, annual results of operations or liquidity. 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) 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. Inasmuch as the Company is the primary obligor on these contracts, revenue from the sale of the Circuit City Group's own extended warranty contracts is deferred and amortized on a straight-line basis over the life of the contracts. Incremental direct costs related to the sale of contracts are deferred and charged to expense in proportion to the revenue recognized. Commission revenue for the unrelated third-party extended warranty plans is recognized at the time of sale, since the third parties are the primary obligors under these contracts.

(J) INTER-GROUP INTEREST: The Circuit City Group held a 74.7 percent Inter-Group Interest in the CarMax Group at February 29, 2000, a 76.6 percent Inter-Group Interest at February 28, 1999, and a 77.3 percent Inter-Group Interest at February 28, 1998. For purposes of these group financial statements, the Circuit City Group accounts for the Inter-Group Interest in a manner similar to the equity method of accounting. Accordingly, the Circuit City Group's Inter-Group Interest in the Company's equity value that is attributed to the CarMax Group is reflected as "Inter-Group Interest in the CarMax Group" on the Circuit City Group balance sheets. Similarly, the net 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 Stock, an amount that is proportionate to the aggregate amount paid in respect to shares of CarMax Group 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.

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

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

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

(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. Interest rate swaps relating to long-term debt are classified as held for purposes other than trading and are accounted for on a settlement basis. To qualify for this accounting treatment, the swap must synthetically alter the nature of a designated underlying financial instrument. Under this method, payments or receipts due or owed under the swap agreement are accrued through each settlement date and recorded as a component of interest expense. If a swap designated as a synthetic alteration were to be terminated, any gain or loss on the termination would be deferred and recognized over the shorter of the original contractual life of the swap or the related life of the designated long-term debt.

The Company also enters into interest rate swap agreements as part of its asset securitization programs. Swaps entered into by a seller as part of a sale of financial assets are considered proceeds at fair value in the determination of the gain or loss on the sale. If such a swap were 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 Circuit City Group is a leading national retailer of brand-name consumer electronics, personal computers, major appliances and entertainment software. The diversity of the Circuit City Group's products, customers, suppliers and geographic operations significantly reduces the risk that a severe impact will occur in the near term as a result of changes in its customer base, competition, sources of supply or markets. It is unlikely that any one event would have a severe impact on the 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 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(Q) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 2000.

3. CORPORATE ACTIVITIES

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

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

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

(C) INCOME TAXES: The Circuit City Group is included in the consolidated federal income tax return and certain state tax returns filed by the Company. Accordingly, the provision for federal income taxes and related payments of tax are determined on a consolidated basis. The financial statement provision and the related tax payments or refunds are reflected in each Group's financial statements in accordance with the Company's tax allocation policy for such Groups. In general, this policy provides that the consolidated tax provision and related tax payments or refunds will be allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to 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.

4. PROPERTY AND EQUIPMENT

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

(Amounts in thousands)	2000	1999
Land and buildings (20 to 25 years)	$ 98,537	$ 59,823
Construction in progress	51,378	103,309
Furniture, fixtures and equipment (3 to 8 years)	690,512	654,156
Leasehold improvements (10 to 15 years)	566,103	534,015
Capital leases, primarily buildings (20 years)	12,471	12,471
	1,419,001	1,363,774
Less accumulated depreciation and amortization	665,676	561,947
Property and equipment, net	$ 753,325	$ 801,827

5. DEBT

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

(Amounts in thousands)	2000	1999
Term loans	$405,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.0% to 7.0%	5,419	6,564
Obligations under capital leases [NOTE 10]	12,416	12,728
Note payable	3,750	5,000
Total long-term debt	426,585	429,292
Less current installments	177,344	2,707
Long-term debt, excluding current installments	249,241	426,585
Portion of long-term debt allocated to the Circuit City Group	$213,719	$288,322

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 29, 2000, the interest rate on the term loan was 6.29 percent.

In May 1995, the Company entered into a five-year, $175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 29, 2000, the interest rate on the term loan was 6.23 percent. This term loan is due in May 2000 and has been classified as a current liability as of February 29,

2000. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 29, 2000, the interest rate on the term loan was 6.23 percent.

The Company maintains a multi-year, $150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.18 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 29, 2000, or February 28, 1999.

The Industrial Development Revenue Bonds are collateralized by land, buildings and equipment with an aggregate carrying value of approximately $8,404,000 at February 29, 2000, and $10,740,000 at February 28, 1999.

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 29, 2000, and February 28, 1999.

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 29 or 28	
(Amounts in thousands)	2000	1999
Average short-term debt outstanding	$ 44,692	$ 54,505
Maximum short-term debt outstanding	$411,791	$463,000
Aggregate committed lines of credit	$370,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 5.6 percent during fiscal 2000, 5.1 percent during fiscal 1999 and 5.7 percent during fiscal 1998.

Interest expense allocated by the Company to the Circuit City Group, excluding interest capitalized, was $13,844,000 in fiscal 2000, $21,926,000 in fiscal 1999 and $25,072,000 in fiscal 1998. The Circuit City Group capitalizes interest in connection with the construction of certain facilities and the development or purchase of software for internal use. In fiscal 2000, interest capitalized amounted to $2,166,000 ($2,749,000 in fiscal 1999 and $4,759,000 in fiscal 1998).

6. INCOME TAXES

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

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Current:			
Federal	$141,514	$123,001	$75,554
State	16,901	15,694	5,989
	158,415	138,695	81,543
Deferred:			
Federal	40,572	5,773	14,060
State	1,256	178	2,859
	41,828	5,951	16,919
Provision for income taxes	$200,243	$144,646	$98,462

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

	Years Ended February 29 or 28		
	2000	1999	1998
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	3.0	3.1	3.3
Effective income tax rate	38.0%	38.1%	38.3%

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 29 or 28 are as follows:

(Amounts in thousands)	2000	1999
Deferred tax assets:		
Deferred revenue	$ 1,055	$ 8,202
Inventory capitalization	7,264	7,198
Accrued expenses	27,974	24,110
Other	6,112	5,246
Total gross deferred tax assets	42,405	44,756
Deferred tax liabilities:		
Depreciation and amortization	44,854	43,600
Deferred revenue	29,656	6,903
Gain on sales of receivables	14,069	10,337
Other prepaid expenses	23,023	18,835
Other	6,651	707
Total gross deferred tax liabilities	118,253	80,382
Net deferred tax liability	$ 75,848	$35,626

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

7. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(K) PLAN: Effective August 1, 1999, the Company sponsors 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 contributions to this plan for Circuit City Group associates was $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 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 Stock shall have one vote and (ii) each outstanding share of CarMax Group Stock shall have a number of votes based on the weighted average ratio of the market value of a share of CarMax Group Stock to a share of Circuit City Group 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 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 345,644 shares of Circuit City Group Stock were granted to eligible employees in fiscal 2000. 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 2000, a total of $11,648,700 was charged to operations ($8,741,100 in fiscal 1999 and $4,995,400 in fiscal 1998). As of February 29, 2000, 1,559,966 restricted shares of Circuit City Group Stock were outstanding.

(E) EMPLOYEE STOCK PURCHASE PLAN: 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 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 29, 2000, a total of 864,046 shares remained available under the Circuit City Group Plan. During fiscal 2000, 501,984 shares were issued to or purchased on the open market for employees (858,710 shares in fiscal 1999 and 901,396 in fiscal 1998). The average price per share purchased under the Plan was $41.70 in fiscal 2000, $21.69 in fiscal 1999 and $18.39 in fiscal 1998. The Company match or purchase price discount charged to Circuit City Group operations totaled $2,682,300 in fiscal 2000, $2,716,400 in fiscal 1999 and $2,509,500 in fiscal 1998.

(F) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, incentive and nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of Circuit City Group Stock. The exercise price for incentive stock options for employees and nonqualified options for outside directors is equal to, or greater than, the market value at the date of grant; for nonqualified options granted under the 1988 Plan for employees, it is at least 85 percent of the market value at the date of grant (100 percent under the 1994 Plan). Options generally are exercisable over a period of from one to 10 years from the date of grant.

A summary of the status of the Circuit City Group's stock options and changes during the years ended February 29, 2000, and February 28, 1999 and 1998, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 29, 2000.

TABLE 1	2000		1999		1998	
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,894	$18.25	9,988	$16.00	9,656	$14.88
Granted	1,564	40.75	1,080	21.17	1,452	17.61
Exercised	(2,864)	12.65	(2,008)	8.77	(966)	7.50
Cancelled	(214)	22.06	(166)	16.80	(154)	14.71
Outstanding at end of year	7,380	$25.07	8,894	$18.25	9,988	$16.00
Options exercisable at end of year	1,258	$13.89	2,966	$12.02	3,508	$ 9.84

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	1,723	3.9	$13.51	883	$12.33
15.18 to 18.00	1,176	4.0	17.31	288	16.74
18.43 to 25.28	958	4.7	21.12	87	20.43
29.50	2,000	2.1	29.50	–	–
34.63 to 47.53	1,523	6.0	40.81	–	–
Total	7,380	4.0	$25.07	1,258	$13.89

The Circuit City Group applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the Circuit City Group's net earnings and net earnings per share would have been reduced to the pro forma amounts indicated in the 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 2000 may not be representative of the pro forma effects on net earnings for future years.

(Amounts in thousands except per share data)	Years Ended February 29 or 28 2000	1999	1998
Earnings from continuing operations:			
As reported	$327,574	$216,927	$132,710
Pro forma	319,337	211,025	128,035
Net earnings:			
As reported	$197,334	$148,381	$112,074
Pro forma	189,097	142,479	107,399
Earnings per share from continuing operations:			
Basic—as reported	$ 1.63	$ 1.09	$ 0.68
Basic—pro forma	1.59	1.06	0.65
Diluted—as reported	$ 1.60	$ 1.08	$ 0.67
Diluted—pro forma	1.56	1.05	0.65
Net earnings per share:			
Basic—as reported	$ 0.98	$ 0.75	$ 0.57
Basic—pro forma	0.94	0.72	0.55
Diluted—as reported	$ 0.96	$ 0.74	$ 0.57
Diluted—pro forma	0.93	0.71	0.54

For the purpose of computing the pro forma amounts indicated, 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:

	2000	1999	1998
Expected dividend yield	0.2%	0.4%	0.4%
Expected stock volatility	38%	33%	33%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	5	5	4

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 2000, $8 in fiscal 1999 and $7 in fiscal 1998.

8. EARNINGS PER SHARE

Reconciliations of the numerator and denominator of basic and diluted earnings per share from continuing operations are presented below.

(Amounts in thousands except per share data)	Years Ended February 29 or 28 2000	1999	1998
Weighted average common shares	201,345	198,304	196,054
Dilutive potential common shares:			
Options	2,145	1,700	1,684
Restricted stock	831	808	670
Weighted average common shares and dilutive potential common shares	204,321	200,812	198,408
Earnings from continuing operations available to common shareholders	$327,574	$216,927	$132,710
Basic earnings per share from from continuing operations	$ 1.63	$ 1.09	$ 0.68
Diluted earnings per share from continuing operations	$ 1.60	$ 1.08	$ 0.67

Certain options were 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 2,900 shares of Circuit City Group Stock ranging from $43.03 to $47.53 per share were outstanding and not included in the calculation at the end of fiscal 2000; 2,000,000 shares at $29.50 per share at the end of fiscal 1999; and 3,020,000 shares ranging from $17.74 to $29.50 per share at the end of fiscal 1998.

9. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 160,000 shares of Circuit City Stock at February 29, 2000, and February 28, 1999.

Eligible employees of the Circuit City Group participate in the Company's plan. Pension costs for these employees have been allocated to the Circuit City Group based on its proportionate share of the projected benefit obligation. The following tables set forth the Circuit City Group's share of the Plan's financial status and amounts recognized in the balance sheets as of February 29 or 28:

(Amounts in thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$110,001	$ 88,166
Service cost	13,428	10,479
Interest cost	7,384	6,135
Actuarial (gain) loss	(17,325)	8,511
Benefits paid	(4,151)	(3,290)
Benefit obligation at end of year	$109,337	$110,001
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 94,125	$ 83,009
Actual return on plan assets	13,568	4,342
Employer contributions	11,498	10,064
Benefits paid	(4,151)	(3,290)
Fair value of plan assets at end of year	$115,040	$ 94,125
Reconciliation of funded status:		
Funded status	$ 5,703	$(15,876)
Unrecognized actuarial (gain) loss	(13,326)	8,657
Unrecognized transition asset	(398)	(598)
Unrecognized prior service benefit	(421)	(552)
Net amount recognized	$ (8,442)	$ (8,369)

The components of net pension expense are as follows:

(Amounts in thousands)	Years Ended February 29 or 28 2000	1999	1998
Service cost	$13,428	$10,479	$ 8,365
Interest cost	7,384	6,135	5,221
Expected return on plan assets	(8,919)	(7,675)	(5,060)
Amortization of prior service cost	(199)	(104)	(104)
Amortization of transitional asset	(132)	(199)	(199)
Recognized actuarial loss	10	–	–
Net pension expense	$11,572	$ 8,636	$ 8,223

Assumptions used in the accounting for the pension plan were:

	Years Ended February 29 or 28 2000	1999	1998
Weighted average discount rate	8.0%	6.8%	7.0%
Rate of increase in compensation levels	6.0%	5.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

10. LEASE COMMITMENTS

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

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Minimum rentals	$288,037	$273,185	$236,962
Rentals based on sales volume	1,327	1,247	730
Sublease income	(16,425)	(14,857)	(12,879)
Net	$272,939	$259,575	$224,813

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

The initial term of most real property leases will expire within the next 22 years; however, most of the leases have options providing for additional lease terms of five years to 25 years at terms similar to the initial terms.

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the Circuit City Group, as of February 29, 2000, were:

(Amounts in thousands) Fiscal	Capital Leases	Operating Lease Commitments	Operating Sublease Income
2001	$ 1,681	$ 279,204	$(13,042)
2002	1,725	276,428	(11,791)
2003	1,726	272,626	(10,801)
2004	1,768	271,123	(9,238)
2005	1,798	269,236	(8,664)
After 2005	14,666	2,845,835	(44,935)
Total minimum lease payments	$23,364	$4,214,452	$(98,471)
Less amounts representing interest	10,948		
Present value of net minimum capital lease payments [NOTE 5]	$12,416		

In fiscal 2000, the Company entered into sale-leaseback transactions with unrelated parties on behalf of the Circuit City Group at an aggregate selling price of $24,295,000 ($103,750,000 in fiscal 1999 and $120,670,000 in fiscal 1998). Neither the Company nor the Circuit City Group has continuing involvement under the 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 statements of earnings, amounted to $390,144,000 (3.7 percent of net sales and operating revenues) in fiscal 2000, $376,316,000 (4.0 percent of net sales and operating revenues) in fiscal 1999 and $369,998,000 (4.6 percent of net sales and operating revenues) in fiscal 1998.

12. SECURITIZATIONS

On behalf of the Circuit City Group, the Company enters into securitization transactions, which allow for the sale of credit card receivables to unrelated entities, to finance the consumer revolving credit receivables generated by its wholly owned finance operation. The reduction in the aggregate securitized amount was $63.8 million for fiscal 2000, and proceeds from securitization transactions were $224.6 million for fiscal 1999 and $331.4 million for fiscal 1998.

Receivables relating to the securitization facilities consist of the following at February 29 or 28:

(Amounts in thousands)	2000	1999
Managed receivables	$2,844,377	$2,957,132
Receivables/residual interests held by the Circuit City Group:		
For sale	(18,288)	(39,948)
For investment	(144,806)	(161,996)
Net receivables sold	$2,681,283	$2,755,188
Net receivables sold with recourse	$ 229,000	$ 322,000
Program capacity	$3,598,350	$3,127,000

Private-label credit card receivables are financed through securitization programs employing a master trust structure. As of February 29, 2000, these securitization programs had a capacity of $1.85 billion. The agreement has no recourse provisions.

During fiscal 1998, a bank card master trust securitization facility was established and issued two series from the trust. Provisions under the master trust agreement provide recourse to the Company for any cash flow deficiencies on $229 million of the receivables sold. The finance charges from the transferred receivables are used to fund interest costs, charge-offs, servicing fees and other related costs. The Company believes that as of February 29, 2000, no liability existed under these recourse provisions. The bank card securitization program has a total program capacity of $1.75 billion.

Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $37.3 million at February 29, 2000, $27.3 million at February 28, 1999, and $25.0 million at February 28, 1998, and are included in net accounts receivable. Changes in these retained interests consisted of originated retained interests of $52.9 million for fiscal 2000, $37.3 million for fiscal 1999 and $33.3 million for fiscal 1998, less amortization of $42.9 million in fiscal 2000, $35.0 million in fiscal 1999 and $11.5 million in fiscal 1998. The servicing fees specified in the credit card securitization agreements adequately compensate the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded. The finance operation's servicing revenue totaled $213.1 million for fiscal 2000, $210.4 million for fiscal 1999 and $195.7 million for fiscal 1998.

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

The APRs of the private-label card programs, excluding promotional balances, range from 22 percent to 24 percent, with default rates varying based on portfolio composition, but generally aggregating from 4 percent to 6 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 11 percent to 13 percent.

The bank card APRs are based on the prime rate and generally range from 10 percent to 23 percent, with default rates varying by portfolio composition, but generally aggregating from 8 percent to 12 percent. Principal payment rates vary widely both seasonally and by credit terms but are in the range of 7 percent to 9 percent.

Interest cost paid by the master trusts varies between series and, at February 29, 2000, ranged from 6.2 percent to 6.7 percent.

13. INTEREST RATE SWAPS

In October 1994, the Company entered into five-year interest rate swap agreements with notional amounts totaling $300 million relating to a public issuance of securities by the master trust. As part of this issuance, $344 million of five-year, fixed-rate certificates were issued to fund consumer credit receivables. The finance operation is servicer for the accounts, and as such, receives its monthly cash portfolio yield after deducting interest, charge-offs and other related costs. The underlying receivables are based on a floating rate. The swaps were put in place to better match funding costs to the receivables being securitized. As a result, the master trust pays fixed-rate interest, and the Company utilizes the swaps to convert the fixed-rate obligation to a floating-rate, LIBOR-based obligation. These swaps were entered into as part of the sales of receivables and are included in the gain on sales of receivables. In November 1999, these swaps terminated as the related securities in the master trust matured.

Concurrent with the funding of the $175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating $175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 29, 2000, would result in a loss of $90,000, and at February 28, 1999, would result in a loss of $2.2 million.

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

15. DISCONTINUED OPERATIONS

On June 16, 1999, Digital Video Express announced that it would cease marketing 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. Discontinued operations also have been segregated on the Circuit City Group statements of cash flows for the periods presented. The Circuit City Group balance sheets, however, include Divx.

The loss from the discontinued Divx operations totaled $16.2 million after an income tax benefit of $9.9 million in fiscal 2000, $68.5 million after an income tax benefit of $42.0 million in fiscal 1999 and $20.6 million after an income tax benefit of $12.6 million in fiscal 1998. 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. At February 29, 2000, the provision for operating losses during the phase-out period increased to $6.2 million from the original estimate of $3.0 million because of higher than expected operating costs during the early stages of discontinuing the business. This increase was offset by reductions in the provisions for non-operating costs.

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

(Amounts in thousands)	2000	1999
Current assets	$ 612	$ 25,630
Property and equipment, net	513	23,589
Other assets	–	7,895
Current liabilities	(32,650)	(23,126)
Other liabilities	(35,291)	(3,397)
Net (liabilities) assets of discontinued operations	$(66,816)	$ 30,591

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands except per share data)	First Quarter 2000	First Quarter 1999	Second Quarter 2000	Second Quarter 1999	Third Quarter 2000	Third Quarter 1999	Fourth Quarter 2000	Fourth Quarter 1999	Year 2000	Year 1999
Net sales and operating revenues	$2,204,919	$1,924,698	$2,422,667	$2,117,796	$2,495,649	$2,272,258	$3,476,171	$3,029,418	$10,599,406	$9,344,170
Gross profit	$ 540,731	$ 465,012	$ 604,503	$ 526,622	$ 618,182	$ 553,388	$ 858,776	$ 738,950	$ 2,622,192	$2,283,972
Earnings from continuing operations before Inter-Group Interest in the CarMax Group	$ 39,311	$ 23,818	$ 71,234	$ 46,053	$ 54,714	$ 38,340	$ 161,453	$ 126,773	$ 326,712	$ 234,984
Earnings from continuing operations	$ 41,398	$ 21,339	$ 73,692	$ 43,773	$ 52,335	$ 32,710	$ 160,149	$ 119,105	$ 327,574	$ 216,927
Loss from discontinued operations	$ (130,240)	$ (8,070)	$ –	$ (11,626)	$ –	$ (16,765)	$ –	$ (32,085)	$ (130,240)	$ (68,546)
Net (loss) earnings	$ (88,842)	$ 13,269	$ 73,692	$ 32,147	$ 52,335	$ 15,945	$ 160,149	$ 87,020	$ 197,334	$ 148,381
Net (loss) earnings per share:										
Basic:										
Continuing operations	$ 0.21	$ 0.11	$ 0.37	$ 0.22	$ 0.26	$ 0.16	$ 0.79	$ 0.60	$ 1.63	$ 1.09
Discontinued operations	$ (0.65)	$ (0.04)	$ –	$ (0.06)	$ –	$ (0.08)	$ –	$ (0.16)	$ (0.65)	$ (0.34)
Net (loss) earnings	$ (0.44)	$ 0.07	$ 0.37	$ 0.16	$ 0.26	$ 0.08	$ 0.79	$ 0.44	$ 0.98	$ 0.75
Diluted:										
Continuing operations	$ 0.20	$ 0.11	$ 0.36	$ 0.22	$ 0.26	$ 0.16	$ 0.78	$ 0.59	$ 1.60	$ 1.08
Discontinued operations	$ (0.64)	$ (0.04)	$ –	$ (0.06)	$ –	$ (0.08)	$ –	$ (0.16)	$ (0.64)	$ (0.34)
Net (loss) earnings	$ (0.44)	$ 0.07	$ 0.36	$ 0.16	$ 0.26	$ 0.08	$ 0.78	$ 0.44	$ 0.96	$ 0.74

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 29, 2000 and February 28, 1999 and the related statements of earnings, group equity and cash flows for each of the fiscal years in the three-year period ended February 29, 2000. These financial statements are the responsibility of Circuit City Stores, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

In our opinion, except for the effects of not consolidating the CarMax Group with the Circuit City 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 29, 2000 and February 28, 1999 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 29, 2000 in conformity with generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
April 4, 2000

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 stores and related operations and the Group's retained interest in the CarMax Group. The effects of the retained interest held by the Circuit City Group on the CarMax Group's financial statements are identified by the term "Inter-Group." The Inter-Group Interest is not considered outstanding CarMax Group stock. Therefore, the net earnings or losses attributed to the Inter-Group Interest are not included in the CarMax Group's per share calculations.

The following discussion and analysis relates to the CarMax Group. Reported earnings and losses attributed to the CarMax Group Common Stock exclude the earnings and losses attributed to the Circuit City Group's Inter-Group Interest, which was 74.7 percent at February 29, 2000, 76.6 percent at February 28, 1999, and 77.3 percent at February 28, 1998. For additional information, refer to the "Management's Discussion and Analysis of Results of Operations and Financial Condition" for Circuit City Stores, Inc. and for the Circuit City Group.

RESULTS OF OPERATIONS

Sales Growth

Total sales for the CarMax Group increased 37 percent in fiscal 2000 to $2.01 billion. In fiscal 1999, total sales increased 68 percent to $1.47 billion from $874.2 million in fiscal 1998. The fiscal 2000 total sales increase reflects a 2 percent increase in comparable store sales and the addition of superstores and new-car franchises.

PERCENTAGE SALES CHANGE FROM PRIOR YEAR

Fiscal	Total	Comparable
2000	37%	2 %
1999	68%	(2)%
1998	71%	6 %
1997	85%	23 %
1996	258%	12 %

PERCENT VEHICLE SALES BY CATEGORY

	2000	1999	1998	1997	1996
Vehicle Dollars:					
Used Vehicles	79%	90%	89%	88%	100%
New Vehicles	21%	10%	11%	12%	0%
Vehicle Units:					
Used Vehicles	86%	94%	93%	92%	100%
New Vehicles	14%	6%	7%	8%	0%

During the past five years, geographic expansion of the CarMax used-car superstore concept and the addition of new-car franchises have been the primary contributors to CarMax's total sales growth. During the second half of fiscal 1998, the Group's used-car sales began to fall below management's expectations. New-car sales remained strong. These trends continued through fiscal 1999 when strong comparable store sales growth in new cars was more than offset by the weak used-car sales trend.

Late in fiscal 1999, CarMax adopted a hub and satellite operating strategy in existing multi-store markets. In fiscal 1999, five superstores were converted to satellite locations in the Miami, Houston, Dallas and Chicago markets. Under the hub and satellite operating process, a satellite store uses the reconditioning, purchasing and business office operations of a nearby hub store. The display capacity and consumer offer are identical in both the hub and satellite stores. A prototypical satellite store operates on a four- to six-acre site with a 12,000- to 14,000-square-foot facility that houses sales offices, a showroom and four to seven service bays for regular maintenance and warranty service. At the end of fiscal 1999, CarMax classified two stores as prototype satellite stores.

In fiscal 2000, CarMax limited its geographic expansion to focus on building sales and profitability in existing markets. During the year, CarMax opened one used-car superstore in Nashville, Tenn., and one in Duarte, Calif. CarMax converted one existing store into a satellite operation. In the markets of Dallas/Fort Worth and Houston, CarMax added two prototypical satellite stores that opened at year-end. The sales pace at CarMax's used-car superstores, including those stores with integrated new-car franchises, improved, and the Group generated comparable store sales growth for the last two quarters and for the fiscal year.

In fiscal 2000, CarMax also opened five stand-alone new-car stores, relocated its Laurel, Md., Toyota franchise next to its Laurel superstore and acquired a Nissan franchise that was added to an existing used-car superstore location in the Washington, D.C./Baltimore market. While the performance of the used-car superstores and integrated used- and new-car superstores exceeded expectations, management was disappointed in the performance of the stand-alone new-car stores during fiscal 2000. Although operations at these stores have improved significantly versus their levels prior to acquisition, they remain below management's expectations. CarMax is actively pursuing opportunities to integrate or co-locate as many of these franchises with existing used-car superstores as possible.

Late in fiscal 2000, CarMax's primary competitor exited the used-car superstore business. Management believes their exit from the Dallas/Fort Worth, Houston, San Antonio, Tampa and Miami markets, where the two companies competed, will help eliminate consumer confusion over the two offers and increase customer flow for CarMax.

STORE MIX*

	Retail Units at Year-End				
Fiscal	2000	1999	1998	1997	1996
"C" and "B" Stores	14	13	8	2	1
"A" Store	17	16	10	5	3
Satellite Prototype Store	4	2	–	–	–
Stand-Alone New-Car Store	5	–	–	–	–
Total	40	31	18	7	4

** CarMax opened two prototypical satellite stores in late fiscal 1999 and two prototypical satellite stores in fiscal 2000. In addition to the four satellite prototype stores in operation, six "A," "B" or "C" stores have been converted to satellite operations. "C" stores represent the largest format. In fiscal 2000, CarMax reclassified certain stores on the basis of square footage. Prior year information has been reclassified to reflect this change.*

NEW-CAR FRANCHISES*

	New-Car Franchises				
Fiscal	2000	1999	1998	1997	1996
Integrated/Co-Located New-Car Franchises	15	16	2	1	–
Stand-Alone New-Car Franchises	5	–	–	–	–
Total New-Car Franchises	20	16	2	1	–

** In fiscal 2000, CarMax reclassified certain franchises as "co-located." Prior period information has been reclassified to reflect this change.*

In most states, CarMax sells extended warranties on behalf of an unrelated third party who is the primary obligor. Under this third-party warranty program, the Company has no contractual liability to the customer. In states where third-party warranty sales are not permitted, CarMax has sold its own extended warranty for which the Company is the primary obligor. Gross dollar sales from all extended warranty programs were 3.7 percent of the Group's total sales in fiscal 2000, 4.3 percent in fiscal 1999 and 3.8 percent in fiscal 1998. The fiscal 2000 decrease reflects the increase in new-car sales as a percentage of the overall mix. The fiscal 1999 increase reflects pricing adjustments and a higher penetration rate achieved by extending warranty coverage to more vehicles. Total extended warranty revenue, which is reported in the Group's total sales, was 1.6 percent of total sales in fiscal 2000, 2.0 percent in fiscal 1999 and 1.5 percent in fiscal 1998. Third-party extended warranty revenue was 1.6 percent of total sales in fiscal 2000, 1.9 percent in fiscal 1999 and 1.4 percent in fiscal 1998.

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

Cost of Sales

The gross profit margin was 11.9 percent in fiscal 2000, 11.7 percent in fiscal 1999 and 8.4 percent in fiscal 1998. 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 electronic accessory sales. The success of this plan was the significant contributor to the improved gross profit margins in fiscal 2000 and fiscal 1999. The significant increase in new-car sales as a percentage of total sales partly offset the fiscal 2000 and fiscal 1999 improvements since new vehicles carry lower gross profit margins than used vehicles.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 11.3 percent of sales in fiscal 2000, 13.9 percent of sales in fiscal 1999 and 14.6 percent of sales in fiscal 1998. The improved selling, general and administrative expense ratio in fiscal 2000 reflects expense leverage from the total and comparable store sales increases and productivity improvements resulting from the slower expansion rate, implementation of the hub and satellite operating strategy, and operating expense controls. The 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 ratios in fiscal 1999 and fiscal 1998 reflect the costs associated with the expansion of CarMax superstores and the below-plan sales in a number of multi-store metropolitan markets. The fiscal 1998 ratio also includes an $11.5 million write-down of assets associated with the closure and disposal of the Group's centralized reconditioning facilities and excess property at some locations. Excluding the write-down of assets, the selling, general and administrative expense ratio would have been 13.3 percent of sales in fiscal 1998.

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

Interest Expense

Interest expense was 0.5 percent of sales in fiscal 2000, 0.4 percent of sales in fiscal 1999 and 0.2 percent of sales in fiscal 1998. During fiscal 2000 and fiscal 1999, interest expense was incurred primarily on allocated debt to fund new store growth, franchise acquisitions and working capital, including inventory. In fiscal 1998, interest expense was incurred primarily on an inter-group note used to finance inventory for much of the year.

Earnings (Loss) Before Income Taxes

Earnings before income taxes were $1.8 million in fiscal 2000. The fiscal 2000 pretax earnings exceeded management's expectations. At the end 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. This loss exceeded management's expectations and reflected the underperformance of stores in some multi-store metropolitan markets. The fiscal 1998 pretax loss, which includes an $11.5 million write-down of assets, was $56.1 million. Excluding the write-down, the fiscal 1998 pretax loss was $44.6 million.

Income Taxes

The Group's effective income tax rate was 38.0 percent in fiscal 2000, compared with 39.0 percent in fiscal 1999 and fiscal 1998. In fiscal 1999 and fiscal 1998, the CarMax Group generated losses and as a result recorded related income tax benefits.

Net Earnings (Loss)

Net earnings were $1.1 million in fiscal 2000. Excluding the lease termination costs and the write-down of assets, net earnings would have been $4.1 million compared with a net loss of $23.5 million in fiscal 1999. In fiscal 1998, the net loss was $34.2 million. Excluding the impact of the write-down of assets, the fiscal 1998 net loss was $27.2 million.

Earnings attributed to the CarMax Group common stock were $256,000, or 1 cent per share, in fiscal 2000, compared with a net loss of $5.5 million, or 24 cents per share, in fiscal 1999 and a net loss of $7.8 million, or 35 cents per share in fiscal 1998.

Operations Outlook

In fiscal 2001, management will continue to focus on revenue growth and operating margin enhancement in existing CarMax markets. Management will concentrate on the hub and satellite operating strategy for its used-car superstores and seek new-car franchises to integrate or co-locate with used-car superstores. Management anticipates that in fiscal 2001 and beyond new stores will be smaller "A" stores or satellite locations.

Management also remains focused on building consumer awareness of the CarMax offer. In fiscal 2000, CarMax began a new advertising campaign; enhanced its Web site, carmax.com; and launched an online buying service that provides firm prices on new vehicles.

Management believes that continued sales and profit improvement in the Group's existing markets will result in solid profitability in fiscal 2001 and allow the Group to resume moderate and profitable geographic growth thereafter.

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

Net cash used in operating activities was $25.1 million in fiscal 2000, $82.0 million in fiscal 1999 and $86.1 million in fiscal 1998. For the three-year period, cash primarily was used to purchase inventory for store openings and additional new-car franchises. In fiscal 1999 and fiscal 1998, 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. Investment of surplus cash from the February 1997 equity offering has been allocated to the CarMax Group. Allocated debt of the CarMax Group consists of (1) Company debt, if any, that has been allocated in its entirety to the CarMax Group and (2) a portion of the Company's debt that is allocated between the Circuit City Group and the CarMax Group. This pooled debt bears interest at a rate based on the average pooled debt balance. Expenses related to increases in pooled debt are reflected in the weighted average interest rate of the pooled debt.

During fiscal 2000, a term loan totaling $175 million and due in May 2000 was classified as a current liability. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital. Payment of corporate debt will not necessarily reduce CarMax Group allocated debt.

The CarMax Group's capital expenditures were $45.4 million in fiscal 2000, $138.3 million in fiscal 1999 and $234.3 million in fiscal 1998. CarMax's capital expenditures through fiscal 2000 primarily were related to store expansion. Capital expenditures have been funded through sale-leaseback transactions, landlord reimbursements, proceeds from the February 1997 CarMax Group equity offering and allocated short- and long-term debt. In fiscal 2001, the Group anticipates capital expenditures of approximately $30 million. Sale-leaseback and landlord reimbursement transactions totaled $25.3 million in fiscal 2000, $139.3 million in fiscal 1999 and $98.1 million in fiscal 1998.

During fiscal 2000, the CarMax Group acquired the Chrysler-Plymouth-Jeep franchise rights and the related assets of Prince Chrysler-Plymouth-Jeep Company and the franchise rights and the related assets of LAX Dodge, Inc. in the Los Angeles market; the Jeep franchise rights and the related assets of Red Bird Jeep-Eagle and the franchise rights of Hilltop Chrysler-Plymouth, Inc. in the Dallas market; the franchise rights and related assets of Fairway Chrysler-Plymouth-Jeep, Inc. in the Orlando market; and the Nissan franchise rights and related assets of Town & Country Pontiac Nissan, Inc. in the Washington D.C./Baltimore market for a total of $34.8 million. These acquisitions were financed through cash resources. Costs in excess of the acquired net tangible assets, which are primarily inventory, have been recorded as goodwill and covenants not to compete.

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

In fiscal 1996, Circuit City Stores, Inc. initiated an asset securitization program on behalf of the CarMax Group. At the end of fiscal 2000, that program allowed the transfer of up to $500 million in automobile loan receivables. In October 1999, the Company formed a second securitization facility on behalf of the CarMax Group that allowed for a $644 million securitization of automobile loan receivables in the public market. At February 29, 2000, the program had a capacity of $559.5 million. Securitized receivables on behalf of the CarMax Group totaled $887.2 million at the end of fiscal 2000. The receivables are sold to an unaffiliated third party with the servicing rights retained. Management expects that securitization programs which allow for the transfer of receivables through both private placement and the public market can be used to fund increases in receivables resulting from CarMax's continued growth.

In fiscal 1999, CarMax entered into a one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement had a total program capacity of $160 million at February 29, 2000, and was created to provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special purpose company. During fiscal 2000 and fiscal 1999, the CarMax Group financed no inventory under this arrangement. This financing arrangement was terminated in the first quarter of fiscal 2001.

Management believes 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 and cash generated by operations will be sufficient to fund the CarMax Group's capital expenditures and operations.

MARKET RISK

The Company manages the automobile installment loan portfolio of the Group's 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 29, 2000, and February 28, 1999, was as follows:

(Amounts in millions)	2000	1999
Fixed APR	$932	$592

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 investment or sale are financed with working capital. Financings at February 29, 2000, and February 28, 1999, were as follows:

(Amounts in millions)	2000	1999
Fixed-rate securitizations	$559	$ –
Floating-rate securitizations		
synthetically altered to fixed	327	500
Floating-rate securitizations	1	39
Held by the Company:		
For investment*	22	38
For sale	23	15
Total	$932	$592

** 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 29, 2000, or February 28, 1999. Because it has a program in place to manage interest rate exposure relating to its installment loan portfolio, the Company expects to experience relatively little impact if interest rates fluctuate.

YEAR 2000 CONVERSION

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

FORWARD-LOOKING STATEMENTS

Company statements that are not historical facts, including statements about management's expectations for fiscal year 2001 and beyond, are forward-looking statements and involve various risks and uncertainties. Refer to the "Circuit City Stores, Inc. Management's Discussion and Analysis of Results of Operations and Financial Condition" for a review of possible risks and uncertainties.

CARMAX GROUP STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)	2000	%	1999	%	1998	%
			Years Ended February 29 or 28			
NET SALES AND OPERATING REVENUES	**$2,014,984**	100.0	$1,466,298	100.0	$874,206	100.0
Cost of sales	**1,774,619**	88.1	1,294,032	88.3	800,699	91.6
GROSS PROFIT	**240,365**	11.9	172,266	11.7	73,507	8.4
Selling, general and administrative expenses [NOTES 3 AND 13]	**228,200**	11.3	204,422	13.9	127,822	14.6
Interest expense [NOTES 3 AND 7]	**10,362**	0.5	6,393	0.4	1,789	0.2
TOTAL EXPENSES	**238,562**	11.8	210,815	14.3	129,611	14.8
Earnings (loss) before income taxes	**1,803**	0.1	(38,549)	(2.6)	(56,104)	(6.4)
Income tax provision (benefit) [NOTES 3 AND 8]	**685**	0.0	(15,035)	(1.0)	(21,881)	(2.5)
NET EARNINGS (LOSS)	**$ 1,118**	0.1	$ (23,514)	(1.6)	$ (34,223)	(3.9)
Net earnings (loss) attributed to [NOTE 1]:						
Circuit City Group common stock	**$ 862**		$ (18,057)		$ (26,460)	
CarMax Group common stock	**256**		(5,457)		(7,763)	
	$ 1,118		$ (23,514)		$ (34,223)	
Weighted average common shares [NOTES 2 AND 10]:						
Basic	**23,778**		22,604		22,001	
Diluted	**25,788**		22,604		22,001	
NET EARNINGS (LOSS) PER SHARE [NOTES 2 AND 10]:						
Basic	**$ 0.01**		$ (0.24)		$ (0.35)	
Diluted	**$ 0.01**		$ (0.24)		$ (0.35)	

See accompanying notes to group financial statements.

(Amounts in thousands)	At February 29 or 28 2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 9,981**	$ 17,679
Net accounts receivable [NOTE 5]	**129,253**	97,364
Inventory	**283,592**	225,460
Prepaid expenses and other current assets	**2,844**	620
TOTAL CURRENT ASSETS	**425,670**	341,123
Property and equipment, net [NOTES 6 AND 7]	**211,856**	203,946
Other assets	**37,969**	26,129
TOTAL ASSETS	**$675,495**	$571,198
LIABILITIES AND GROUP EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt [NOTE 7]	**$ 91,609**	$ 1,250
Accounts payable	**75,959**	59,838
Short-term debt [NOTE 7]	**1,552**	4,605
Accrued expenses and other current liabilities	**19,856**	8,556
Deferred income taxes [NOTE 8]	**7,147**	7,674
TOTAL CURRENT LIABILITIES	**196,123**	81,923
Long-term debt, excluding current installments [NOTE 7]	**121,257**	139,720
Deferred revenue and other liabilities	**7,249**	5,015
Deferred income taxes [NOTE 8]	**5,877**	4,125
TOTAL LIABILITIES	**330,506**	230,783
GROUP EQUITY	**344,989**	340,415
Commitments and contingent liabilities [NOTES 1, 5, 11, 12, 14 AND 15]		
TOTAL LIABILITIES AND GROUP EQUITY	**$675,495**	$571,198

See accompanying notes to group financial statements.

CARMAX GROUP STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years Ended February 29 or 28 2000	1999	1998
OPERATING ACTIVITIES:			
Net earnings (loss)	**$ 1,118**	$ (23,514)	$ (34,223)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:			
Depreciation and amortization	**15,241**	10,003	4,577
Gain on disposition of property and equipment	**(820)**	–	–
Lease termination costs and write-down of assets [NOTE 13]	**4,755**	–	11,500
Provision for deferred income taxes	**1,225**	11,284	(1,867)
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Increase (decrease) in deferred revenue and other liabilities	**2,234**	(251)	835
Increase in net accounts receivable	**(31,889)**	(36,498)	(32,516)
Increase in inventory	**(39,909)**	(81,490)	(61,710)
(Increase) decrease in prepaid expenses and other current assets	**(2,224)**	25,714	2,743
Decrease (increase) in other assets	**1,255**	(809)	63
Increase in accounts payable, accrued expenses and other current liabilities	**23,921**	13,570	24,472
NET CASH USED IN OPERATING ACTIVITIES	**(25,093)**	(81,991)	(86,126)
INVESTING ACTIVITIES:			
Cash used in business acquisitions [NOTE 4]	**(34,849)**	(41,562)	–
Purchases of property and equipment	**(45,395)**	(138,299)	(234,252)
Proceeds from sales of property and equipment	**25,340**	139,332	98,098
Decrease in inter-group receivable, net	**–**	–	48,147
NET CASH USED IN INVESTING ACTIVITIES	**(54,904)**	(40,529)	(88,007)
FINANCING ACTIVITIES:			
(Decrease) increase in allocated short-term debt, net	**(3,053)**	1,220	385
Increase in allocated long-term debt, net	**71,896**	108,584	27,386
Equity issuances, net	**3,456**	3,983	2,353
NET CASH PROVIDED BY FINANCING ACTIVITIES	**72,299**	113,787	30,124
Decrease in cash and cash equivalents	**(7,698)**	(8,733)	(144,009)
Cash and cash equivalents at beginning of year	**17,679**	26,412	170,421
Cash and cash equivalents at end of year	**$ 9,981**	$ 17,679	$ 26,412

See accompanying notes to group financial statements.

(Amounts in thousands)

BALANCE AT MARCH 1, 1997	$ 391,816
Net loss	(34,223)
Equity issuances, net	2,353
BALANCE AT FEBRUARY 28, 1998	359,946
Net loss	(23,514)
Equity issuances, net	3,983
BALANCE AT FEBRUARY 28, 1999	340,415
Net earnings	1,118
Equity issuances, net	3,456
BALANCE AT FEBRUARY 29, 2000	**$344,989**

See accompanying notes to 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. 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 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 74.7 percent interest in the CarMax Group at February 29, 2000, 76.6 percent interest at February 28, 1999, and a 77.3 percent interest at February 28, 1998.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CASH AND CASH EQUIVALENTS: Allocated cash equivalents of $1,770,000 at February 29, 2000, and $14,750,000 at February 28, 1999, 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 recognizes gains or losses as a component of the Company's finance operations. For transfers of financial assets to qualify for sale accounting, control over the assets must be surrendered at the time of sale. Multiple estimates are used to calculate the gain or loss on sales of receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Finance charge income, default rates and payment rates are estimated using projections developed from the prior 12 months of operating history. These estimates are adjusted for any industry or portfolio trends that have been observed. The present value of the resulting cash flow projections is calculated using a discount rate appropriate for the type of asset and risk. Retained interests (such as residual interests in a securitization trust, cash reserve accounts and rights to future interest from serviced assets that exceed contractually specified servicing fees) are included in net accounts receivable and are carried at fair value with changes in fair value reflected in earnings. Loan receivables held for sale are carried at the lower of cost or market, whereas loan receivables held for investment are carried at cost less an allowance for losses. At February 29, 2000, and February 28, 1999, cost approximates fair value.

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

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

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

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

(G) INTANGIBLE ASSETS: Amounts paid for acquired businesses in excess of the fair value of the net tangible assets acquired are recorded as goodwill, which is amortized on a straight-line basis over 15 years, and covenants not to compete, which are amortized on a straight-line basis over the life of the covenant not to exceed five years. Both goodwill and covenants not to compete are included in other assets on the accompanying CarMax Group balance sheets. Based upon the financial performance of the acquired businesses, the carrying values of intangible assets are periodically reviewed by the Company and impairments are recognized when the expected future undiscounted operating cash flows derived from such intangible assets are less than the carrying 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. Adoption of SOP 98-5 did not have a material impact on the Group's financial position, annual results of operation or liquidity. 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) DEFERRED REVENUE: The CarMax Group sells service contracts on behalf of an unrelated third party 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. Inasmuch as the Company is the primary obligor on these contracts, revenue from the sale of the CarMax Group's own service 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. Commission revenue for the unrelated third-party service contracts is recognized at the time of sale, since the third party is the primary obligor under these contracts.

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

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

(M) NET EARNINGS (LOSS) PER SHARE: The Company calculates earnings per share based upon SFAS No. 128, "Earnings per Share." Basic net earnings (loss) per share for CarMax Group Stock is computed by dividing net earnings (loss) attributed to CarMax Group Stock by the weighted average number of shares of CarMax Group Stock outstanding. Diluted net earnings per share for CarMax Group Stock is computed by dividing net earnings attributed to CarMax Group Stock by the weighted average number of shares of CarMax Group Stock outstanding and dilutive potential CarMax Group Stock.

(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. Interest rate swaps relating to long-term debt are classified as held for purposes other than trading and are accounted for on a settlement basis. To qualify for this accounting treatment, the swap must synthetically alter the nature of a designated underlying financial instrument. Under this method, payments or receipts due or owed under the swap agreement are accrued through each settlement date and recorded as a component of interest expense. If a swap designated as a synthetic alteration were to be terminated, any gain or loss on the termination would be deferred and recognized over the shorter of the original contractual life of the swap or the related life of the designated long-term debt.

The Company also enters into interest rate swap agreements as part of its asset securitization programs. Swaps entered into by a seller as part of a sale of financial assets are considered proceeds at fair value in the determination of the gain or loss on the sale. If such a swap were 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 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(Q) RECLASSIFICATIONS: Certain amounts in prior years have been reclassified to conform to classifications adopted in fiscal 2000.

3. CORPORATE ACTIVITIES

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

(A) FINANCIAL ACTIVITIES: Most financial activities are managed by the Company on a centralized basis. Such financial activities include the investment of surplus cash and the issuance and repayment of short-term and long-term debt. Allocated invested surplus cash of the CarMax Group consists of (i) Company cash equivalents, if any, that have been allocated in their entirety to the CarMax Group and (ii) a portion of the Company's cash equivalents that are allocated between the Groups. Investment of surplus cash from the February 1997 CarMax Group equity offering has been allocated to the CarMax Group. Allocated debt of the CarMax Group consists of (i) Company debt, if any, that has been allocated in its entirety to the CarMax Group and (ii) a portion of the Company's pooled debt, which is debt allocated between the Groups. The pooled debt bears interest at a rate based on the average pooled debt balance. Expenses related to increases in pooled debt are reflected in the weighted average interest rate of such pooled debt as a whole.

(B) CORPORATE GENERAL AND ADMINISTRATIVE COSTS: Corporate general and administrative costs and other shared services generally have been allocated to the CarMax Group based upon utilization of such services by the Group. Where determinations based on utilization alone have been impractical, other methods and criteria were used that management believes are equitable and provide a reasonable estimate of the costs attributable to the Group. Costs allocated to the CarMax Group totaled approximately $5.6 million for fiscal 2000, $7.5 million for fiscal 1999 and $6.2 million for fiscal 1998.

(C) INCOME TAXES: The CarMax Group is included in the consolidated federal income tax return and in certain state tax returns filed by the Company. Accordingly, the provision for federal income taxes and related payments of tax are determined on a consolidated basis. The financial statement provision and the related tax payments or refunds are reflected in each Group's financial statements in accordance with the Company's tax allocation policy for such Groups. In general, this policy provides that the consolidated tax provision and related tax payments or refunds will be allocated between the Groups based principally upon the financial income, taxable income, credits and other amounts directly related to 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.

4. BUSINESS ACQUISITIONS

The CarMax Group acquired the franchise rights and the related assets of six new-car dealerships for an aggregate cost of $34.8 million in fiscal 2000. The acquisitions were financed through available cash resources. During fiscal 1999, CarMax acquired the franchise rights and the related assets for four new-car dealerships for an aggregate cost of $49.6 million. These acquisitions were financed through available cash resources and the issuance of two promissory notes aggregating $8.0 million. Costs in excess of the fair value of the net tangible assets acquired (primarily inventory) have been recorded as goodwill and covenants not to compete. These acquisitions were accounted for under the purchase method and the results of the operations of the acquired franchises have been included in the accompanying CarMax Group financial statements since the date of acquisition. Unaudited pro forma information related to these acquisitions is not included as the impact of these acquisitions on the accompanying CarMax Group financial statements is not material.

5. ACCOUNTS RECEIVABLE AND SECURITIZATION TRANSACTIONS

Accounts receivable consist of the following at February 29 or 28:

(Amounts in thousands)	2000	1999
Trade receivables	$ 70,763	$ 23,649
Installment receivables:		
Held for sale	23,477	14,690
Held for investment	22,088	38,093
Retained interests	18,743	26,145
Total accounts receivable	135,071	102,577
Less allowance for doubtful accounts	5,818	5,213
Net accounts receivable	$129,253	$ 97,364

In fiscal 1996, the Company entered into a securitization transaction on behalf of the CarMax Group to finance the installment receivables generated by the Group's wholly owned finance operation. A restructuring of the facility during fiscal 1997 resulted in the recourse provisions being eliminated. Proceeds from the auto loan securitization transaction were $348 million during fiscal 2000, $271 million during fiscal 1999 and $123 million during fiscal 1998. This auto loan securitization program has a total program capacity of $500 million.

In October 1999, the Company formed a second securitization facility that allowed for a $644 million securitization of auto loan receivables in the public market. The program had a capacity of $559 million as of February 29, 2000, with no recourse provisions.

Receivables relating to the securitization facilities consist of the following at February 29 or 28:

(Amounts in thousands)	2000	1999
Managed receivables	$ 931,745	$589,032
Receivables held by the CarMax Group:		
For sale	(23,477)	(14,690)
For investment*	(21,096)	(35,342)
Net receivables sold	$ 887,172	$539,000
Program capacity	$1,059,500	$575,000

**Held by a bankruptcy remote special purpose company*

The finance charges from the transferred receivables are used to fund interest costs, charge-offs and servicing fees. Rights recorded for future finance income from serviced assets that exceed the contractually specified servicing fees are carried at fair value and amounted to $15.5 million at February 29, 2000, $14.7 million at February 28, 1999, and $6.8 million at February 28, 1998, and are included in net accounts receivable. Changes in these retained interests consisted of originated retained interests of $17.5 million in fiscal 2000, $16.6 million in fiscal 1999 and $7.3 million in fiscal 1998, less amortization of $16.7 million in fiscal 2000, $8.7 million in fiscal 1999 and $3.6 million in fiscal 1998. The finance operation's servicing revenue totaled $36.9 million for fiscal 2000, $28.2 million for fiscal 1999 and $11.2 million for fiscal 1998. The servicing fee specified in the auto loan securitization agreements adequately compensates the finance operation for servicing the accounts. Accordingly, no servicing asset or liability has been recorded.

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

The APRs range from 6 percent to 18 percent fixed, with default rates varying based on credit quality, but generally aggregating 0.75 percent to 1.25 percent. The weighted average life of the receivables is expected to be in the 18 month to 20 month range. Interest cost depends on the time at which accounts were originated, but is in the range of 6.4 percent to 6.6 percent at February 29, 2000.

6. PROPERTY AND EQUIPMENT

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

(Amounts in thousands)	2000	1999
Land and buildings (20 to 25 years)	$ 81,885	$ 16,052
Land held for sale	41,850	31,435
Land held for development	17,697	28,781
Construction in progress	18,010	76,355
Furniture, fixtures and equipment (3 to 8 years)	60,225	51,504
Leasehold improvements (10 to 15 years)	19,902	15,658
	239,569	219,785
Less accumulated depreciation	27,713	15,839
Property and equipment, net	$211,856	$203,946

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

7. DEBT

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

(Amounts in thousands)	2000	1999
Term loans	$405,000	$405,000
Industrial Development Revenue Bonds due through 2006 at various prime-based rates of interest ranging from 5.0% to 7.0%	5,419	6,564
Obligations under capital leases	12,416	12,728
Note payable	3,750	5,000
Total long-term debt	426,585	429,292
Less current installments	177,344	2,707
Long-term debt, excluding current installments	$249,241	$426,585
Portion of long-term debt allocated to the CarMax Group	$212,866	$140,970

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 29, 2000, the interest rate on the term loan was 6.29 percent.

In May 1995, the Company entered into a five-year, $175,000,000, unsecured bank term loan. Principal is due in full at maturity with interest payable periodically at LIBOR plus 0.35 percent. At February 29, 2000, the interest rate on the term loan was 6.23 percent. This term loan is due in May 2000 and has been classified as a current liability as of February 29, 2000. Although the Company has the ability to refinance this loan, it intends to repay the debt using existing working capital.

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 29, 2000, the interest rate on the term loan was 6.23 percent.

The Company maintains a multi-year, $150,000,000, unsecured revolving credit agreement with four banks. The agreement calls for interest based on both committed rates and money market rates and a commitment fee of 0.18 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 29, 2000, or February 28, 1999.

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 29, 2000, and February 28, 1999.

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.

In fiscal 1999, the CarMax Group entered into a one-year, renewable inventory financing arrangement with an asset-backed commercial paper conduit. The arrangement had a total program capacity of $160 million at February 29, 2000, and was created to provide funding for the acquisition of vehicle inventory through the use of a non-affiliated special-purpose company. During fiscal years 2000 and 1999, no inventory was financed by the CarMax Group under this arrangement. This financing arrangement was terminated in the first quarter of fiscal 2001.

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 29 or 28	
(Amounts in thousands)	2000	1999
Average short-term debt outstanding	$ 44,692	$ 54,505
Maximum short-term debt outstanding	$411,791	$463,000
Aggregate committed lines of credit	$370,000	$370,000

The weighted average interest rate on the outstanding short-term debt was 5.6 percent during fiscal 2000, 5.1 percent during fiscal 1999 and 5.7 percent during fiscal 1998.

Interest expense allocated by the Company to the CarMax Group, excluding interest capitalized, was $10,362,000 in fiscal 2000, $6,393,000 in fiscal 1999 and $1,789,000 in fiscal 1998. The CarMax Group capitalizes interest in connection with the construction of certain facilities. In fiscal 2000, interest capitalized amounted to $1,254,000 ($2,674,000 in fiscal 1999 and $4,879,000 in fiscal 1998).

8. INCOME TAXES

The components of the income tax provision (benefit) are as follows:

	Years Ended February 29 or 28		
(Amounts in thousands)	2000	1999	1998
Current:			
Federal	$(1,395)	$(23,773)	$(17,101)
State	855	(2,546)	(2,913)
	(540)	(26,319)	(20,014)
Deferred:			
Federal	1,190	10,945	(1,259)
State	35	339	(608)
	1,225	11,284	(1,867)
Income tax provision (benefit)	$ 685	$(15,035)	$(21,881)

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

	Years Ended February 29 or 28		
	2000	1999	1998
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	3.0	4.0	4.0
Effective income tax rate	38.0%	39.0%	39.0%

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 29 or 28 are as follows:

(Amounts in thousands)	2000	1999
Deferred tax assets:		
Deferred revenue	$ 91	$ 130
Accrued expenses	5,510	2,970
Other	218	184
Total gross deferred tax assets	5,819	3,284
Deferred tax liabilities:		
Depreciation	6,181	4,435
Inventory capitalization	4,655	4,620
Gain on sales of receivables	4,919	4,653
Prepaid expenses	3,088	1,375
Total gross deferred tax liabilities	18,843	15,083
Net deferred tax liability	$13,024	$11,799

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 29, 2000, and February 28, 1999, will be realized by the CarMax Group; therefore, no valuation allowance is necessary.

9. ASSOCIATE BENEFIT AND STOCK INCENTIVE PLANS

(A) 401(K) PLAN: Effective August 1, 1999, the Company sponsors 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 contribution to this plan for CarMax Group associates was $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 Stock. The rights are exercisable only upon the attainment of, or the commencement of a tender offer to attain, a specified ownership interest in the Company by a person or group. When exercisable, each CarMax Group right would entitle shareholders to buy one four-hundredth of a share of Cumulative Participating Preferred Stock, Series F, $20 par value, at an exercise price of $100 per share subject to adjustment. A total of 500,000 shares of such preferred stock, which have preferential dividend and liquidation rights, have been designated and reserved. No such shares are outstanding. In the event that an acquiring person or group acquires the specified ownership percentage of the Company's common stock (except pursuant to a cash tender offer for all outstanding shares determined to be fair by the board of directors) or engages in certain transactions with the Company after the rights become exercisable, each right will be converted into a right to purchase, for half the current market price at that time, shares of the related Group stock valued at two times the exercise price.

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

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

TABLE 1	2000		1999		1998	
(Shares in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,380	$1.77	4,822	$ 1.49	4,769	$ 0.51
Granted	1,132	5.89	205	8.63	413	13.04
Exercised	(2,027)	0.22	(543)	0.22	(273)	0.22
Cancelled	(161)	6.94	(104)	10.54	(87)	6.36
Outstanding at end of year	3,324	$3.87	4,380	$ 1.77	4,822	$ 1.49
Options exercisable at end of year	1,203	$2.54	1,566	$ 0.96	762	$ 0.37

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	1,638	2.0	$ 0.22	934	$ 0.22
3.90 to 6.06	1,098	5.3	5.89	19	4.25
6.25 to 16.31	588	4.0	10.29	250	11.07
Total	3,324	3.4	$ 3.87	1,203	$ 2.54

key employees are granted restricted shares of CarMax Group 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 five years from the date of grant. In fiscal 2000, restricted stock awards for 30,000 shares were granted to eligible employees. The market value at the date of grant of these shares has been recorded as unearned compensation and is a component of Group equity. Unearned compensation is expensed over the restriction periods. In fiscal 2000, a total of $447,200 was charged to CarMax Group operations ($426,600 in fiscal 1999 and $77,700 in fiscal 1998). As of February 29, 2000, 110,833 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 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 29, 2000, a total of 1,058,693 shares remained available under the CarMax Group Plan. During fiscal 2000, 580,000 shares were issued to or purchased on the open market on behalf of the employees (268,532 in fiscal 1999 and 92,775 in fiscal 1998). The average price per share purchased under the Plan was $3.68 in fiscal 2000, $7.56 in fiscal 1999 and $12.73 in fiscal 1998. The Company match or purchase price discount charged to CarMax Group operations totaled $221,500 in fiscal 2000, $268,100 in fiscal 1999 and $160,900 in fiscal 1998.

(F) STOCK INCENTIVE PLANS: Under the Company's stock incentive plans, incentive and nonqualified stock options may be granted to management, key employees and outside directors to purchase shares of CarMax Group Stock. The exercise price for nonqualified options granted under the 1994 plan is equal to, or greater than, the market value at the date of grant. Options generally are exercisable over various periods ranging from one to seven years from the date of grant.

A summary of the status of the CarMax Group's stock options and changes during the years ended February 29, 2000, and February 28, 1999 and 1998, are shown in Table 1. Table 2 summarizes information about stock options outstanding as of February 29, 2000.

The CarMax Group applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value at the grant date consistent with the methods of SFAS No. 123, the CarMax Group's net earnings (loss) and net earnings (loss) per share 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 2000 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 29 or 28 2000	1999	1998
Net earnings (loss):			
As reported	$ 256	$(5,457)	$(7,763)
Pro forma	75	(5,537)	(7,824)
Net earnings (loss) per share:			
Basic—as reported	$0.01	$ (0.24)	$ (0.35)
Basic—pro forma	0.00	(0.24)	(0.36)
Diluted—as reported	$0.01	$ (0.24)	$ (0.35)
Diluted—pro forma	0.00	(0.24)	(0.36)

For the purpose of computing the pro forma amounts indicated, 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:

	2000	1999	1998
Expected dividend yield	–	–	–
Expected stock volatility	62%	50%	50%
Risk-free interest rates	6%	6%	6%
Expected lives (in years)	4	3	3

Using these assumptions in the Black-Scholes model, the weighted average fair value of options granted for the CarMax Group is $3 in fiscal 2000, $3 in fiscal 1999 and $6 in fiscal 1998.

10. NET EARNINGS (LOSS) PER SHARE

The calculation of net earnings (loss) per share is presented below:

(Amounts in thousands except per share data)	Years Ended February 29 or 28 2000	1999	1998
Weighted average common shares	23,778	22,604	22,001
Dilutive potential common shares:			
Options	1,814	–	–
Restricted stock	196	–	–
Weighted average common shares and dilutive potential common shares	25,788	22,604	22,001
Net earnings (loss) available to common shareholders	$ 256	$(5,457)	$(7,763)
Basic net earnings (loss) per share	$0.01	$ (0.24)	$ (0.35)
Diluted net earnings (loss) per share	$0.01	$ (0.24)	$ (0.35)

Certain options were not included in the computation of diluted net earnings per share because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 1,685,400 shares of CarMax Group Stock ranging from $3.90 to $16.31 per share were outstanding and not included in the calculation at the end of fiscal 2000. Prior to fiscal 2000, dilutive potential common shares of CarMax Group Stock were not included in the calculation of diluted net loss per share because the Group had a net loss for those periods.

11. PENSION PLAN

The Company has a noncontributory defined benefit pension plan covering the majority of full-time employees who are at least age 21 and have completed one year of service. The cost of the program is being funded currently. Plan benefits generally are based on years of service and average compensation. Plan assets consist primarily of equity securities and included 160,000 shares of Circuit City Group Stock at February 29, 2000 and February 28, 1999.

Eligible employees of the CarMax Group participate in the Company's plan. Pension costs for these employees have been allocated to the CarMax Group based on its proportionate share of the projected benefit obligation. The following tables set forth the CarMax Group's share of the Plan's financial status and amounts recognized in the balance sheets as of February 29 or 28:

(Amounts in thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 2,565	$ 958
Service cost	1,250	525
Interest cost	173	67
Actuarial loss	455	1,015
Benefit obligation at end of year	$ 4,443	$ 2,565
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 1,553	$ 1,242
Actual return on plan assets	259	69
Employer contributions	625	242
Fair value of plan assets at end of year	$ 2,437	$ 1,553
Reconciliation of funded status:		
Funded status	$(2,006)	$(1,012)
Unrecognized actuarial loss	1,340	1,063
Unrecognized transition asset	(6)	(8)
Unrecognized prior service benefit	(6)	(8)
Net amount recognized	$ (678)	$ 35

The components of net pension expense are as follows:

(Amounts in thousands)	Years Ended February 29 or 28 2000	1999	1998
Service cost	$1,250	$ 525	$219
Interest cost	173	67	39
Expected return on plan assets	(159)	(119)	(73)
Amortization of prior service cost	(3)	(1)	(1)
Amortization of transitional asset	(2)	(3)	(3)
Recognized actuarial loss	77	–	17
Net pension expense	$1,336	$ 469	$198

Assumptions used in the accounting for the pension plan were:

	Years Ended February 29 or 28 2000	1999	1998
Weighted average discount rate	8.0%	6.8%	7.0%
Rate of increase in compensation levels	6.0%	5.0%	5.0%
Expected rate of return on plan assets	9.0%	9.0%	9.0%

12. LEASE COMMITMENTS

The CarMax Group conducts substantially all of its business in leased premises. The CarMax Group's lease obligations are based upon contractual minimum rates. Rental expense for all operating leases were $34,561,000 in fiscal 2000, $23,521,000 in fiscal 1999 and $11,421,000 in fiscal 1998. Most leases provide that the CarMax Group pay taxes, maintenance, insurance and certain other operating expenses applicable to the premises.

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

Future minimum fixed lease obligations, excluding taxes, insurance and other costs payable directly by the CarMax Group, as of February 29, 2000, were:

(Amounts in thousands) Fiscal	Operating Lease Commitments
2001	$ 34,331
2002	33,088
2003	32,877
2004	32,257
2005	31,919
After 2005	458,031
Total minimum lease payments	$622,503

In fiscal 2000, the Company entered into sale-leaseback transactions on behalf of the CarMax Group with unrelated parties at an aggregate selling price of $12,500,000 ($131,750,000 in fiscal 1999 and $98,098,000 in fiscal 1998). Neither the Company nor the CarMax Group has continuing involvement under the sale-leaseback transactions.

13. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

(A) ADVERTISING EXPENSE: Advertising expense, which is included in selling, general and administrative expenses in the accompanying statements of operations, amounted to $48,637,000 (2.4 percent of net sales and operating revenues) in fiscal 2000, $50,042,000 (3.4 percent of net sales and operating revenues) in fiscal 1999 and $29,621,000 (3.4 percent of net sales and operating revenues) in fiscal 1998.

(B) LEASE TERMINATION COSTS AND WRITE-DOWN OF ASSETS: 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.

In fiscal 1998, CarMax recorded a loss of $11.5 million related to the closure and disposal of its centralized reconditioning facilities and costs associated with excess property at some locations. The reconditioning facilities and the excess property were disposed of in fiscal 1999 and 2000. Of the total loss for fiscal 1998, $9.7 million was for the write-down of assets and $1.8 million was for a liability for operating leases. The loss related to a write-down of assets represents the difference between the carrying value and the estimated fair value of the assets less any disposal costs. The estimated fair value is based on sales prices for comparable assets or expected future cash flows. The loss related to operating leases in fiscal 1998 was calculated as the difference between the present value of the required rental payments on the original lease obligations and the present value of the future rental receipts that are expected from subleasing the property.

14. INTEREST RATE SWAPS

The Company enters into amortizing swaps relating to the auto loan receivable securitization to convert variable-rate financing costs to fixed-rate obligations to better match funding costs to the receivables being securitized. In November 1995, the Company entered into a 50-month amortizing swap with a notional amount of $75 million and, in October 1996, entered into a 40-month amortizing swap with a notional amount of $64 million. The Company entered into four 40-month amortizing swaps with notional amounts totaling approximately $162 million in fiscal 1998, four 40-month amortizing swaps with notional amounts totaling approximately $387 million in fiscal 1999, and four 40-month amortizing swaps with notional amounts totaling approximately $344 million in fiscal 2000. These swaps were entered into as part of sales of receivables and are included in the gain on sales of receivables. The remaining total notional amount of all swaps related to the auto loan receivable securitization was approximately $327 million at February 29, 2000, $499 million at February 28, 1999, and $224 million at February 28, 1998. The reduction in the total notional amount of the CarMax interest rate swaps relates to the replacement of floating rate securitizations with a $644 million fixed-rate securitization in October 1999.

Concurrent with the funding of the $175 million term loan facility in May 1995, the Company entered into five-year interest rate swaps with notional amounts aggregating $175 million. These swaps effectively converted the variable-rate obligation into a fixed-rate obligation. The fair value of the swaps is the amount at which they could be settled. This value is based on estimates obtained from the counterparties, which are two banks highly rated by several financial rating agencies. The swaps are held for hedging purposes and are not recorded at fair value. Recording the swaps at fair value at February 29, 2000, would result in a loss of $90,000 and at February 28, 1999, would result in a loss of $2.2 million.

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

15. CONTINGENT LIABILITIES

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

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

(Amounts in thousands except per share data)	First Quarter 2000	First Quarter 1999	Second Quarter 2000	Second Quarter 1999	Third Quarter 2000	Third Quarter 1999	Fourth Quarter 2000	Fourth Quarter 1999	Year 2000	Year 1999
Net sales and operating revenues	$486,063	$346,363	$535,727	$400,031	$488,958	$345,940	$504,236	$373,964	$2,014,984	$1,466,298
Gross profit	$ 61,996	$ 39,896	$ 63,780	$ 46,202	$ 52,728	$ 39,760	$ 61,861	$ 46,408	$ 240,365	$ 172,266
Net earnings (loss)	$ 2,733	$ (3,215)	$ 3,233	$ (2,965)	$ (3,136)	$ (7,331)	$ (1,712)	$ (10,003)	$ 1,118	$ (23,514)
Net earnings (loss) attributed to CarMax Group Stock	$ 646	$ (736)	$ 775	$ (685)	$ (757)	$ (1,701)	$ (408)	$ (2,335)	$ 256	$ (5,457)
Net earnings (loss) per share:										
Basic	$ 0.03	$ (0.03)	$ 0.03	$ (0.03)	$ (0.03)	$ (0.07)	$ (0.02)	$ (0.10)	$ 0.01	$ (0.24)
Diluted	$ 0.03	$ (0.03)	$ 0.03	$ (0.03)	$ (0.03)	$ (0.07)	$ (0.02)	$ (0.10)	$ 0.01	$ (0.24)

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 29, 2000 and February 28, 1999 and the related statements of operations, group equity and cash flows for each of the fiscal years in the three-year period ended February 29, 2000. These financial statements are the responsibility of Circuit City Stores, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CarMax Group as of February 29, 2000 and February 28, 1999 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 29, 2000 in conformity with generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
April 4, 2000

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

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

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

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

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

Richard L. Sharp
Chairman and Chief Executive Officer

Michael T. Chalifoux
Executive Vice President, Chief Financial Officer
and Corporate Secretary
April 5, 2000

COMPANY OFFICERS

Richard L. Sharp
Chairman and Chief Executive Officer

W. Alan McCollough
President and Chief Operating Officer

Richard S. Birnbaum
Executive Vice President
Operations

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

John W. Froman
Executive Vice President
Merchandising

Dennis J. Bowman
Senior Vice President and
Chief Information Officer

W. Stephen Cannon
Senior Vice President and
General Counsel

Philip J. Dunn
Senior Vice President
Treasurer and Controller

John A. Fitzsimmons
Senior Vice President
Administration

W. Austin Ligon
Senior Vice President
Automotive

Gary M. Mierenfeld
Senior Vice President
Distribution and National Service

Jeffrey S. Wells
Senior Vice President
Human Resources

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

Michael K. Froning
Vice President and
Southern Division President

Mario Ramirez
Vice President and
Western Division President

Randall C. Stephen
Vice President and
Northeast Division President

Mark A. Arensmeyer
Vice President
Superstore Human Resources and
Superstore Training

Edward J. Brett
Vice President

Keith D. Browning
Vice President

David W. Cecil
Vice President
Merchandising

Joseph T. Cipolla
Vice President
Management Information Systems

Miles M. Circo
Vice President and
Chief Technical Officer

Ann M. Collier
Vice President
Financial and Public Relations

Benjamin B. Cummings Jr.
Vice President
Real Estate

Neal N. Lappe
Vice President
Product Service

Jerry L. Lawson
Vice President
General Manager

Carl C. Liebert III
Vice President
Corporate Operations

R. Bruce Lucas
Vice President
Construction

Kim D. Orcutt
Vice President
Merchandising

George R. Pasini
Vice President
Design

Michael T. Ryan
Vice President
Merchandising

Richard W. Souder Jr.
Vice President
Merchandising

Ann-Marie Stephens
Vice President
Strategic Planning

Blaine Altaffer
Assistant Vice President
Merchandising

Lisa J. Baldyga
Assistant Treasurer

L. Dan Barzel
Assistant Vice President
Merchandising

Jay W. Bertagnoli
Assistant Vice President
Merchandising

Julie S. Bilodeau
Assistant Vice President
Market Research and Analysis

Bernard H. Curlee Jr.
Assistant Vice President
Technical Service

William C. Denney
Assistant Vice President
Merchandising

Peter A. Douglas
Assistant Vice President
General Manager

Douglas R. Drews
Assistant Vice President
Distribution

Victor M. Engesser
Assistant Vice President
Merchandising

Linda N. English
Assistant Vice President
Assistant Controller

Kenneth S. Golden
Assistant Vice President
Merchandising

Stanley L. Heller
Assistant Vice President
Real Estate

Henry Hewitt
Assistant Vice President
Merchandising

Eric A. Jonas Jr.
Assistant Vice President
Corporate Human Resource Services

Thomas E. Krieck
Assistant Vice President
General Manager

William E. McCorey
Assistant Vice President
Management Information Systems

Janice A. McNee
Assistant Vice President
Merchandising

Douglas T. Moore
Assistant Vice President
Merchandising

Joseph E. Oren
Assistant Vice President
Management Information Systems

Kent E. Richardson
Assistant Vice President
Store Design

Martin C. Schaeffer
Assistant Vice President
General Manager

Elaine M. Schramm
Assistant Vice President
Loss Prevention

Frank X. Smalara
Assistant Vice President
Management Information Systems

Paul D. Swenson
Assistant Vice President
Warranty Administration

James H. Wimmer
Assistant Vice President
General Operations Manager

CARMAX OFFICERS

W. Austin Ligon
President

Keith D. Browning
Vice President and
Chief Financial Officer

Michael K. Dolan
Vice President and
Chief Information Officer

Thomas J. Folliard
Vice President
Merchandising

Joseph S. Kunkel
Vice President
Marketing and Strategy

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

Edwin J. Hill
Assistant Vice President
Service Operations

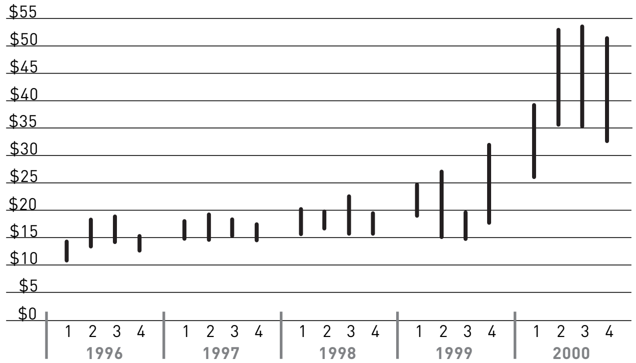
Scott A. Rivas
Assistant Vice President
Human Resources

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

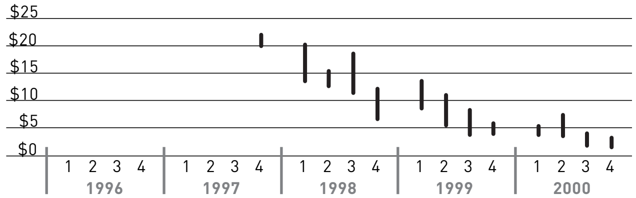
Fred S. Wilson
Assistant Vice President
Loss Prevention

HIGH-LOW PRICES

Circuit City



CarMax



Common Stock Prices

As of February 29, 2000, there were approximately 8,600 holders of the Circuit City Group Common Stock and 540 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, 1995, 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 29, 2000. The Circuit City Stores, Inc. Common Stock was redesignated as and, on February 4, 1997, began trading as Circuit City Group Common Stock. It includes a retained interest in the equity value of newly issued Circuit City Stores, Inc.—CarMax Group Common Stock. 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 29, 2000.

SHAREHOLDER INFORMATION

Certified Public Accountants
KPMG LLP
Richmond, Virginia

Transfer Agent & Registrar
Norwest Bank Minnesota, N.A.
South St. Paul, Minnesota
(800) 468-9716
email: stocktransfer@norwest.com

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

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

Web Sites
http://www.circuitcity.com
http://www.carmax.com

Investor Information Web Sites
http://investor.circuitcity.com
http://investor.carmax.com

Annual Meeting
June 13, 2000, 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 2/29/00)*

Alabama
Birmingham (3)
Huntsville
Montgomery
Tuscaloosa

Arizona
Phoenix (8)
Tucson (2)

Arkansas
Fort 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 (3)
Miami (9)
Orlando (6)
Panama City
Pensacola (3)
Tallahassee
Tampa (9)
West Palm Beach (4)

Georgia
Atlanta (13)
Augusta
Columbus
Macon
Savannah

Hawaii
Honolulu

Idaho
Boise
Idaho Falls

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

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

Kansas
Kansas City (4)
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 (12)
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
Binghamton
Buffalo (3)
New York (31)
Rochester (3)
Syracuse

North Carolina
Charlotte (6)
Greensboro (3)
Greenville/
New Bern (2)
Raleigh (5)
Wilmington

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

Oklahoma
Oklahoma City (2)
Tulsa (2)

Oregon
Eugene
Medford
Portland (5)

Pennsylvania
Erie
Harrisburg (3)
Johnstown (2)
Philadelphia (14)
Pittsburgh (5)
Scranton/
Wilkes-Barre (3)

Rhode Island
Providence (4)

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

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

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

Utah
Salt Lake City (5)

Vermont
Burlington

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

Washington
Seattle (9)
Spokane (2)

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

West Virginia
Charleston/
Huntington (2)
Clarksburg (2)
Wheeling (2)

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

Wyoming
Cheyenne

CARMAX MARKETS *(as of 2/29/00)*

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)

CIRCUIT CITY STORES, INC.
9950 MAYLAND DRIVE
RICHMOND, VIRGINIA 23233-1464