COLGATE PALMOLIVE CO
Form 4
March 13, 2006

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

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OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
THOMPSON DELIA H
(Last) (First) (Middle)
C/O COLGATE-PALMOLIVE COMPANY, 300 PARK AVENUE
(Street)
NEW YORK, NY 10022
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
COLGATE PALMOLIVE CO [CL]

3. Date of Earliest Transaction (Month/Day/Year)
03/09/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP, Investor Relations

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/09/2006		A (1)		3,500	A	$ 0	26,492	D	
Common Stock								1,326	I	By Issuer's 401(k) Plan Trustee
Common Stock								112	I	By spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
THOMPSON DELIA H C/O COLGATE-PALMOLIVE COMPANY 300 PARK AVENUE NEW YORK, NY 10022			VP, Investor Relations	

Signatures

Nina D. Gillman by power of attorney	03/13/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted stock award granted under the issuer's Executive Incentive Compensation Plan

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. which is net of $0.5 million of income taxes, and related to a domestic segment operation that is held for sale. For the quarter ended August 31, 2006, this $0.5 million of income tax benefit was offset by $0.5 million of income tax expense resulting from a revision of management's estimate regarding certain tax uncertainties associated with the discontinued bankcard operations. For the six months ended August 31, 2006, the net loss from discontinued operations totaled $1.7 million, which is net of $0.7 million of income taxes, and related to a domestic segment operation that is held for sale. For the first half of fiscal 2007, Page 13 of 33 this $0.7 million of income tax benefit was offset by $0.5 million of income tax expense associated with the discontinued bankcard operations as

discussed above. For the quarter ended August 31, 2005, the net loss from discontinued operations totaled $2.5 million, which is net of $1.4 million of income taxes, and related to a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, which was sold in October 2005. For the six months ended August 31, 2005, the net loss from discontinued operations totaled $3.7 million, which is net of $2.1 million of income taxes, and related to a domestic segment operation that was held for sale and MusicNow. 10. Segment Information The company has two reportable segments: its domestic segment and its international segment. The company identified these segments based on its management reporting structure and the nature of the products and services offered by each segment. The domestic segment is primarily engaged in the business of selling brand-name consumer electronics, personal computers, entertainment software, and related services in the United States. The international segment is primarily engaged in the business of selling private-label and brand-name consumer electronics products in Canada. Net sales by reportable segment were as follows: Three Months Ended Six Months Ended August 31 August 31 (Amounts in millions) 2006 2005 2006 2005 -- -------------------------- Domestic segment.. $2,680.6 $2,414.0 $5,166.1 $4,528.7 International segment.................................... 158.6 143.0 290.0 256.3 -------------------------- -------------------------- Net sales... $2,839.2 $2,557.1 $5,456.2 $4,784.9 ========================== ========================== Net earnings (loss) from continuing operations by reportable segment were as follows: Three Months Ended Six Months Ended August 31 August 31 (Amounts in millions) 2006 2005 2006 2005 -- -------------------------- Domestic segment.. $10.5 $4.4 $19.8 $(1.5) International segment.................................... 0.9 (0.5) (3.4) (6.5) -------------------------- -------------------------- Net earnings (loss) from continuing operations............ $11.4 $3.9 $16.4 $(8.0) ========================== ========================== Total assets by reportable segment were as follows: At August 31 At February 28 (Amounts in millions) 2006 2006 -- Domestic segment....................................... $3,629.0 $3,594.4 International segment.................................. 500.9 474.6 ------------------------------------ Total assets... $4,129.9 $4,069.0 ==================================== Page 14 of 33 11. Supplemental Consolidated Statements of Cash Flows Information The following table summarizes supplemental cash flow information. Six Months Ended August 31 (Amounts in millions) 2006 2005 -- Supplemental schedule of non-cash investing and financing activities: Change in capital expenditure accrual.................................... $ 24.2 $ 2.8 Capital lease obligation.. $ - $ 2.2 Acquisition(a): Fair value of assets acquired... $ - $13.3 Less: liabilities assumed.. - 0.3 ------- ------ Acquisition... $ - $13.0 ======= ===== (a)The acquisition is reflected in investing cash flows for discontinued operations on the consolidated statement of cash flows. 12.Recent Accounting Pronouncements As discussed in Note 3, Stock-Based Compensation, the company adopted SFAS No. 123(R) during the first quarter of fiscal 2007. In October 2005, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period." FSP No. FAS 13-1 requires companies to expense rent payments for building or ground leases incurred during a construction period. The company adopted FSP No. FAS 13-1 on a prospective basis in the first quarter of fiscal 2007. The adoption of this new standard did not have a material impact on the company's financial position, results of operations or cash flows. In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for the company beginning with the first quarter of fiscal 2008. The company has not yet determined the impact of adopting this standard. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the company beginning with the first quarter of fiscal 2009. The company has not yet determined the impact of adopting this standard. In September 2006, the FASB issued SFAS No.

158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize a plan's overfunded or underfunded status in its balance sheets and recognize the changes in a plan's funded status in comprehensive income in the year in which the changes occur. These provisions of SFAS No. 158 are effective for the company's fiscal year ending February 28, 2007. In addition, SFAS No. 158 requires an employer to measure plan assets and obligations that determine its funded status as of the end of its fiscal year, with limited exceptions. This provision of SFAS No. 158 is effective for the company's fiscal year ending February 28, 2009. The company has not yet determined the impact of adopting this standard. Page 15 of 33 13.Subsequent Event As previously reported in the company's Annual Report on Form 10-K for the year ended February 28, 2006, the company was involved in litigation with RadioShack Corporation ("RadioShack") related to various agreements between InterTAN and RadioShack and its subsidiaries. In September 2006, RadioShack and Circuit City reached an agreement that settles the litigation between the two companies. ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS We are a leading specialty retailer of consumer electronics, home office products, entertainment software, and related services. We have two reportable segments: our domestic segment and our international segment. Our domestic segment is primarily engaged in the business of selling brand-name consumer electronics, personal computers, entertainment software, and related services in our stores in the United States and via the Web at www.circuitcity.com and www.firedog.com. At August 31, 2006, the domestic segment operated 632 Superstores and 5 other stores in 158 U.S. media markets. Our international segment, which is comprised of the operations of InterTAN, Inc., is primarily engaged in the business of selling private-label and brand-name consumer electronics in Canada. The international segment's headquarters are located in Barrie, Ontario, Canada, and it operates through retail stores and dealer outlets in Canada primarily under the trade names The Source By Circuit CitySM, Rogers Plus(R) and Battery Plus(R). At August 31, 2006, the international segment conducted business through 949 retail stores and dealer outlets, which consisted of 541 company-owned stores, 298 dealer outlets, 92 Rogers Plus(R) stores and 18 Battery Plus(R) stores. The international segment also operates a Web site at www.thesource.ca. In accordance with the Amending Agreement dated March 27, 2004, between Rogers Wireless, Inc. ("Rogers") and InterTAN Canada Ltd., Rogers has notified InterTAN that they do not intend to continue the existing arrangement with respect to InterTAN's operation of the Rogers Plus(R) stores after December 31, 2006. Under the Amending Agreement, Rogers will pay to InterTAN, among other amounts, in each of 2007, 2008 and 2009 an amount equal to the average of the annual volume rebate attributable to the Rogers Plus(R) stores paid to InterTAN in 2005 and 2006. Exit costs related to the transition are expected to be inconsequential. Management's Discussion and Analysis (MD&A) is designed to provide the reader of financial statements with a narrative discussion of our results of operations; financial position, liquidity and capital resources; critical accounting policies and significant estimates; and the impact of recently issued accounting standards. Our MD&A is presented in seven sections: o Executive Summary o Critical Accounting Policies o Results of Operations o Recent Accounting Pronouncements o Financial Condition o Fiscal 2007 Outlook o Forward-Looking Statements This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements included in this report, the Annual Report on Form 10-K for the fiscal year ended February 28, 2006, as well as our reports on Form 8-K and other SEC filings. Page 16 of 33 EXECUTIVE SUMMARY Fiscal 2007 Second Quarter Performance o Net sales grew 11.0 percent, driven by a comparable store sales gain of 8.3 percent. Domestic segment Web-originated sales grew 74 percent over the same period last year. o Gross profit margin rate was flat compared with the same period last year. For the domestic segment, a modest decline in merchandise margin was offset by a margin contribution from net financing. o SG&A expenses as a percentage of sales declined 44 basis points from the same period last year, driven by a 31 basis point improvement in the domestic segment. The domestic segment improvement was driven by leverage of payroll as well as rent and occupancy expenses. The improvement in the international segment SG&A expense-to-sales ratio contributed 13 basis points to the consolidated improvement. o Earnings from continuing operations before income taxes were 0.7 percent of sales compared with 0.2 percent of sales in the same period last year. o We reported net earnings from continuing operations of 7 cents per diluted share compared with 2 cents per diluted share in the same period last year. CRITICAL ACCOUNTING POLICIES See the discussion of critical accounting policies under Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2006 Annual Report on Form 10-K. These policies relate to accounting for cash consideration received from vendors, the calculation of the liability for lease termination costs, accounting for goodwill and other identified intangible assets,

accounting for pension plans and accounting for income taxes. We have updated our critical accounting policy for Stock-Based Compensation due to our adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," (SFAS No. 123(R)). Accounting for Stock-Based Compensation We account for stock-based compensation using a fair value-based method in accordance with SFAS No. 123(R). The Black-Scholes option valuation model is used to determine the fair value of stock options at the grant date, and expense is recognized over the period in which the options vest. Option valuation models require us to make subjective assumptions, including the expected future volatility of the stock price, expected dividend yield, and expected life of the option. Changes in the subjective assumptions can materially affect the fair value estimate. We estimate the number of equity awards granted that are expected to be forfeited, recognize compensation cost based on the number of awards that are expected to vest, and subsequently adjust the estimated forfeitures to reflect actual forfeitures. RESULTS OF OPERATIONS Our operations, in common with other retailers in general, are subject to seasonal influences. Historically, we have realized more of our net sales and net earnings in the fourth quarter, which includes the majority of the holiday selling season, than in any other fiscal quarter. The net earnings of any quarter are seasonally disproportionate to net sales since administrative and certain operating expenses remain relatively constant during the year. Therefore, quarterly results should not be relied upon as necessarily indicative of results for the entire fiscal year. Reclassifications and Adjustments We have made revisions and reclassifications to our fiscal 2006 consolidated statement of operations as disclosed in Note 1, Basis of Presentation, of the Notes to the Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our fiscal 2006 Annual Report on Form 10-K. Such revisions and reclassifications include the following: Page 17 of 33 o Amounts previously reported as rent expense related to financing lease obligations have been reclassified to interest expense. o Interest income has been reclassified from selling, general and administrative expenses to a separate line item on the consolidated statement of operations. o The results of a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, have been presented as results from discontinued operations. During the first quarter of fiscal 2007, we reclassified fiscal 2006 stock-based compensation expense from a separate line item on the consolidated statement of operations to selling, general and administrative expenses. Summary of Segment Performance Where relevant, we have included separate discussions of our domestic and international segments. The following tables summarize performance by segment. SEGMENT PERFORMANCE SUMMARY Three Months Ended August 31, 2006 Six Months Ended August 31, 2006 (Amounts in millions) Domestic International Consolidated Domestic International Consolidated
-- -- Net sales.......................... $ 2,680.6 $ 158.6 $ 2,839.2 $5,166.1 $290.0 $5,456.2 Gross profit....................... $ 619.6 $ 56.2 $ 675.8 $1,214.5 $101.7 $1,316.2 Selling, general and administrative expenses......... $ 608.4 $ 54.4 $ 662.8 $1,196.0 $106.2 $1,302.2 Net earnings (loss) from continuing operations........... $ 10.5 $ 0.9 $ 11.4 $ 19.8 $ (3.4) $ 16.4 Three Months Ended August 31, 2005 Six Months Ended August 31, 2005 (Amounts in millions) Domestic International Consolidated Domestic International Consolidated
-- -- Net sales.......................... $ 2,414.0 $ 143.0 $ 2,557.1 $4,528.7 $256.3 $4,784.9 Gross profit....................... $ 557.8 $ 51.9 $ 609.6 $1,070.7 $ 96.9 $1,167.5 Selling, general and administrative expenses......... $ 555.4 $ 52.7 $ 608.1 $1,083.6 $107.5 $1,191.1 Net earnings (loss) from continuing operations........... $ 4.4 $ (0.5) $ 3.9 $ (1.5) $ (6.5) $ (8.0) Net Sales Consolidated For the second quarter of fiscal 2007, our net sales increased 11.0 percent to $2.84 billion, and comparable store sales increased 8.3 percent from the same period last year. Net sales for the first six months of fiscal 2007 increased 14.0 percent to $5.46 billion from $4.78 billion for the first six months of last fiscal year. Comparable store sales increased 11.3 percent for the first six months of fiscal 2007. A store's sales are included in comparable store sales after the store has been open for a full 12 months. Comparable store sales include Web-originated sales and sales from relocated stores. The calculation of comparable store sales excludes the impact of fluctuations in foreign currency exchange rates. Domestic Segment For the second quarter of fiscal 2007, the domestic segment's net sales were $2.68 billion, an increase of 11.0 percent over the same period last fiscal year. Comparable store sales increased 8.9 percent. For the quarter, our sales growth was driven by the addition of 16 net new Superstores over the past four quarters and by average ticket increases, which primarily resulted from sales growth in flat panel televisions. In addition, domestic segment Web-originated sales grew 74 percent, and domestic segment services revenues grew 100 percent over the same period last year. Services revenues are comprised of home theater installations and

computer-related services. Page 18 of 33 For the six months ended August 31, 2006, domestic segment sales were $5.17 billion, an increase of 14.1 percent over the same period last fiscal year. Comparable store sales increased 11.9 percent. The domestic segment's major product categories are o video, which includes televisions, imaging products, DVD hardware, camcorders, digital cameras, digital video services, furniture, and related accessories; o information technology, which includes personal computer hardware, personal computer services, telecommunications products and services, and related accessories; o audio, which includes home audio products, mobile audio products, portable audio products, and related accessories; and o entertainment, which includes movie software, music software, game software, game hardware and personal computer software. The percent of domestic segment sales represented by each major product category for the periods ended August 31, 2006 and 2005 is shown below. PERCENT OF DOMESTIC SEGMENT SALES BY CATEGORY(a) Three Months Ended Six Months Ended August 31 August 31 2006 2005 2006 2005 -- ----------------------- Video.. 42% 41% 43% 42% Information technology................................... 33 34 31 31 Audio.. 15 15 16 16 Entertainment... 10 10 10 11 ----------------------- ----------------------- Total.. 100% 100% 100% 100% ======================= ======================= (a)Excludes extended warranty revenues and installation revenue. In the video category, we produced a low-double-digit comparable store sales increase in the second quarter. Total television comparable store sales increased by double digits, led by strong double-digit comparable store sales growth in flat panel displays. Comparable store sales of digital imaging products and accessories increased by double digits. Growth in the category was partially offset by double-digit declines in comparable store sales of camcorders and DVD hardware. In the information technology category, we produced a high-single-digit comparable store sales increase in the second quarter, driven by a single-digit comparable store sales increase in PC hardware. Comparable store sales of notebook computers increased by double digits. Growth in the category was partially offset by single-digit decreases in comparable store sales of printers and monitors and a double-digit decrease in comparable store sales of desktop computers. Comparable store sales of PC services nearly doubled. In the audio category, we produced a high-single-digit comparable store sales increase in the second quarter, primarily resulting from double-digit comparable store sales growth in portable digital audio products and portable digital audio accessories. Double-digit comparable store sales growth in mobile audio products reflects growth in navigation products. Comparable store sales growth in portable and mobile audio products was partially offset by a mid-single-digit comparable store sales decline in home audio products. In the entertainment category, we produced a mid-single-digit comparable store sales increase in the second quarter, reflecting a double-digit comparable store sales increase in gaming products and PC software and a mid-single-digit increase in video software, partially offset by a double-digit comparable store sales decrease in music software. Page 19 of 33 The following table provides the number of our domestic segment stores: DOMESTIC SEGMENT STORE MIX Aug. 31, 2006 Feb. 28, 2006 Aug. 31, 2005 -- Superstores...................................... 632 626 616 Outlet and mall stores........................... 5 5 5 -- Total domestic segment stores..................... 637 631 621 == In the first half of fiscal 2007, we relocated two Superstores and opened five new Superstores. One of the relocated Superstores replaced a store that was closed in February 2006. We opened two outlet stores and closed two mall stores. We also completed one remodel, which consisted of rebuilding a storm-damaged store. Extended Warranty Net Sales. The domestic segment sells extended warranty programs on behalf of unrelated third parties who are the primary obligors. The extended warranty net sales were $107.7 million, or 4.0 percent of domestic segment sales, in the second quarter of fiscal 2007, compared with $97.4 million, or 4.0 percent of domestic segment sales, in the same period last fiscal year. The extended warranty net sales were $200.0 million for the first half of fiscal 2007, or 3.9 percent of domestic segment sales, compared with $182.4 million, or 4.0 percent of domestic segment sales, for the first half of last fiscal year. Effective fiscal year 2008, we will no longer report extended warranty net sales separately from consolidated net sales. Management views warranty revenue as one component of many that contribute to both sales and gross margin, reflecting our expanded ability to provide high value services in a growing number of ways. We will continue reporting domestic segment extended warranty net sales for the balance of fiscal year 2007. International Segment The international segment's net sales increased 10.9 percent to $158.6 million for the second quarter of fiscal 2007, compared with $143.0 million for the second quarter of last fiscal year. The effect of fluctuations in foreign currency exchange rates accounted for approximately 9 percentage points of the international segment's second quarter net sales increase. Sales from our dealer relationships had a double-digit percentage increase for the second quarter in local currency, and the international segment added 13 net new retail stores during the past four quarters. Comparable store sales decreased 2.1 percent for the quarter in local currency as we cycled against the heavy advertising during the second quarter of fiscal 2006 related to the brand launch of The Source By Circuit CitySM. For the six months ended August 31, 2006, the international segment's net sales increased 13.2 percent to $290.0 million, compared with $256.3 million for the six months ended August 31, 2005. The effect of fluctuations in foreign currency exchange rates accounted for approximately 9 percentage points of the international segment's year-over-year net sales increase. Comparable store sales decreased 0.1 percent in local currency for the first six months of fiscal 2007. INTERNATIONAL SEGMENT STORE MIX Aug. 31, 2006 Feb. 28, 2006 Aug. 31, 2005 -- Company-owned stores............................ 541 540 522 Dealer outlets.................................. 298 300 300 Rogers Plus(R) stores.............................. 92 93 91 Battery Plus(R) stores............................ 18 21 25 --- Total international segment stores................ 949 954 938 == Page 20 of 33 Gross Profit Margin Consolidated The gross profit margin was 23.8 percent of net sales in the second quarter of fiscal 2007, unchanged from the same period last fiscal year. For the first six months of fiscal 2007, the gross profit margin was 24.1 percent of net sales, compared with 24.4 percent for the same period last fiscal year. Domestic Segment For the second quarter of fiscal 2007, the domestic segment's gross profit margin rate was even with the rate for the same period last fiscal year as a modest decline in merchandise margin was offset by a margin contribution from net financing as promotion periods shortened compared with last year. For the first half of fiscal 2007, the domestic segment's gross profit margin was 23.5 percent of net sales, compared with 23.6 percent for the same period last fiscal year. The slight margin rate decline resulted from modest declines in merchandise margin and net financing. International Segment For the second quarter of fiscal 2007, the international segment gross profit margin rate decline of 81 basis points did not materially impact the consolidated gross profit margin rate. The decrease resulted primarily from a greater percentage of sales of products in the computer category and margin rate declines in video and personal electronics. For the first half of fiscal 2007, the international segment's gross profit margin was 35.1 percent of net sales, compared with 37.8 percent for the same period last fiscal year. The decrease resulted primarily from margin rate declines within wireless communications, video and personal electronics categories. Also, a sales mix shift from higher-margin categories, such as batteries, to lower-margin categories, such as computers, contributed to the decline. Selling, General and Administrative Expenses Consolidated Three Months Ended August 31 Six Months Ended August 31 2006 2005 2006 2005 % of % of % of % of (Dollar amounts in millions) $ Sales $ Sales $ Sales $ Sales -- -- Store expenses......................... $567.5 20.0% $520.2 20.3% $1,105.4 20.3% $1,020.4 21.3% General and administrative expenses.......................... 85.3 3.0 78.9 3.1 173.9 3.2 156.3 3.3 Stock-based compensation expense......................... 6.6 0.2 6.6 0.3 15.3 0.3 9.8 0.2 Remodel expenses....................... 0.5 - - - 0.5 - - - Relocation expenses.................... 0.5 - 0.3 - 2.0 - 2.3 - Pre-opening expenses................... 2.4 0.1 2.1 0.1 5.0 0.1 2.3 - -- -- Total .... $662.8 23.3% $608.1 23.8% $1,302.2 23.9% $1,191.1 24.9% === == Selling, general and administrative expenses as a percentage of sales declined 44 basis points to 23.3 percent of net sales in the second quarter of this fiscal year. The domestic segment's expense-to-sales ratio decreased 31 basis points from the same period last year. The international segment contributed 13 basis points to the decrease in the consolidated expense-to-sales ratio. Page 21 of 33 For the first half of fiscal 2007, selling, general and administrative expenses as a percentage of sales declined 103 basis points from the same period last fiscal year. The domestic segment's expense-to-sales ratio decreased 78 basis points from the same period last year. The international segment contributed 25 basis points to the decrease in the consolidated expense-to-sales ratio. Domestic Segment Three Months Ended August 31 Six Months Ended August 31 2006 2005 2006 2005 % of % of % of % of (Dollar amounts in millions) $ Sales $ Sales $ Sales $ Sales -- -- Store expenses......................... $524.2 19.6% $484.0 20.1% $1,021.1 19.8% $ 949.9 21.0% General and administrative expenses.......................... 74.5 2.8 62.6 2.6 153.3 3.0 119.6 2.6 Stock-based compensation expense.........................

6.4 0.2 6.4 0.3 14.0 0.3 9.5 0.2 Remodel expenses....................... 0.5 - - - 0.5 - - - Relocation expenses.................... 0.5 - 0.3 - 2.0 - 2.3 0.1 Pre-opening expenses................... 2.4 0.1 2.1 0.1 5.0 0.1 2.3 0.1 -- --- Total .... $608.4 22.7% $555.4 23.0% $1,196.0 23.2% $1,083.6 23.9% == === For the three months ended August 31, 2006, the domestic segment's improvement primarily reflects leverage of payroll as well as rent and occupancy expenses. These improvements were partially offset by incremental store expenses related to Circuit City Direct, innovation activities and advertising as well as by general and administrative expenses related to information systems and innovation activities. For the six months ended August 31, 2006, the domestic segment's improvement primarily reflects leverage of payroll as well as rent and occupancy expenses. These improvements were partially offset by incremental store expenses related to Circuit City Direct, innovation activities and advertising as well as by general and administrative expenses related to information systems and innovation activities. International Segment Three Months Ended August 31 Six Months Ended August 31 2006 2005 2006 2005 % of % of % of % of (Dollar amounts in millions) $ Sales $ Sales $ Sales $ Sales -- --- Store expenses......................... $43.4 27.3% $36.2 25.3% $ 84.3 29.1% $ 70.5 27.5% General and administrative expenses.......................... 10.9 6.9 16.4 11.4 20.6 7.1 36.7 14.3 Stock-based compensation expense......................... 0.2 0.1 0.2 0.1 1.3 0.5 0.4 0.1 -- --- Total .... $54.4 34.3% $52.7 36.8% $106.2 36.6% $ 107.5 42.0% == === For the second quarter of fiscal 2007, the international segment's expense-to-sales ratio decreased 252 basis points from the same period last year. The international segment's general and administrative expenses in the second quarter of fiscal 2006 included expenses of $9.6 million associated with the brand transition in Canada. Excluding the brand costs in fiscal 2006, the expense-to-sales ratio increased 420 basis points primarily due to increased expenses related to the increase in the number of stores open versus last year and increased advertising expense. For the six months ended August 31, 2006, the international segment's expense-to-sales ratio decreased 534 basis points from the same period last fiscal year. The international segment's general and administrative expenses in the first half of fiscal 2006 included expenses of $21.5 million associated with the brand transition in Canada. Excluding the brand costs in fiscal 2006, the expense-to-sales ratio increased 305 basis points Page 22 of 33 primarily due to increased expenses related to the increase in the number of stores open versus last year and increased advertising expense. Income Tax Provision The effective income tax rate applicable to results from continuing operations was 38.3 percent for the six months ended August 31, 2006, and 39.8 percent for the six months ended August 31, 2005. The effective tax rate for the six months ended August 31, 2006, reflects an adjustment for a change in management's estimate regarding certain tax uncertainties, which was recorded as a discrete item for the second quarter. Absent this adjustment, we would have reported an effective tax rate applicable to results from continuing operations of 36.3 percent. The decrease in the effective tax rate, excluding the effect of the discrete item, resulted from increased tax-exempt earnings. Net Earnings (Loss) from Continuing Operations The net earnings from continuing operations were $11.4 million, or 7 cents per share, in the three months ended August 31, 2006, compared with net earnings from continuing operations of $3.9 million, or 2 cents per share, in the same period last fiscal year. For the six months ended August 31, 2006, the net earnings from continuing operations were $16.4 million, or 9 cents per share, compared with the net loss from continuing operations of $8.0 million, or 4 cents per share, for the same period last fiscal year. Net Loss from Discontinued Operations For the quarter ended August 31, 2006, the net loss from discontinued operations totaled $1.3 million, which is net of $0.5 million of income taxes, and related to a domestic segment operation that is held for sale. For the quarter ended August 31, 2006, this $0.5 million of income tax benefit was offset by $0.5 million of income tax expense resulting from a revision of management's estimate regarding certain tax uncertainties associated with our discontinued bankcard operations. For the six months ended August 31, 2006, the net loss from discontinued operations totaled $1.7 million, which is net of $0.7 million of income taxes, and related to a domestic segment operation that is held for sale. For the first half of fiscal 2007, this $0.7 million of income tax benefit was offset by $0.5 million of income tax expense associated with our discontinued bankcard operations as discussed above. For the quarter ended August 31, 2005, the net loss from discontinued operations totaled $2.5 million, which is net of $1.4 million of income taxes, and related to a domestic segment operation that is held for sale and a domestic segment subsidiary, MusicNow, LLC, which was sold in October 2005. For the six months ended August 31, 2005, the net loss from discontinued operations totaled $3.7 million, which is net of $2.1 million of income taxes, and related to a domestic segment operation that was held for sale and MusicNow. Cumulative Effect of Change in Accounting Principle In the first quarter of fiscal 2007, we adopted SFAS No. 123(R) using the modified prospective transition method, resulting in a non-cash after-tax benefit of $1.8 million. RECENT ACCOUNTING PRONOUNCEMENTS Effective March 1, 2006, we adopted SFAS No. 123(R), which requires companies to record compensation expense based on the fair value of employee stock-based compensation awards. The statement also requires that the compensation expense be recognized over the period during which the employee is required to provide service in exchange for the award. Prior to the adoption of SFAS No. 123(R), we accounted for stock-based compensation using a fair-value based method in accordance with SFAS No. 123, "Stock-Based Compensation." We adopted SFAS No. 123(R) using the modified prospective transition method. The Page 23 of 33 adoption of SFAS No. 123(R) did not have a material impact on our financial position, results of operations or cash flows. In October 2005, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period." FSP No. FAS 13-1 requires companies to expense rent payments for building or ground leases incurred during a construction period. We adopted FSP No. FAS 13-1 on a prospective basis in the first quarter of fiscal 2007. The adoption of this new standard did not have a material impact on our financial position, results of operations or cash flows. In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for us beginning with the first quarter of fiscal 2008. We have not yet determined the impact of adopting this standard. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for us beginning with the first quarter of fiscal 2009. We have not yet determined the impact of adopting this standard. In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize a plan's overfunded or underfunded status in its balance sheets and recognize the changes in a plan's funded status in comprehensive income in the year in which the changes occur. These provisions of SFAS No. 158 are effective for our fiscal year ending February 28, 2007. In addition, SFAS No. 158 requires an employer to measure plan assets and obligations that determine its funded status as of the end of its fiscal year, with limited exceptions. This provision of SFAS No. 158 is effective for our fiscal year ending February 28, 2009. We have not yet determined the impact of adopting this standard. FINANCIAL CONDITION Liquidity and Capital Resources Cash Flows Restatement of Cash Flows As disclosed in Note 22, Quarterly Financial Data (Unaudited), of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our fiscal 2006 Annual Report on Form 10-K, we identified errors in our previously filed consolidated statement of cash flows for the six months ended August 31, 2005, and restated the consolidated statement of cash flows for the six months ended August 31, 2005. We had classified variable rate demand notes as cash and cash equivalents; however, these notes should have been classified as short-term investments and their purchases and sales as investing activities. We incorrectly reflected bank overdrafts as a change in accounts payable in operating activities rather than in financing activities. We incorrectly included accruals for purchases of property and equipment in operating activities and investing activities. We incorrectly reflected deposits in transit as a reduction to accounts payable. Page 24 of 33 Cash Flows Summary The following table summarizes our cash flows for the six months ended August 31, 2006 and 2005: Six Months Ended August 31 (Amounts in millions) 2006 2005 -- Net cash (used in) provided by: Operating activities.................................. $ (69.0) $ 12.0 Investing activities.................................. 105.2 (273.7) Financing activities.................................. (50.9) (212.2) Discontinued operations................................ (5.1) (18.4) Effect of exchange rate changes on cash.................. - 0.2 -------------------------- Decrease in cash and cash equivalents.................... $ (19.8) $ (492.0) ========================== Operating Activities We used net cash from operating activities of $69.0 million in the six months ended August 31, 2006, compared with net cash provided by operating activities of $12.0 million in the six months ended August 31, 2005. The change was due primarily to increases in net accounts receivable and merchandise inventory, net of merchandise payable, and was partially offset by an increase in net earnings. The increase in accounts receivable during the six months ended August 31, 2006 was primarily due to an increase in vendor receivables. The decrease in accounts receivable during the six months ended August 31, 2005 was primarily due to a decrease in credit card receivables due to the timing of month-end settlements. During the six months ended August 31, 2006, the increase in merchandise inventory, net of merchandise payable, was $16.1 million and was driven by increases in purchases across many product categories to support increased sales trends and improved customer encountered in-stock positions. During the six months ended August 31, 2005, merchandise inventory, net of merchandise payable, decreased $21.2 million. These changes were partially offset by cash provided by net earnings, which were $16.4 million for the six months ended August 31, 2006, compared with a net loss of $11.8 million during the same period last fiscal year. Investing Activities For the six months ended August 31, 2006, net cash provided by investing activities was $105.2 million, compared with net cash used by investing activities of $273.7 million in the six months ended August 31, 2005. The change was due primarily to an increase in the proceeds from sales and maturities of investment securities and a decrease in purchases of investment securities. Financing Activities We used net cash from financing activities of $50.9 million in the six months ended August 31, 2006, compared with $212.2 million in the six months ended August 31, 2005. The change was due primarily to a decrease in cash used to repurchase common stock under the stock repurchase authorization. In June 2006, the board authorized a $400 million increase in the stock repurchase authorization resulting in a total stock repurchase authorization of up to $1.2 billion, of which $400.3 million remained available at August 31, 2006. During the six months ended August 31, 2006, we used cash to repurchase 4.3 million shares of common stock at a total price of $117.0 million, excluding commission fees. During the same period last fiscal year, we used cash to repurchase 11.8 million shares of common stock at a total price of $196.3 million, excluding commission fees. As of August 31, 2006, we had repurchased a cumulative 52.1 million shares of common stock at a total price of $799.7 million, excluding commission fees. Based on the market value of the common stock at August 31, 2006, the then remaining $400.3 million of the $1.2 billion authorization would allow for the repurchase of up to approximately 10 percent of the 174.0 million shares then outstanding. Also in June 2006, the board of directors authorized an increase in our quarterly dividend rate to $0.04 per share from the previous quarterly dividend of $0.0175 per share on our common stock. The dividend rate change was effective with the declaration of the quarterly dividend in the third quarter of fiscal 2007. Page 25 of 33 Cash, Cash Equivalents and Short-term investments At August 31, 2006, we had cash, cash equivalents and short-term investments of $599.6 million, compared with $838.0 million at February 28, 2006. During the first six months of fiscal 2007, we used cash to repurchase 4.3 million shares of common stock at a total price of $117.0 million, excluding commission fees. In addition, during the first six months of fiscal 2006, we used cash of $113.5 million to purchase property and equipment. At August 31, 2005, we had cash, cash equivalents and short-term investments of $688.1 million. The year-over-year change in the cash balance primarily reflects the use of cash to repurchase common stock and purchase property and equipment, partially offset by cash provided by operations. Net-owned Inventory Merchandise inventory increased to $1.85 billion at August 31, 2006, from $1.70 billion at February 28, 2006, driven by an increase in domestic segment inventory of $134.7 million due to an increase in inventory purchases to support increased sales trends and customer encountered in-stock positions. Net-owned inventory, calculated as merchandise inventory less merchandise payable, increased by $18.8 million from February 28, 2006, to August 31, 2006, due to increases in inventory to support strong sales trends. Domestic segment net-owned inventory increased by $7.4 million from February 28, 2006 to August 31, 2006. Capital Expenditures Capital expenditures, net of landlord reimbursements, were $127.0 million in the six months ended August 31, 2006, compared with $102.2 million in the same period last fiscal year. Sources of Liquidity We have a $500 million revolving credit facility secured by inventory and accounts receivable. This facility is scheduled to mature in June 2009. The credit facility provides for a $400 million borrowing limit for the domestic segment and a $100 million borrowing limit for the international segment. At August 31, 2006, short-term borrowings were $31.7 million and related to our international segment. At August 31, 2006, outstanding letters of credit were $53.3 million, leaving $415.0 million available for borrowing. We were in compliance with all covenants at August 31, 2006. Our primary sources of liquidity include available cash, borrowing capacity under the credit facility and landlord reimbursements. We expect that our primary sources of liquidity will be sufficient to fund capital expenditures and working capital for the foreseeable future. FISCAL 2007 OUTLOOK We expect to generate the following results in fiscal 2007: o consolidated net sales growth of 9 percent to 11 percent, including domestic segment comparable store sales growth of

7 percent to 9 percent o earnings from continuing operations before income taxes (EBT) as a percentage of sales of 2.0 percent to 2.4 percent The outlook also includes the following expectations: o depreciation and amortization expense of approximately $180 million o incremental expenses in information systems, Circuit City Direct and innovation activities, primarily related to expenses for investments, that will total approximately 100 basis points as a percentage of consolidated sales o expenses of $30 million related to domestic segment store revitalization activities including Superstore relocations, remodels and refreshes o consolidated effective income tax rate applicable to results from continuing operations of 36.5 percent o reduction in domestic segment net-owned inventory of $50 million to $100 million from February 28, 2006, to February 28, 2007 Domestic segment Superstore openings and estimates are shown in the following table. The timing of store openings depends upon a number of factors and can change during the year. We expect approximately one Page 26 of 33 third of the openings to be in the 20,000 square foot format. We also plan to remodel two locations, one of which was completed in the first quarter. Domestic Segment Superstore Openings(a) Q1 Q2 Q3 Q4 FY07 --- Incremental Superstores................... 3 2 8 9-10 22-23 Relocated Superstores..................... 2 - 4 4-6 10-12 ------------------------------------ Total expected Superstore openings......... 5 2 12 13-16 32-35 == (a) First and second quarter openings are actual. On February 28, 2006, we closed one store in advance of opening a replacement store in the first quarter of fiscal 2007. The replacement store is included in relocations for the first quarter of fiscal 2007. We anticipate that capital expenditures, net of landlord reimbursements, will total approximately $290 million in fiscal 2007. Of the fiscal 2007 estimate, o $139 million relates to store activities including new store construction, relocations, remodels, store refresh and category reset activities; o $119 million relates to information systems; o $21 million relates to distribution and other expenditures; and o $11 million relates to the international segment. The fiscal 2007 outlook is based on the following assumptions: o a continuation of current competitive and macroeconomic environments o continued sales growth in key product areas including flat panel televisions, notebook computers, digital imaging and portable digital audio players, as well as related accessories and services o continued growth in Web-originated sales o store traffic relatively unchanged from the prior year, an improvement in the sales conversion rate and an increase in the average sales dollars per ticket o return to annual profitability in the international segment o increased sales from domestic segment new store openings, relocations, store refreshes and category resets o continued improvement in the customer experience that increases the conversion rate o improved customer-encountered inventory in-stock levels FORWARD-LOOKING STATEMENTS The provisions of the Private Securities Litigation Reform Act of 1995 provide companies with a "safe harbor" when making forward-looking statements. This "safe harbor" encourages companies to provide prospective information about their companies without fear of litigation. We wish to take advantage of the "safe harbor" provisions of the Act. Our statements that are not historical facts, including statements about management's expectations for fiscal 2007 and beyond, are forward-looking statements and involve various risks and uncertainties. In most cases, you can identify our forward-looking statements by words such as "expect," "anticipate," "believe," "should," "may," "plan," "will" or similar words. Forward-looking statements are estimates and projections reflecting our judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect. The retail industry and the specialty retail industry in particular, are dynamic by nature and have undergone significant changes in recent years. Our ability to anticipate and successfully respond to the continuing challenges of our industry is key to achieving our expectations. Important factors that could cause actual results to differ materially from estimates or projections contained in our forward-looking statements include the following: Page 27 of 33 o changes in the amount and degree of competition, pricing and promotional pressure exerted by current competitors and potential new competition from competitors using either similar or alternative methods or channels of distribution such as the Internet, telephone shopping services and mail order; o changes in general economic conditions including, but not limited to, financial market performance, consumer credit availability, interest rates, inflation, energy prices, personal discretionary spending levels, trends in consumer retail spending, both in general and in our product categories, unemployment and consumer sentiment about the economy in general; o the level of consumer response to new products or product features in the merchandise categories we sell and changes in our merchandise sales mix; o the impact of inventory and supply chain management initiatives on inventory levels and profitability; o our ability to generate sales and margin growth through expanded services offerings; o the impact of new products and product

features on the demand for existing products and the pricing and profit margins associated with the products we sell; o significant changes in retail prices for products we sell; o changes in availability or cost of financing for working capital and capital expenditures, including financing to support development of our business; o the lack of availability or access to sources of inventory or the loss or disruption in supply from one of our major suppliers; o our inability to liquidate excess inventory should excess inventory develop; o our inability to maintain sales and profitability improvement programs for our Circuit City Superstores, including our store revitalization plan; o our ability to continue to generate strong sales growth through our direct sales channel; o the availability of appropriate real estate locations for relocations and new stores; o the cost and timeliness of new store openings and relocations; o consumer reaction to new store locations and changes in our store design and merchandise; o our ability and the ability of Chase Card Services to successfully market and promote the third party credit card program being offered by Chase Card Services; o the extent to which customers respond to promotional financing offers and the types of promotional terms we offer; o our ability to attract and retain an effective management team or changes in the costs or availability of a suitable work force to manage and support our service-driven operating strategies; o the impact of initiatives related to upgrading merchandising, marketing and information systems on revenue and operating margin and the costs associated with these investments; o our ability to control and leverage expenses as a percentage of sales; o changes in production or distribution costs or costs of materials for our advertising; o effectiveness of our advertising and marketing programs for increasing consumer traffic and sales; o the successful implementation of our customer service initiatives; o the imposition of new restrictions or regulations regarding the sale of products and/or services we sell, changes in tax rules and regulations applicable to, the imposition of new environmental restrictions, regulations or laws or the discovery of environmental conditions at current or future locations, or any failure to comply with such laws or any adverse change in such laws; o failure to successfully implement sales and profitability improvement programs for our international segment; o deterioration of the expected future performance of our international segment may result in a goodwill impairment charge; o the timely production and delivery of private-label merchandise and level of consumer demand for those products; o reduced investment returns or other changes relative to the assumptions for our pension plans that impact our pension expense; o changes in our anticipated cash flow; o whether, when and in what amounts share repurchases may be made under our stock buyback program; o adverse results in significant litigation matters; o currency exchange rate fluctuations between Canadian and U.S. dollars and other currencies; Page 28 of 33 o the global regulatory and trade environment; o the disruption of global, national or regional transportation systems; o the occurrence of severe weather events or natural disasters that could significantly damage or destroy stores or prohibit consumers from traveling to our retail locations, especially during peak holiday periods; and o the successful execution of the initiatives to achieve revenue growth and increase operating margin and the accuracy of the assumptions underlying our projected 2007 results as discussed under "Fiscal 2007 Outlook" in MD&A. We believe our forward-looking statements are reasonable. However, undue reliance should not be placed on forward-looking statements, which are based on current expectations. ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK We are exposed to market risk from potential changes in the U.S./Canadian currency exchange rates as they relate to inventory purchases and the translation of our international segment's financial results. Inventory Purchases A portion of InterTAN's purchases are from vendors requiring payment in U.S. dollars. Accordingly, there is risk that the value of the Canadian dollar could fluctuate relative to the U.S. dollar from the time the goods are ordered until payment is made. InterTAN's management monitors the foreign exchange risk associated with its U.S. dollar open orders on a regular basis by reviewing the amount of such open orders; exchange rates, including forecasts from major financial institutions; local news; and other economic factors. At August 31, 2006, U.S. dollar purchase orders totaled approximately $19.6 million. A 10 percent decline in the value of the Canadian dollar would result in an increase in product cost of approximately $2.0 million for those orders. The incremental cost of such a decline in currency values, if incurred, would be reflected in higher cost of sales in future periods. In these circumstances, management would take product pricing action, to the degree commercially feasible. Translation of Financial Results Because we translate our international segment's financial results from Canadian dollars to U.S. dollars, fluctuations in the value of the Canadian dollar have a direct effect on reported consolidated results. We do not hedge against the possible impact of this risk. A 10 percent adverse change in the foreign currency exchange rate would not have a significant impact on our consolidated results of operations or financial position. ITEM 4. CONTROLS AND PROCEDURES Evaluation of Disclosure Controls and Procedures Under the supervision and with the participation of the company's management, including the chief executive officer and chief financial officer, the company has evaluated the effectiveness of its "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, the chief executive officer and chief financial officer concluded that the company's disclosure controls and procedures are effective. Changes in Internal Control over Financial Reporting There were no changes in the company's internal control over financial reporting in the quarter ended August 31, 2006, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting. Page 29 of 33 PART II. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS As previously reported in the company's Annual Report on Form 10-K for the year ended February 28, 2006, the company was involved in litigation with RadioShack Corporation ("RadioShack") related to various agreements between InterTAN and RadioShack and its subsidiaries. In September 2006, RadioShack and Circuit City reached an agreement that settles the litigation between the two companies. ITEM 1A. RISK FACTORS In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended February 28, 2006, which could materially affect our business, financial condition or future results. There have been no material changes to those risk factors since we filed our 2006 Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS The following table provides information about common stock repurchases by or on behalf of the company during the quarter ended August 31, 2006: Approximate Total Number Dollar Value of of Shares Shares that Average Purchased as May Yet Be Total Number Price Part of Publicly Purchased of Shares Paid Announced Under (Amounts in millions except per share data) Purchased per Share Program the Program(a) --- June 1 - June 30, 2006.......................... 0.8 $27.80 0.8 $445.6 July 1 - July 31, 2006.......................... 1.8 $25.35 1.8 $400.3 August 1 - August 31, 2006...................... - $ - - $400.3 ---------------- ---------------- Total fiscal 2007 second quarter................ 2.6 $26.10 2.6 ================= ================= (a) In January 2003, the company announced that the board of directors had authorized the repurchase of up to $200 million of common stock. In June 2004, the company announced a $200 million increase in its stock repurchase authorization, raising the repurchase capacity to $400 million. In March 2005, the company announced a $400 million increase in its stock repurchase authorization, raising the repurchase capacity to $800 million. In June 2006, the company announced a $400 million increase in its stock repurchase authorization, raising the repurchase capacity to $1.2 billion. There is no expiration date under the authorization. At August 31, 2006, $400.3 million remained available for stock repurchases under the $1.2 billion stock repurchase authorization. Page 30 of 33 ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (a) The annual meeting of the company's shareholders was held June 27, 2006. (b) At the annual meeting, the shareholders of the company elected Ronald M. Brill, Michael E. Foss, Mikael Salovaara and Philip J. Schoonover as directors for a three-year term and Barbara S. Feigin as director for a one-year term. The elections were approved by the following votes: Directors For Withheld ------------------------ --------------- ------------ Ronald M. Brill 158,346,745 1,330,344 Michael E. Foss 154,945,883 4,731,206 Mikael Salovaara 149,084,233 10,592,856 Philip J. Schoonover 158,393,940 1,283,149 Barbara S. Feigin 155,036,924 4,640,165 (c) At the annual meeting, the shareholders of the company voted to ratify the appointment of KPMG LLP as the company's independent auditors for fiscal year 2007. This ratification was approved by the following votes: Broker For Against Abstain Non-Vote ------------- ------------- ----------- -------- 157,426,109 1,519,287 731,693 0 ITEM 6. EXHIBITS Articles of Incorporation and Bylaws 3.1 Circuit City Stores, Inc. Amended and Restated Articles of Incorporation, effective February 3, 1997, as amended through August 16, 2005, filed as Exhibit 3.1 to the company's Form 8-A/A filed September 13, 2005 (File No. 1-5767), are expressly incorporated herein by this reference. 3.2 Circuit City Stores, Inc. Bylaws, as amended December 17, 2005, filed as Exhibit 3.1 to the company's Current Report on Form 8-K filed December 22, 2005 (File No. 1-5767), are expressly incorporated herein by this reference. Rule 13a-14(a)/15d-14(a) Certifications 31.1 Certification of CEO under Rule 13a-14(a) of the Securities Exchange Act of 1934 31.2 Certification of CFO under Rule 13a-14(a) of the Securities Exchange Act of 1934 Section 1350 Certifications 32.1 Certification of CEO under Section 906 of the Sarbanes-Oxley Act of 2002 32.2 Certification of CFO under Section 906 of the Sarbanes-Oxley Act of 2002 Page 31 of 33 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. CIRCUIT CITY STORES, INC. (Registrant) By: /s/ Philip J. Schoonover Philip J. Schoonover Chairman, President and Chief Executive Officer By: /s/ Michael E. Foss ------------------------------------- Michael E. Foss Executive Vice President and Chief Financial Officer By: /s/ Philip J. Dunn ------------------------------------- Philip J. Dunn Senior Vice President, Treasurer, Controller and Chief Accounting Officer October 10, 2006 Page 32 of 33 EXHIBIT INDEX Articles of Incorporation and Bylaws 3.1 Circuit City Stores, Inc. Amended and Restated Articles of Incorporation, effective February 3, 1997, as amended through August 16, 2005, filed as Exhibit 3.1 to the company's Form 8-A/A filed September 13, 2005 (File No. 1-5767), are expressly incorporated herein by this reference. 3.2 Circuit City Stores, Inc. Bylaws, as amended December 17, 2005, filed as Exhibit 3.1 to the company's Current Report on Form 8-K filed December 22, 2005 (File No. 1-5767), are expressly incorporated herein by this reference. 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