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Jefferson Research & Management



Torpedo Alert Short Profile Update

Circuit City Group (CC)

December 16, 2002

Conference Call Update: CC

Circuit City Group will host its quarterly conference call at 11:00AM EST on Tuesday, December 17th. Access is via the company's website at www.circuitcity.com. In advance of the conference call, we are providing some additional background information.

The problems we identified:

1. Increasing competition with Best Buy and others in the company's core electronics business.
2. Bad debt write-offs are increasing, while the company's allowance for doubtful accounts has fallen.
3. Reliance on CarMax for a large portion of earnings. Note: the company is now on its own after the CarMax separation on October 1, 2002.
4. Reliance on the banking division for a large part of operating earnings.
5. The pro-forma comparables are benefiting from the exclusion of the old appliance square-footage now dedicated to the ongoing products, which ends in the fourth quarter.

Things to look for:

1. Declining gross margins in light of increasing competition and increased promotional activities.
2. Any indicators that the banking revenues from CarMax go away with the separation of CarMax from Circuit City Group.
3. Lower guidance in comp sales growth going forward as the comparison numbers get tougher.

Questions that need answers:

1. What are expectations on comparable sales for the fourth quarter and for the next fiscal year?
2. Will CarMax still offer financing through Circuit City's banking division, or will they have their own banking division?

3. Will the company provide any additional retrospective disclosure for the CarMax separation?

Key Indicators

Summary of problems	Indicators	Latest Indicator Fundamental Strength	Next Info	Comment
1. Increasing competition with Best Buy in the company's core electronics business.	Gross Margins Sales per Store (ttm) Head to Head Market Share.	Unchanged	Q3 Earnings Release Dec. 17, 2002	Gross margins are getting crunched (down 80 basis points year over year in Q2 and CC has expressed that they will do what they have to do to drive sales. CC lost head-to-head market share in Q2 from 32.6% a year ago to 30.7% currently.
2. Bad debt write-offs are increasing, while the company's allowance for doubtful accounts has fallen.	Allowance for doubtful receivables Bad debt write-offs	Unchanged	10K Late April, 2003	Bad debt write-offs have continued to outpace the company's allowance for doubtful accounts. The allowance is down to less than 1% of receivables, the lowest level in over six years.
3. Reliance on CarMax for a large portion of earnings.	CarMax % of total earnings.	Unchanged	N/A	After the CarMax separation the company is now on its own.
4. Reliance on the banking division for a large part of operating earnings.	Financing earnings as % of pre-tax earnings	Unchanged	Q3 Earnings Release Dec. 17, 2002	The banking division accounted for 30% of the pre-tax income of over the last year.
5. Current strong same store sales growth due to weak comparables from the previous year.	Same store sales	Unchanged	Q3 Earnings Release Dec. 17, 2002	By the company's fiscal fourth quarter 2003 comparables will no longer be as easy to improve upon.

Upcoming Events

(Note: Risk Level is risk to shareholders of the stock.)

Date	Risk Level	Event
December 17, 2002	Medium	CC reports third quarter earnings
	Low	BBY reports third quarter earnings
January 9, 2003	Low	BBY reports December sales figures
January 9 - 12, 2003	Low	Consumer Electronics Show (Las Vegas, Nevada)
March 6, 2003	High	CC reports fourth quarter and fiscal year 2003 sales. Comparables become tougher to beat this quarter.
	Low	BBY reports third quarter and fiscal year 2003 sales
Late March or Early April, 2003	Medium	CC reports fourth quarter and fiscal year 2003 earnings
	Low	BBY reports third quarter and fiscal year 2003 earnings