CIRCUIT CITY STORES INC
Form 10-Q
September 30, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended August 31, 2008

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _______ to _______

Commission File Number: 1-5767

CIRCUIT CITY STORES, INC.
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-0493875 (I.R.S. Employer Identification No.)
9950 Mayland Drive Richmond, Virginia (Address of principal executive offices)	23233 (Zip Code)

(804) 486 - 4000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer	Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 31, 2008
Common Stock, par value $0.50	168,125,359

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Circuit City Stores, Inc.
Consolidated Statements of Operations (Unaudited)
(Amounts in thousands except per share data)

	Three Months Ended August 31		Six Months Ended August 31	
	2008	2007	2008	2007
Net sales	$ 2,391,402	$ 2,643,968	$ 4,692,476	$ 5,129,505
Cost of sales, buying and warehousing	1,882,404	2,097,957	3,704,804	4,023,309
Gross profit	508,998	546,011	987,672	1,106,196
Selling, general and administrative expenses	668,042	677,909	1,308,051	1,326,263
Asset impairment charges	73,000	–	73,000	–
Operating loss	(232,044)	(131,898)	(393,379)	(220,067)
Interest income	822	3,858	1,990	9,595
Interest expense	4,434	124	6,116	167
Loss from continuing operations before income taxes	(235,656)	(128,164)	(397,505)	(210,639)
Income tax expense (benefit)	3,518	(65,110)	6,484	(92,773)
Net loss from continuing operations	(239,174)	(63,054)	(403,989)	(117,866)
Earnings from discontinued operations, net of tax	–	218	–	464
Net loss	$ (239,174)	$ (62,836)	$ (403,989)	$ (117,402)
Weighted average common shares:				
Basic	165,353	164,837	165,151	165,340
Diluted	165,353	164,837	165,151	165,340
Loss per share:				
Basic:				
Continuing operations	$ (1.45)	$ (0.38)	$ (2.45)	$ (0.71)
Discontinued operations	$ –	$ 0.00	$ –	$ 0.00
Basic loss per share	$ (1.45)	$ (0.38)	$ (2.45)	$ (0.71)
Diluted:				
Continuing operations	$ (1.45)	$ (0.38)	$ (2.45)	$ (0.71)
Discontinued operations	$ –	$ 0.00	$ –	$ 0.00
Diluted loss per share	$ (1.45)	$ (0.38)	$ (2.45)	$ (0.71)
Cash dividends paid per share	$ –	$ 0.04	$ 0.04	$ 0.08

See accompanying notes to consolidated financial statements.

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Circuit City Stores, Inc.
Consolidated Balance Sheets
(Amounts in thousands except share data)

	August 31, 2008 (Unaudited)	February 29, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,235	$ 296,055
Short-term investments	1,268	1,366
Accounts receivable, net of allowance for doubtful accounts	329,516	330,599
Merchandise inventory	1,508,944	1,573,560
Deferred income taxes, net of valuation allowance	32,466	38,672
Income tax receivable	161,389	158,116
Prepaid expenses and other current assets	43,868	41,352
Total current assets	2,168,686	2,439,720
Property and equipment, net of accumulated depreciation of $1,574,546 and $1,448,250	966,707	1,037,321
Goodwill	113,928	118,031
Other intangible assets, net of accumulated amortization of $7,974 and $7,224	15,802	18,400
Other assets	134,957	132,458
TOTAL ASSETS	$ 3,400,080	$ 3,745,930
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Merchandise payable	$ 754,521	$ 912,094
Expenses payable	268,107	232,386
Accrued expenses and other current liabilities	343,525	346,818
Accrued compensation	74,729	85,127
Accrued income taxes	17,165	17,680
Short-term debt	215,000	–
Current installments of long-term debt	14,203	11,582
Total current liabilities	1,687,250	1,605,687
Long-term debt, excluding current installments	52,566	57,050
Accrued straight-line rent	152,369	145,960
Deferred rent credits	168,578	163,662
Accrued lease termination costs	78,564	82,900
Deferred income taxes, net of valuation allowance	31,281	35,586
Other liabilities	152,720	151,910
TOTAL LIABILITIES	2,323,328	2,242,755
Commitments and contingent liabilities		

Stockholders' equity:				
Common stock, $0.50 par value; 525,000,000 shares authorized; 168,125,359 shares issued and outstanding at August 31, 2008 (168,859,462 at February 29, 2008)		84,063		84,430
Additional paid-in capital		327,739		319,573
Retained earnings		570,462		981,112
Accumulated other comprehensive income		94,488		118,060
TOTAL STOCKHOLDERS' EQUITY		1,076,752		1,503,175
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	3,400,080	$	3,745,930

See accompanying notes to consolidated financial statements.

Circuit City Stores, Inc.

Consolidated Statements of Cash Flows (Unaudited)
(Amounts in thousands)

	Six Months Ended August 31 2008	2007
Operating Activities:		
Net loss	$ (403,989)	$ (117,402)
Adjustments to reconcile net loss to net cash used in operating activities of continuing operations:		
Net earnings from discontinued operations	–	(464)
Depreciation expense	90,554	96,089
Amortization expense	1,328	2,403
Asset impairment charges	73,000	–
Stock-based compensation expense	8,604	12,290
Loss on dispositions of property and equipment	2,203	483
Provision for deferred income taxes	114	(72,478)
Other	(2,601)	1,018
Changes in operating assets and liabilities:		
Accounts receivable, net	(22,536)	55,785
Merchandise inventory	53,742	(185,180)
Prepaid expenses and other current assets	1,120	(26,835)
Other assets	1,734	1,144
Merchandise payable	(154,023)	182,887
Expenses payable	18,304	19,158
Accrued expenses, other current liabilities and income taxes	(14,834)	(131,279)
Other long-term liabilities	937	29,067
Net cash used in operating activities of continuing operations	(346,343)	(133,314)
Investing Activities:		
Purchases of property and equipment	(110,502)	(148,161)
Proceeds from sales of property and equipment	36,904	23,407
Purchases of investment securities	–	(1,169,510)
Sales and maturities of investment securities	–	1,474,360
Other investing activities	356	(1,691)
Net cash (used in) provided by investing activities of continuing operations	(73,242)	178,405
Financing Activities:		
Proceeds from short-term borrowings	1,557,685	4,515
Principal payments on short-term borrowings	(1,342,711)	(4,747)
Principal payments on long-term debt	(9,212)	(3,756)
Changes in overdraft balances	17,185	(9,340)
Excess tax benefit from stock-based compensation	–	928
Repurchases of common stock	–	(46,757)
Issuances of common stock	–	4,722
Dividends paid	(6,650)	(13,490)
Other financing activities	(814)	(1,127)
Net cash provided by (used in) financing activities of continuing operations	215,483	(69,052)

Discontinued Operations:		
Operating cash flows	–	12,233
Investing cash flows	–	–
Financing cash flows	–	(58)
Net cash provided by discontinued operations	–	12,175
Effect of exchange rate changes on cash	(718)	1,544
Decrease in cash and cash equivalents	(204,820)	(10,242)
Cash and cash equivalents at beginning of year	296,055	141,141
Cash and cash equivalents at end of period	$ 91,235	$ 130,899

See accompanying notes to consolidated financial statements.

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CIRCUIT CITY STORES, INC.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

Circuit City Stores, Inc. is a leading specialty retailer of consumer electronics, home office products, entertainment software, and related services. The company has two reportable segments: its domestic segment and its international segment.

The domestic segment is engaged in the business of selling brand-name and private-label consumer electronics, personal computers, entertainment software, and related services in its stores in the United States and via the Web at www.circuitcity.com and www.firedog.com. At August 31, 2008, the domestic segment operated 705 Superstores and 9 outlet stores in 158 U.S. media markets.

The international segment, which is comprised of the operations of InterTAN, Inc., is 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 name The Source By Circuit CitySM. At August 31, 2008, the international segment conducted business through 772 retail stores and dealer outlets, which consisted of 502 company-owned stores and 270 dealer outlets. The international segment also operates a Web site at www.thesource.ca. In February 2007, the board of directors authorized management to explore strategic alternatives for InterTAN, Inc., which could include the sale of the operation.

Effective January 28, 2007, the company returned the management of 92 Rogers Plus® stores to Rogers Wireless Inc. Results from the Rogers Plus® stores are presented as results from discontinued operations for the three months and six months ended August 31, 2007.

In May 2008, the company retained Goldman, Sachs & Co. to assist the company in exploring strategic alternatives to enhance shareholder value. Management and the board of directors have thus far concluded that, while strategic options will always be explored as part of their fiduciary responsibility, given current market conditions, it is prudent to focus internally on improving the company's performance in order to operate as a standalone business.

The preparation of financial statements in conformity with U.S. 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 may differ from these estimates. The accompanying unaudited financial statements contain all adjustments of a normal, recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation. Due to the seasonal nature of the company's business, interim results are not necessarily indicative of results for the entire fiscal year. The company's consolidated financial statements included in this report should be read in conjunction with the notes to the audited financial statements in the company's fiscal 2008 annual report on Form 10-K.

Within the financial tables in this quarterly report on Form 10-Q, certain columns and rows may not sum due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts.

2. Recent Accounting Pronouncements

As permitted under transition rules by the Financial Accounting Standards Board ("FASB"), the company partially adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," as of March 1, 2008, on a prospective basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. As permitted by FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," the company delayed the adoption of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until March 1, 2009. The partial adoption of SFAS No. 157 did not have an impact on the company's financial position, results of operations or cash flows. The full adoption of SFAS No. 157 is not expected to have a material effect on the company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain assets and liabilities at fair value. The company adopted SFAS No. 159 as of March 1, 2008. As the company did not elect the fair value option for any of its financial instruments or other assets and liabilities, the adoption of this standard did not have an impact on its financial position, results of operations or cash flows.

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On March 1, 2008, the company adopted Emerging Issues Task Force Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"), on a prospective basis. This Issue requires income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options to be recognized as an increase to additional paid-in capital. During the first six months of fiscal 2009, the income tax benefit of these dividends could not be recognized because the company has recorded a full valuation allowance against the net deferred tax assets of its U.S. operations. Thus, the adoption of EITF 06-11 did not have an impact on the company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards significantly change the accounting for and reporting of business combination transactions and noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. Both standards will be effective for the company beginning with the first quarter of fiscal 2010 and will be applied prospectively to future business combinations.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. This FSP is effective for the company as of March 1, 2009, and will be applied prospectively to future business combinations.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, "Earnings Per Share." This FSP will be effective for the company beginning with the first quarter of fiscal 2010 and will be applied retrospectively. The company is currently evaluating the impact of adopting FSP EITF 03-6-1.

3. Loss per Share

For the three months and six months ended August 31, 2008, and August 31, 2007, no options or nonvested stock were included in the computation of diluted loss per share because the company reported a net loss from continuing operations. Shares excluded were as follows:

	Three Months Ended August 31		Six Months Ended August 31	
(Shares in millions)	2008	2007	2008	2007
Options	8.2	7.7	9.0	8.1
Nonvested stock	3.3	4.0	3.7	4.0

4. Income Taxes

Quarterly, the company evaluates its deferred income taxes to determine if any adjustments to its valuation allowances are required under the guidance of SFAS No. 109, "Accounting for Income Taxes." During the third quarter of fiscal 2008, the company determined that its U.S. operations had generated a cumulative three-year loss. Based on this and taking into account all future sources of taxable income and other available objective evidence, management concluded that a full valuation allowance should be recorded against the net deferred tax assets of the U.S. operations. As of August 31, 2008, the net deferred tax assets of the U.S. operations continue to be reduced by a full valuation allowance.

During the six months ended August 31, 2008, the company recorded income tax expense of $6.5 million on a loss from continuing operations before income taxes of $397.5 million. Due to the valuation allowance, the company did not record an income tax benefit for the loss of its U.S. operations. The income tax expense is comprised primarily of state and foreign income tax expense as well as discrete items. The discrete items are comprised primarily of an adjustment to a previously-filed tax position related to leases.

5. Exit and Other Activities

At a location's cease-use date, estimated lease termination costs to close a store, distribution center or repair center are recorded in selling, general and administrative expenses on the consolidated statements of operations. Accrued lease termination costs include future minimum lease payments, taxes, insurance and maintenance costs from the date of closure to the end of the remaining lease term less estimated sublease rental income, net of tenant improvement allowances and broker fees. The company evaluates these assumptions each quarter and adjusts the liability accordingly. The liability for lease termination costs is discounted using a credit-adjusted risk-free rate of interest.

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The accrual for lease termination costs for the domestic segment includes the following activity:

(Amounts in millions)	Six Months Ended August 31 2008	2007
Accrued lease termination costs at beginning of period	$ 115.5	$ 105.6
Provisions for closed locations	5.9	4.2
Changes in assumptions about future sublease income	7.1	5.3
Interest accretion	5.2	4.0
Cash payments, net of cash received on subleased locations	(18.0)	(19.9)
Accrued lease termination costs at end of period	115.7	99.2
Less current portion of accrued lease termination costs	37.2	30.2
Non-current portion of accrued lease termination costs	$ 78.6	$ 69.0

At August 31, 2008, accrued lease termination costs of $115.7 million consisted of 98 locations, of which 37 were subleased. The provision for closed locations included in the table above represents the initial estimate of lease termination costs for locations at the cease-use date. The current portion of accrued lease termination costs is included in accrued expenses and other current liabilities, and the non-current portion is presented separately, on the consolidated balance sheets.

At February 29, 2008, accrued severance totaled $10.0 million and was included in accrued compensation on the consolidated balance sheet. During the first six months of fiscal 2009, the company made cash payments of $6.1 million and recorded an additional accrual of $3.2 million related to severance arrangements. The additional charge is recorded in cost of sales, buying and warehousing or in selling, general and administrative expenses depending on the classification of the related employee’s payroll expense. At August 31, 2008, accrued severance totaled $7.1 million and is included in accrued compensation on the consolidated balance sheet.

6. Stock-Based Compensation

Under the company’s stock-based incentive plans, stock options, nonvested stock, nonvested stock units and other equity-based awards may be granted to employees and non-employee directors. At August 31, 2008, 1.8 million shares of common stock were available for future grants. Common shares are issued from authorized and unissued shares upon the exercise of stock options, the grant of nonvested stock or the vesting of or lapse of deferral restrictions on nonvested stock units.

Compensation expense for stock-based incentive plans is summarized in the table below.

(Amounts in millions)	Three Months Ended August 31 2008	2007	Six Months Ended August 31 2008	2007
Compensation expense recognized:				
Stock options	$ 2.4	$ 2.3	$ 4.4	$ 5.0
Nonvested stock and nonvested stock units	3.0	5.0	4.2	7.3
Phantom stock units	(0.6)	(0.5)	0.2	(0.6)
Employee stock purchase plan	0.1	0.1	0.2	0.3
Other	0.0	0.1	0.1	0.1
Total compensation expense recognized	$ 4.9	$ 7.0	$ 9.2	$ 12.1
Tax benefit recognized, before valuation allowance	$ 1.8	$ 2.5	$ 3.4	$ 4.4

Stock-based compensation expense is recorded in cost of sales, buying and warehousing or in selling, general and administrative expenses depending on the classification of the related employee's payroll cost. The classification of stock-based compensation expense is summarized in the table below.

	Three Months Ended August 31		Six Months Ended August 31	
(Amounts in millions)	2008	2007	2008	2007
Cost of sales, buying, and warehousing	$ 0.4	$ 1.3	$ 1.0	$ 1.9
Selling, general and administrative expenses	4.5	5.7	8.1	10.2
Total compensation expense recognized	$ 4.9	$ 7.0	$ 9.2	$ 12.1

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The company recognizes stock-based compensation expense net of an estimated forfeiture rate based on historical forfeiture activity. During the six months ended August 31, 2008, and the six months ended August 31, 2007, the company increased the estimated forfeiture rate on certain nonvested stock awards to reflect changes in expectations regarding the number of instruments that will vest. These changes were the result of higher than anticipated actual forfeitures.

The value of each phantom stock unit is based on the market value of one share of common stock on the vesting date. The units, which will be settled in cash upon vesting, are remeasured at each reporting date. Due to the decrease in the market value of the company’s common stock, the company recorded a benefit of $0.6 million related to phantom stock units in the three months ended August 31, 2008, and a benefit of $0.5 million in the three months ended August 31, 2007.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option valuation model with the following weighted average assumptions:

	Six Months Ended August 31	
	2008	2007
Expected dividend yield	0.3%	1.3%
Expected stock volatility	54%	44%
Risk-free interest rate	3%	5%
Expected term (in years)	4	5

Using these assumptions in the Black-Scholes model, the weighted average grant date fair value of options granted was $0.91 per share for the six months ended August 31, 2008, and $5.20 per share for the six months ended August 31, 2007.

During the three months ended August 31, 2008, the company issued options with respect to 0.6 million shares of common stock with a vesting period of three years and a contractual term of five years. Due to a lack of historical exercise behavior for options with a similar contractual term, the company used a simplified method to estimate the expected term of the grant. An average of the award’s weighted average vesting period and its contractual term was calculated and resulted in an expected term of 3.5 years.

The company’s stock option activity is summarized in the table below.

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at February 29, 2008	10,101	$ 13.38		
Granted	957	$ 2.13		
Exercised	–	$ –		
Forfeited	(436)	$ 8.34		
Expired	(2,103)	$ 21.52		
Outstanding at August 31, 2008	8,520	$ 10.36	6.8	$ 0.0
Vested and expected to vest at August 31, 2008	7,651	$ 10.94	6.6	$ 0.0
Exercisable at August 31, 2008	3,349	$ 12.76	4.4	$ –

As of August 31, 2008, the total remaining unrecognized compensation expense related to unvested stock options expected to vest was $13.3 million and is expected to be recognized over a weighted average period of 2.2 years.

The company's nonvested stock and nonvested stock unit activity is summarized in the table below.

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Nonvested at February 29, 2008	4,319	$ 16.15	
Granted	11	$ 2.63	
Vested	(897)	$ 19.12	
Forfeited	(534)	$ 17.28	
Nonvested at August 31, 2008	2,899	$ 14.95	$ 5.2

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Total unrecognized compensation expense related to nonvested stock and nonvested stock units at August 31, 2008, was $14.4 million and is expected to be recognized over a weighted average period of 1.2 years.

The company issues phantom stock units that are settled in cash at the end of the vesting period. At August 31, 2008, 2.7 million phantom stock units were outstanding. A total of 0.2 million phantom stock units with a three-year vesting period was awarded during the six months ended August 31, 2008. Based on the market value of the company's common stock as of August 31, 2008, the total remaining unrecognized compensation expense for 2.1 million units expected to vest was $2.9 million and is expected to be recognized over a weighted average period of 2.3 years.

7. Comprehensive Loss

Comprehensive loss consists of net loss and certain other items that are recorded directly to stockholders' equity, net of deferred income taxes. In addition to net loss, comprehensive loss includes foreign currency translation adjustments, adjustments to reflect the funded status of the company's pension plans on the consolidated balance sheets, and unrealized gains and losses on available-for-sale securities.

The components of comprehensive loss, net of taxes, were as follows:

	Three Months Ended August 31		Six Months Ended August 31	
(Amounts in millions)	2008	2007	2008	2007
Net loss	$ (239.2)	$ (62.8)	$ (404.0)	$ (117.4)
Foreign currency translation adjustments	(21.3)	2.6	(23.2)	19.2
Other	(0.1)	0.1	(0.3)	0.1
Comprehensive loss	$ (260.6)	$ (60.1)	$ (427.6)	$ (98.1)

8. Pension Plans

The company's domestic segment has a noncontributory defined benefit pension plan and an unfunded nonqualified benefit restoration plan that restored retirement benefits for domestic segment senior executives who were affected by Internal Revenue Code limitations on benefits provided under the company's defined benefit pension plan. Both plans were amended to freeze benefit accruals effective February 28, 2005, except for select grandfathered participants who were at or near their early or normal retirement date. Both plans were further amended to freeze benefit accruals for the grandfathered participants as of February 29, 2008. As a result, all participants in the plans are no longer eligible to increase their benefits under the plans, but will retain any benefits accrued through the effective date of the plan amendments.

The components of net pension income for the plans were as follows:

	Three Months Ended August 31		Six Months Ended August 31	
(Amounts in millions)	2008	2007	2008	2007
Service cost	$ –	$ 0.6	$ –	$ 1.2
Interest cost	4.0	4.0	8.1	8.0
Expected return on plan assets	(5.5)	(5.2)	(11.0)	(10.4)
Recognized prior service cost	–	0.1	–	0.1
Recognized actuarial (gain) loss	(0.1)	0.4	(0.1)	0.7
Net pension income	$ (1.5)	$ (0.1)	$ (3.0)	$ (0.3)

The company did not make any contributions to the defined benefit pension plan during the six months ended August 31, 2008. No contributions are required during fiscal 2009 under applicable law for this pension plan. The company intends to make any contributions necessary to meet ERISA minimum funding standards and intends to make additional contributions as needed to ensure that the fair value of plan assets at February 28, 2009, is equal to or exceeds the accumulated benefit obligation.

A contribution of $0.8 million, which is equal to the expected benefit payments for fiscal 2009, is expected to be made to the restoration plan during fiscal 2009. Benefit payments during the six months ended August 31, 2008, were $0.4 million.

9. Asset Impairment Charges

Due to the company's financial performance and the initiation by management of a comprehensive review of the business, the company evaluated its long-lived assets for potential impairment as of August 31, 2008. The evaluation considered information available at August 31, 2008, and resulted in the determination that the carrying value of the fixed assets of some of its domestic segment stores would likely not be recovered through estimated future cash flows, considering assumptions regarding the expected lives of those assets. As a result, in the second quarter of fiscal 2009, the company recorded impairment charges of $73.0 million to reduce the carrying value of the assets to their estimated fair value.

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10. Discontinued Operations

For the three months and six months ended August 31, 2007, net earnings from discontinued operations totaled $0.2 million and $0.5 million, which are net of $0.1 million and $0.3 million of income taxes, respectively. These amounts primarily relate to the operations of the Rogers Plus® stores, of which the management was returned to Rogers Wireless Inc. in January 2007.

11. 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 and private-label 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 in Canada.

Net sales by reportable segment were as follows:

	Three Months Ended August 31		Six Months Ended August 31	
(Amounts in millions)	2008	2007	2008	2007
Domestic segment	$ 2,244.1	$ 2,511.4	$ 4,410.9	$ 4,888.3
International segment	147.3	132.5	281.6	241.2
Net sales	$ 2,391.4	$ 2,644.0	$ 4,692.5	$ 5,129.5

The (loss) earnings from continuing operations before income taxes by reportable segment were as follows:

	Three Months Ended August 31		Six Months Ended August 31	
(Amounts in millions)	2008	2007	2008	2007
Domestic segment	$ (240.5)	$ (130.2)	$ (400.4)	$ (216.6)
International segment	4.9	2.1	2.9	6.0
Loss from continuing operations before income taxes	$ (235.7)	$ (128.2)	$ (397.5)	$ (210.6)

The international segment's earnings from continuing operations before income taxes for the three months and six months ended August 31, 2008, include a benefit of $4.3 million due to a correction of an immaterial amount related to goodwill impairment charges recorded in prior periods.

The international segment's earnings from continuing operations before income taxes for the six months ended August 31, 2007, include a recovery of $7.5 million related to a former subsidiary.

Total assets by reportable segment were as follows:

(Amounts in millions)	August 31, 2008	February 29, 2008
Domestic segment	$ 3,012.7	$ 3,335.7
International segment	387.4	410.3
Total assets	$ 3,400.1	$ 3,745.9

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The domestic segment net sales by category were as follows:

(Dollar amounts in millions)	Three Months Ended August 31 2008 $	% of Sales	2007 $	% of Sales	Six Months Ended August 31 2008 $	% of Sales	2007 $	% of Sales
Video	$ 925.6	41.2%	$ 948.2	37.8%	$ 1,815.0	41.2%	$ 1,882.2	38.5%
Information technology	649.4	28.9	774.7	30.8	1,240.8	28.1	1,403.3	28.7
Audio	268.3	12.0	325.8	13.0	530.9	12.0	660.7	13.5
Entertainment	233.8	10.4	267.1	10.6	495.9	11.2	539.7	11.1
Warranty, services and other(a)	167.1	7.5	195.6	7.8	328.4	7.5	402.5	8.2
Net sales	$ 2,244.1	100.0%	$ 2,511.4	100.0%	$ 4,410.9	100.0%	$ 4,888.3	100.0%