BEST BUY CO INC
Form 10-K
April 30, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 1, 2008

OR

o

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 **1-9595**

BEST BUY CO., INC.

(Exact name of registrant as specified in its charter)

Minnesota State or other jurisdiction of incorporation or organization	**41-0907483** (I.R.S. Employer Identification No.)
7601 Penn Avenue South **Richfield, Minnesota** (Address of principal executive offices)	**55423** (Zip Code)

Registrant's telephone number, including area code 612-291-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No

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. ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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. (Check one):

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) o Yes ý No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 31, 2007, was approximately $11.3 billion, computed by reference to the price of $43.95 per share, the price at which the common equity was last sold on August 31, 2007, as reported on the New York Stock Exchange-Composite Index. (For purposes of this calculation all of the registrant's directors and executive officers are deemed affiliates of the registrant.)

As of April 25, 2008, the registrant had 411,795,260 shares of its Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated May 12, 2008 (to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year-end of March 1, 2008), for the regular meeting of shareholders to be held on June 25, 2008 ("Proxy Statement"), are incorporated by reference into Part III.

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Annual Report on Form 10-K are forward-looking statements and may be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "foresee," "plan," "project," "outlook," and other words and terms of similar meaning. Such statements reflect our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause our future results to differ materially from the anticipated results expressed in such forward-looking statements. Readers should review Item 1A, *Risk Factors,* of this Annual Report on Form 10-K for a description of important factors that could cause future results to differ materially from those contemplated by the forward-looking statements made in this Annual Report on Form 10-K. In addition, general domestic and foreign economic conditions, acquisitions and development of new businesses, product availability, new product introductions, sales volumes, the promotional activity of our competitors, profit margins, weather, foreign currency fluctuation, availability of suitable real estate locations, disaster recovery response times, and the impact of labor markets on our overall profitability, among other things, could cause our future results to differ materially from those projected in any such forward-looking statements.

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PART I

Item 1. Business.

Description of Business

Unless the context otherwise requires, the use of the terms "Best Buy," "we," "us" and "our" in this Annual Report on Form 10-K refers to Best Buy Co., Inc. and its consolidated subsidiaries. Best Buy is a specialty retailer of consumer electronics, home office products, entertainment software, appliances and related services. We operate retail stores and Web sites under the brand names Best Buy (BestBuy.com, BestBuy.ca, BestBuy.com.cn, and BestBuyMobile.com), Five Star (Five-Star.cn), Future Shop (FutureShop.ca), Geek Squad (GeekSquad.com and GeekSquad.ca), Magnolia Audio Video (MagnoliaAV.com), Pacific Sales Kitchen and Bath Centers (PacificSales.com) and Speakeasy (Speakeasy.net). References to our Web site addresses do not constitute incorporation by reference of the information contained on the Web sites.

Our vision is to make life fun and easy for consumers. Our business strategy is to treat customers as unique individuals, meeting their needs with end-to-end solutions, and engaging and energizing our employees to serve them, while maximizing overall profitability. We believe we offer consumers meaningful advantages in store environment, product value, product selection, and a variety of in-store and in-home services related to the merchandise we offer, all of which advance our objectives of enhancing our business model, gaining market share and improving profitability.

Information About Our Segments

During fiscal 2008, we operated two reportable segments: Domestic and International. The Domestic segment is comprised of all states, districts and territories of the United States and includes store, call center and online operations, including Best Buy, Best Buy Mobile, Geek Squad, Magnolia Audio Video, Pacific Sales Kitchen and Bath Centers ("Pacific Sales") and Speakeasy. U.S. Best Buy stores offer a wide variety of consumer electronics, home office products, entertainment software, appliances and related services. Best Buy Mobile offers a wide selection of mobile phones, accessories and related services. Geek Squad provides residential and commercial computer repair, support and installation services. Magnolia Audio Video stores offer high-end audio and video products and related services. Pacific Sales stores offer high-end home-improvement products including appliances, consumer electronics and related services. Speakeasy provides broadband, voice, data and information technology services. The International segment is comprised of all Canada store, call center and online operations, including Best Buy, Future Shop and Geek Squad, as well as all China store, call center and online operations, including Best Buy, Geek Squad and Jiangsu Five Star Appliance Co. ("Five Star"). Our International segment offers products and services similar to that of our U.S. Best Buy stores. However, Canada Best Buy stores do not carry appliances. Further, our China Best Buy store and Five Star stores do not carry entertainment software.

Financial information about our segments is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 9, *Segment and Geographic Information*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Domestic Segment

We were incorporated in the state of Minnesota in 1966 as Sound of Music, Inc. We began as an audio components retailer and, with the introduction of the videocassette recorder in the early 1980s, expanded into video products. In 1983, we changed our name to Best Buy Co., Inc. and began using mass-merchandising techniques, which included offering a wider variety of products and operating stores under a "superstore" concept. In 1989, we dramatically changed our method of retailing by introducing a self-service, noncommissioned, discount-style store concept designed to give the customer more control over the purchasing process.

In fiscal 2000, we established our first online shopping site, BestBuy.com. Our "clicks-and-mortar" strategy is designed to empower consumers to research and purchase products seamlessly, either online or in our retail stores. Our online shopping sites offer expanded assortments in all of our principal revenue categories.

In fiscal 2001, we acquired Magnolia Hi-Fi, Inc. a Seattle-based, high-end retailer of audio and video products and services to access an upscale customer segment. During fiscal 2004, Magnolia Hi-Fi began doing business as Magnolia Audio Video.

In fiscal 2003, we acquired Geek Squad Inc. Geek Squad provides residential and commercial computer repair, support and installation services. We acquired Geek Squad to further our plans of providing technology support services to customers. Geek Squad service is available in all Best Buy stores, as well as in seven stand-alone stores in the U.S. Our goal is to build Geek Squad into one of the largest multi-national providers of residential and commercial computer repair and support and installation services.

In fiscal 2005, we opened our first Magnolia Home Theater store-within-a-store experience in a U.S. Best Buy store. We believe Magnolia Home Theater with its high-end brands, home-like displays and specially trained employees offers a unique solution for our customers. The Magnolia Home Theater store- within-a-store experience was in 346 U.S. Best Buy stores at the end of fiscal 2008.

In fiscal 2005, we also began converting U.S. Best Buy stores to our customer centricity operating model. Stores operating under the customer centricity model offer variations in product assortments, staffing, promotions and store design, and are focused on key customer segments. The segmented stores tailor their store merchandising, staffing, marketing and presentation to address specific customer groups. Originally, these customer groups included affluent professional males, young entertainment enthusiasts who appreciate a digital lifestyle, upscale suburban mothers, families who are practical technology adopters and small businesses.

In fiscal 2007, we completed the transition of all remaining U.S. Best Buy stores to the customer centricity operating model. Also in fiscal 2007, we evolved our customer centricity segmentation to address the needs of customer lifestyle groups, rather than specific customer groups. Our stores now focus on lifestyles such as affluent suburban families, trend-setting urban dwellers, and the closely knit families of Middle America.

In fiscal 2007, we acquired Pacific Sales. Pacific Sales specializes in the sale of high-end kitchen appliances, plumbing fixtures, home entertainment products and home furnishings, with a focus on builders and remodelers. We acquired Pacific Sales to enhance our ability to grow with an affluent customer base and premium brands using a proven and successful showroom format. Utilizing the existing store format, we expect to increase the number of stores in order to capitalize on the high-end segment of the U.S. appliance market.

In fiscal 2007, we developed the Best Buy Mobile concept through a management consulting agreement with The Carphone Warehouse Group PLC ("CPW") and test marketed five stand-alone stores located in New York. Best Buy Mobile seeks to satisfy the needs of all our customer lifestyle groups by providing a comprehensive assortment of mobile phones, accessories and related services offered by experienced sales personnel in 181 U.S. Best Buy stores, as well as nine stand-alone stores located in New York and North Carolina at the end of fiscal 2008. During the next 18 months, we plan to add the Best Buy Mobile store-within-a-store experience to the majority of U.S. Best Buy stores.

In fiscal 2008, we acquired Speakeasy. Speakeasy provides broadband, voice, data and information technology services. We believe our acquisition of Speakeasy will generate synergies by providing new technology solutions for our existing and future customers.

At March 1, 2008, we operated 923 U.S. Best Buy stores in 49 states, the District of Columbia and Puerto Rico that averaged approximately 39,700 retail square feet. Collectively, U.S. Best Buy stores totaled approximately 36.7 million retail square feet at the end of fiscal 2008, or about 76% of our total retail square footage. In fiscal 2008, our U.S. Best Buy stores generated average revenue of approximately $37.6 million per store.

At March 1, 2008, we operated 19 Pacific Sales stores in California that averaged approximately 34,000 retail square feet. Collectively, Pacific Sales stores totaled approximately 0.6 million retail square feet at the end of fiscal 2008, or about 1% of our total retail square footage. In fiscal 2008, our Pacific Sales stores generated average revenue of approximately $18.7 million per store.

At March 1, 2008, we operated 13 Magnolia Audio Video stores in California, Oregon and Washington that averaged approximately 11,600 retail square feet. Collectively, Magnolia Audio Video stores totaled approximately 0.2 million retail square feet at the end of fiscal 2008, or less than 1% of our total retail square footage. In fiscal 2008, our Magnolia Audio Video stores generated average revenue of approximately $7.2 million per store.

At March 1, 2008, we operated nine Best Buy Mobile stand-alone stores in New York and North Carolina that averaged approximately 1,400 retail square feet. Collectively, Best Buy Mobile stand-alone stores totaled approximately 13,000 retail square feet at the end of fiscal 2008, or less than 1% of our retail square footage.

At March 1, 2008, we operated seven Geek Squad stand-alone stores in California, Colorado, Georgia, Minnesota and Texas that averaged approximately 2,000 retail square feet. Collectively, Geek Squad stand-alone stores totaled approximately 14,000 retail square feet at the end of fiscal 2008, or less than 1% of our retail square footage.

International Segment

Our International segment was established in connection with our acquisition of Canada-based Future Shop Ltd. in fiscal 2002. The Future Shop acquisition provided us with an opportunity to increase revenue, gain market share and leverage our operational expertise in consumer electronics retailing. Since the acquisition, we have continued to build on Future Shop's position as the leading consumer electronics retailer in Canada.

During fiscal 2003, we launched our dual-branding strategy in Canada by introducing the Best Buy brand. The dual-branding strategy allows us to retain Future Shop's brand equity and attract more customers by offering a choice of store experiences. As we expand the presence of Best Buy stores in Canada, we expect to gain continued operating efficiencies by leveraging our capital investments, supply chain management, advertising, merchandising and administrative functions. Our goal is to reach differentiated customers with each brand by giving them the unique shopping experiences they desire. The primary differences between our two principal brands in Canada are:

In-store experience The customer's interaction with store employees is different at each of the two brands. Future Shop stores have predominantly commissioned sales associates who take a more proactive role in assisting customers. Through their expertise and attentiveness, the sales associate drives the transaction. In contrast, Canada Best Buy store employees, like employees in U.S. Best Buy stores, are noncommissioned, and the stores offer more interactive displays and grab-and-go merchandising. This design allows customers to drive the transaction as they experience the products themselves, with store employees available to demonstrate and explain product features.

Products and services Only Future Shop stores carry appliances. In addition, Geek Squad service is available in all Canada Best Buy stores, but is not available in Future Shop stores.

Store size At the end of fiscal 2008, the average Future Shop store was approximately 26,600 retail square feet, compared with an average of approximately 33,200 retail square feet for Canada Best Buy stores. Canada Best Buy stores generally have wider aisles, as well as more square footage devoted to entertainment software.

In fiscal 2007, we acquired a 75% interest in Five Star, one of China's largest appliance and consumer electronics retailers. We made the investment in Five Star to further our international growth plans, to increase our knowledge of Chinese customers and to obtain an immediate retail presence in China. We have a contractual commitment to acquire the remaining 25% interest in Five Star within the next several years, subject to Chinese government approval.

In fiscal 2007, we opened our first China Best Buy store in Shanghai. We plan to open five to eight additional Best Buy stores in China during fiscal 2009.

In fiscal 2008, we expanded Geek Squad to the United Kingdom through our relationship with CPW.

At March 1, 2008, we operated 131 Future Shop stores throughout all of Canada's provinces and 51 Canada Best Buy stores in seven provinces: Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan. Collectively, our stores in Canada totaled approximately 5.2 million retail square feet at the end of fiscal 2008, or about 11% of our total retail square footage. In fiscal 2008, our Canada stores generated average revenue of approximately $30.9 million per store.

At March 1, 2008, we operated 160 Five Star stores in seven of China's 34 provinces and one China Best Buy store in Shanghai. Collectively, our stores in China totaled approximately 5.9 million retail square feet at the end of fiscal 2008, or about 12% of our total retail square footage. In fiscal 2008, our China retail stores generated average revenue of approximately $8.8 million per store.

As previously announced, we plan to open two to five Best Buy stores in Mexico in the second half of fiscal 2009 and project that we will open one or two Best Buy stores in Turkey in the early part of fiscal 2010.

We consolidate the financial results of our China operations on a two-month lag. Consistent with such consolidation, the financial and non-financial information presented in this filing relative to our China operations is also presented on a two-month lag.

Operations

Domestic Segment

U.S. Best Buy store operations are organized into eight territories. Each territory is divided into districts and is under the management of a retail field officer who oversees store performance through district managers. District managers monitor store operations and meet regularly with store managers to discuss merchandising, new product introductions, sales promotions, customer loyalty programs, employee satisfaction surveys and store operating performance. Advertising, merchandise purchasing and pricing, as well as inventory policies, are generally controlled centrally.

U.S. Best Buy stores are generally open 80 hours per week, seven days a week, with extended holiday hours. A typical store is staffed by one general manager and four managers. The average staff per store in fiscal 2008 was approximately 110 employees, including full-time, part-time and seasonal employees, and varied by store depending on sales volumes.

U.S. Best Buy stores use a standardized and detailed operating procedure called our Standard Operating Platform ("SOP"). The SOP includes procedures for inventory management, transaction processing, customer relations, store administration, product sales and services, and merchandise display. All stores are intended to operate in the same manner under the SOP.

Pacific Sales stores are typically managed by a store manager who also sells appliances. Pacific Sales stores are generally open 40 hours per week, five days a week. Depending on an individual store's volume and product offerings, store staffing includes approximately 10 noncommissioned sales personnel and approximately four sales support personnel. Corporate management for Pacific Sales stores generally controls advertising, merchandise purchasing and pricing, as well as inventory policies.

Magnolia Audio Video stores are typically managed by a store manager and an audio/video sales manager. Magnolia Audio Video stores are generally open 72 hours per week, seven days a week. Depending on an individual store's volume and product offerings, store staffing includes eight to 20 commissioned sales personnel and one to three hourly personnel. Corporate management for Magnolia Audio Video stores generally controls advertising, merchandise purchasing and pricing, as well as inventory policies.

International Segment

Canada store operations are organized to support two brands, each headed by a senior vice president. Each senior vice president has national management that closely monitors store operations and meets regularly with store managers to review management and staff training programs, customer feedback and requests, store operating performance and other matters. Meetings involving store management, product managers, and advertising, financial and administrative staff, as well as senior management, are held quarterly to review operating results and to establish future objectives.

Canada stores are generally open 60 to 75 hours per week, seven days a week. An average Future Shop store is staffed by a general manager, an operations manager, one to four department managers and 50 to 150 sales associates, including full-time and part-time sales associates. An average Canada Best Buy store is staffed with a general manager; assistant managers for operations, merchandising, inventory, sales and services; and 80 to 110 sales associates, including full-time and part-time sales associates. The number of sales associates is dependent upon store size and sales volume.

Canada stores use a standardized operating system. The operating system includes procedures for inventory management, transaction processing, customer relations, store administration, staff training and performance appraisals, as well as merchandise display. Advertising, merchandise purchasing and pricing, and inventory policies are centrally controlled.

Five Star stores are generally open 77 to 84 hours per week, seven days a week. A typical Five Star store is staffed by a general manager; six to 10 department managers; 27 to 100 full-time sales associates; and 50 to 200 vendor employees who sell products. Corporate management at Five Star centrally controls advertising, merchandise purchasing and pricing and inventory policies for major brand products, while management for individual regions control these operations for local brands. Meetings involving store management and corporate management are held on a regular basis to review operating results and establish future objectives.

Our China Best Buy store employs an operating model similar to our U.S. Best Buy and Canada Best Buy stores. Our China Best Buy store is staffed with a general manager; assistant managers for operations, merchandising, inventory and sales; and approximately 260 sales associates, including full-time and part-time sales associates. Advertising, merchandise purchasing and pricing, and inventory policies for our China Best Buy store are centrally controlled by corporate management. Meetings involving store management and corporate management are held on a regular basis to review operating results and to establish future objectives.

Merchandise

Domestic Segment

U.S. Best Buy stores have offerings in six revenue categories: consumer electronics, home office, entertainment software, appliances, services and other. Consumer electronics consists of video and audio products. Video products include televisions, digital cameras and accessories, digital camcorders and accessories and DVD players. Audio products include MP3 players and accessories, navigation products, home theater audio systems and components, and mobile electronics including car stereo and satellite radio products. The home office revenue category includes notebook and desktop computers, monitors, mobile phones, hard drives, networking and accessories. The entertainment software revenue category includes video gaming hardware and software, DVD movies, CDs and computer software. The appliances revenue category includes major appliances as well as small electrics. The services revenue category consists primarily of commissions from the sale of extended service contracts; revenue from computer-related services; product repair revenue; and delivery and installation revenue derived from home theater, mobile audio and appliances. The other revenue category includes non-core offerings such as snacks and beverages.

Pacific Sales stores have offerings in three revenue categories: appliances including plumbing, consumer electronics and services. Appliances consists of major appliances evenly split between high end and mass premium brands. Plumbing consists of kitchen and bath fixtures which include faucets, sinks, toilets and bath tubs. Consumer electronics consists of video and audio products, including televisions and home theater systems. The services revenue category consists primarily of repair services.

Magnolia Audio Video stores have offerings in three revenue categories: consumer electronics, home office and services. Consumer electronics consists of video and audio products. Video products include televisions, DVD players and accessories. Audio products include home theater audio systems and components, mobile electronics and accessories. The home office revenue category consists primarily of home theater furniture. The services revenue category consists primarily of home theater system installation and repair services as well as commissions from the sale of extended service contracts.

International Segment

Canada Best Buy and Future Shop stores have offerings in five revenue categories: consumer electronics, home office, entertainment software, services, other and, for Future Shop only, a sixth revenue category, appliances. Consumer electronics consists of video and audio products. Video products include televisions, digital cameras and accessories, DVD players, digital camcorders and accessories. Audio products include MP3 players, home theater audio systems and components, navigation products, mobile electronics and accessories. The home office revenue category includes desktop and notebook computers and their respective accessories, monitors, hard drives, printers and mobile phones. The entertainment software revenue category includes video game hardware and software, DVDs, CDs and computer software. The appliances revenue category includes major appliances as well as small electrics. The services revenue category includes commissions from the sale of extended service contracts, repair, delivery, computer services and home theater installation. The other revenue category includes non-core offerings.

Although Canada Best Buy and Future Shop stores offer similar revenue categories (except for appliances), there are differences in product brands and depth of selection within revenue categories. On average, approximately 35% of the product assortment (excluding entertainment software) overlaps between the two store brands.

China Best Buy and Five Star stores have offerings in four revenue categories: appliances, consumer electronics, home office and services. Our China stores do not carry entertainment software. Appliances includes major appliances, air conditioners, small electrics and housewares. The consumer electronics revenue category consists of video and audio products, including televisions, digital cameras, MP3 players and accessories. The home office revenue category includes desktop and notebook computers, mobile phones, traditional telephones and accessories. The services revenue category includes computer support services.

Distribution

Domestic Segment

Generally, U.S. Best Buy stores' merchandise, except for major appliances and large-screen televisions, is shipped directly from manufacturers to our distribution centers located in California, Georgia, Indiana, Minnesota, New York, Ohio, Oklahoma and Virginia. Major appliances and large-screen televisions are shipped to satellite warehouses in each major market. U.S. Best Buy stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our stores from manufacturers and distributors. All inventory is bar-coded and scanned to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. On average, U.S. Best Buy stores receive product shipments two or three times per week, with additional shipments during periods of high sales volume. Contract carriers ship merchandise from the distribution centers to stores. Generally, online merchandise sales are either picked up at U.S. Best Buy stores or fulfilled directly to customers through our distribution centers.

We receive and warehouse Pacific Sales stores' merchandise at a distribution center in California. All inventory is bar-coded or marked with vendor serial numbers to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. Most merchandise is fulfilled directly to customers through our distribution center.

We receive and warehouse Magnolia Audio Video stores' merchandise at either Magnolia Audio Video distribution centers in Washington and California or the U.S. Best Buy distribution center in California. All inventory is bar-coded and scanned to ensure accurate tracking. Merchandise is delivered to stores an average of three times per week pursuant to an in-house distribution system.

International Segment

Our Canada stores' merchandise is shipped directly from our suppliers to our distribution centers in British Columbia and Ontario. Our Canada stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our stores from manufacturers and distributors. All inventory is bar-coded and scanned to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. Our Canada stores typically receive product shipments twice per week, with additional shipments during periods of high sales volume. Contract carriers ship merchandise from the distribution centers to stores.

We receive our Five Star stores' merchandise at more than 50 distribution centers and warehouses located throughout the Five Star retail chain, the largest of which is located in Nanjing, Jiangsu province. Our Five Star stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. Most merchandise is fulfilled directly to customers through our distribution centers and warehouses.

Our China Best Buy store's merchandise is shipped directly from our suppliers to our distribution center in Shanghai. Our China Best Buy store is dependent upon the distribution center for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our store from manufacturers and distributors. In certain circumstances, merchandise is shipped directly to our customers from manufacturers and distributors. Our China Best Buy store typically receives product shipments three to four times per week, with additional shipments during periods of high sales volume.

Suppliers

Our strategy depends, in part, upon our ability to offer customers a broad selection of name-brand products and, therefore, our success is dependent upon satisfactory and stable supplier relationships. In fiscal 2008, our 20 largest suppliers accounted for just over 60% of the merchandise we purchased, with five suppliers Sony, Hewlett-Packard, Samsung, Apple, and Toshiba representing just over one-third of total merchandise purchased. The loss of or disruption in supply from any one of these major suppliers could have a material adverse effect on our revenue and earnings. We generally do not have long-term written contracts with our major suppliers that would require them to continue supplying us with merchandise. We have no indication that any of our suppliers plan to discontinue selling us merchandise. We have not experienced significant difficulty in maintaining satisfactory sources of supply, and we generally expect that adequate sources of supply will continue to exist for the types of merchandise we sell.

We operate global sourcing offices in China in order to purchase products directly from manufacturers in Asia. These offices have improved our product sourcing efficiency and provide us with the capability to offer private-label products that complement our existing product assortment. In the future, we expect purchases from our global sourcing offices to increase as a percentage of total purchases. We also believe that the expected increase in our global sourcing volumes will help drive gross profit rate improvements by lowering our overall product cost. At March 1, 2008, we operated three of these offices, but subsequently closed our sourcing office in Beijing.

Store Development

The addition of new stores has played, and we believe will continue to play, a significant role in our growth and success. Our store development program has historically focused on entering new markets; adding stores within existing markets; and relocating, remodeling and expanding existing stores in order to offer new products and services to our customers. During fiscal 2008, we opened 155 new stores, relocated nine stores and closed 18 stores. We offer Geek Squad support services in all Best Buy stores. At March 1, 2008, we offered the Apple store-within-a-store experience in 357 U.S. Best Buy stores, the Magnolia Home Theater store-within-a-store experience in 346 U.S. Best Buy stores and the Best Buy Mobile store-within-a-store experience in 181 U.S. Best Buy stores.

The following table reconciles U.S. Best Buy stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	548
2004	60		608
2005	61	(1)	668
2006	74		742
2007	80		822
2008	101		923

The following table reconciles Pacific Sales stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward[(1)]	NA	NA	14
2007			14
2008	5		19

(1) As of the March 7, 2006, date of acquisition

The following table reconciles Magnolia Audio Video stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	19
2004	3		22
2005		(2)	20
2006			20
2007			20
2008		(7)	13

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The following table reconciles Best Buy Mobile stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2007[1]	5		5
2008	4		9

(1) The Best Buy Mobile stand-alone store concept was test marketed in fiscal 2007.

The following table reconciles U.S. Geek Squad stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2004	1		1
2005	5		6
2006	7	(1)	12
2007			12
2008		(5)	7

The following table reconciles Future Shop stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	104
2004	4		108
2005	6		114
2006	5	(1)	118
2007	3		121
2008	10		131

The following table reconciles Canada Best Buy stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	8
2004	11		19
2005	11		30

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
2006	14		44
2007	3		47
2008	4		51

The following table reconciles Five Star stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward[1]	NA	NA	131
2007	8	(4)	135
2008	31	(6)	160

(1) As of the June 8, 2006, date of acquisition

The following table reconciles the China Best Buy store open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2007	1		1
2008			1

During fiscal 2009, we expect to open approximately 140 new stores in the U.S., Canada, China and Mexico. Most of the new stores will be opened in markets where we already have stores, leveraging our infrastructure and making shopping more convenient for our customers. In the U.S., we anticipate opening 85 to 100 new Best Buy stores, as well as relocating four existing Best Buy stores. We also expect to open five to ten Pacific Sales stores in western states. Additionally, we are extending our Best Buy Mobile experience to the majority of our U.S. Best Buy stores in the next 18 months. We will also look to improve the customer experience in the computing space by expanding our collaborative relationships with Dell, Hewlett-Packard and Toshiba, as well as adding Apple products and services to approximately 250 more U.S. Best Buy stores. In Canada, we expect to open approximately six Future Shop stores and six Best Buy stores, as well as close one Future Shop store and relocate six existing Future Shop stores. In China, we plan to open 20 to 25 Five Star stores. We also expect to open five to eight additional Best Buy stores in China in fiscal 2009. Finally, we anticipate extending our international presence by opening our first two to five stores in Mexico in the second half of fiscal 2009 and our first one or two stores in Turkey in the early part of fiscal 2010.

Additional information regarding our outlook for fiscal 2009 is included in the *Outlook for Fiscal 2009* section of Item 7, *Management's Discussion and Analysis of*

Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

Intellectual Property

We believe we own valuable intellectual property including trademarks, service marks and tradenames, some of which are of material importance to our business, and include "Best Buy," the "Yellow Tag" logo, "Best Buy Mobile," "Dynex," "Five Star," "Future Shop," "Geek Squad," "Insignia," "Magnolia Audio Video," "Pacific Sales," "Rocketfish" and "Speakeasy." Some of our intellectual property is the subject of numerous U.S. and foreign trademark and service mark registrations. Our trademark and service mark registrations in the U.S. generally have 10 year renewable terms. We believe our intellectual property has significant value and is an important factor in the marketing of our company, our stores and our Web sites. We also believe we own valuable intellectual property for which we have patents pending. We are not aware of any facts that could negatively impact our continuing use of any of our intellectual property.

In accordance with accounting principles generally accepted in the United States ("GAAP"), our balance sheets include the cost of acquired intellectual property only. The only material acquired intellectual properties presently included in our balance sheets are the Future Shop, Five Star, Pacific Sales and Speakeasy tradenames, which had a total carrying value of $97 million at the end of fiscal 2008. The values of these tradenames are based on the continuation of the Future Shop, Five Star, Pacific Sales and Speakeasy brands. We currently classify these tradenames as indefinite-lived intangible assets. If we were to abandon the Future Shop, Five Star, Pacific Sales or Speakeasy brand, we would incur an impairment charge based on the then-carrying value of the associated tradename.

Seasonality

Our business, like that of many U.S. retailers, is seasonal. Historically, we have realized more of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S. and Canada, than in any other fiscal quarter.

Working Capital

We fund our business operations through a combination of available cash and cash equivalents, short-term investments and cash flows generated from operations. In addition, our revolving credit facilities are available for additional working capital needs or investment opportunities.

Customers

We do not have a significant concentration of sales with any individual customer and, therefore, the loss of any one customer would not have a material impact on our business. No single customer has accounted for 10% or more of our total revenue.

Backlog

Our stores, call centers and online shopping sites do not have a material amount of backlog orders.

Government Contracts

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government or government agencies or affiliates.

Competition

Our stores compete against other consumer electronics retailers, specialty home office retailers, mass merchants, home-improvement superstores and a number of direct-to-consumer alternatives. Our stores also compete against independent dealers, regional chain discount stores, wholesale clubs, video rental stores and other specialty retail stores. Mass merchants continue to increase their assortment of consumer electronics products, primarily those that are less complex to sell, install and operate, and have been expanding their product offerings into higher-end categories. Similarly, large home-improvement retailers are expanding their assortment of appliances. In addition, consumers are increasingly downloading entertainment and computer software directly via the Internet.

We compete principally on the basis of customer service; installation and support services; store environment, location and convenience; product assortment and availability; value pricing; and financing alternatives.

We believe our store experience, broad product assortment, store formats and brand marketing strategies differentiate us from most competitors by positioning our stores as the preferred destination for new technology and entertainment products in a fun and informative shopping environment. Our stores compete by aggressively advertising and emphasizing a complete product and service solution, value pricing and financing alternatives. In addition, our trained and knowledgeable sales and service staffs allow us to tailor the offerings to meet the needs of our customers.

Research and Development

We have not engaged in any material research and development activities during the past three fiscal years.

Environmental Matters

We are not aware of any federal, state or local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, that have materially affected, or will materially affect, our net earnings or competitive position, or have resulted or will result in material capital expenditures. During fiscal 2008, we had no material capital expenditures for environmental control facilities and no such material expenditures are anticipated in the foreseeable future.

Number of Employees

At the end of fiscal 2008, we employed approximately 150,000 full-time, part-time and seasonal employees worldwide. We consider our employee relations to be good. In the U.S., we offer our employees a wide array of company-paid benefits. We believe our benefits are competitive relative to others in our industry. In our operations outside the U.S., we have certain benefits that vary from those offered to our U.S. employees based on customary local practices and statutory requirements.

Financial Information About Geographic Areas

We operate two reportable segments: Domestic and International. Financial information regarding the Domestic and International geographic areas is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 9, *Segment and Geographic Information*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Available Information

We are subject to the reporting requirements of the Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room
100 F Street N.E.
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains a Web site that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's Web site at *http://www.sec.gov*.

We make available, free of charge on our Web site, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our Web site at *www.BestBuy.com* select the "For Our Investors" link and then the "SEC Filings" link.

We also make available, free of charge on our Web site, the charters of the Audit Committee, the Compensation and Human Resources Committee, the Finance and Investment Policy Committee and the Nominating, Corporate Governance and Public Policy Committee, as well as the Corporate Governance Principles of our Board of Directors ("Board") and our Code of Business Ethics (including any amendment to, or waiver from, a provision of our Code of Business Ethics) adopted by our Board. These documents are posted on our Web site at *www.BestBuy.com* select the "For Our Investors" link and then the "Corporate Governance" link.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to:

Best Buy Co., Inc.
Investor Relations Department
7601 Penn Avenue South
Richfield, MN 55423-3645

Item 1A. Risk Factors.

Described below are certain risks that our management believes are applicable to our business and the industry in which we operate. There may be additional risks that are not presently material or known. You should carefully consider each of the following risks and all other information set forth in this Annual Report on Form 10-K.

If any of the events described below occur, our business, financial condition, results of operations, liquidity or access to the capital markets could be materially adversely affected. The following risks could cause our actual results to differ materially from our historical experience and from results predicted by forward-looking statements made by us or on our behalf related to conditions or events that we anticipate may occur in the future. All forward-looking statements made by us or on our behalf are qualified by the risks described below.

If we do not anticipate and respond to changing consumer preferences in a timely manner, our operating results could materially suffer.

Our business depends, in large part, on our ability to introduce successfully new products, services and technologies to consumers, the frequency of such introductions, the level of consumer acceptance, and the related impact on the demand for existing products, services and technologies. Failure to predict accurately constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions, or to address effectively consumer concerns, could have a material adverse effect on our revenue, results of operations and standing with our customers.

Our growth is dependent on the success of our strategies.

Our growth is dependent on our ability to identify, develop and execute strategies. While we believe customer centricity and the pursuit of international growth opportunities will enable us to grow our business, misjudgments could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations could materially deteriorate if we fail to attract, develop and retain qualified employees.

Our performance is dependent on attracting and retaining a large and growing number of employees. We believe our competitive advantage is providing unique end-to-end solutions for each individual customer, which requires us to have highly trained and engaged employees. Our success depends in part upon our ability to attract, develop and retain a sufficient number of qualified employees, including store, service and administrative personnel. The turnover rate in the retail industry is high, and qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas. Competition for such qualified individuals could require us to pay higher wages to attract a sufficient number of employees. Our inability to recruit a sufficient number of qualified individuals in the future may delay planned openings of new stores or affect the speed with which we expand initiatives such as Best Buy Mobile, services and our international operations. Delayed store openings, significant increases in employee turnover rates or significant increases in labor costs could have a material adverse effect on our business, financial condition and results of operations.

We face strong competition from traditional store-based retailers, Internet businesses and other forms of retail commerce, which could materially adversely affect our revenue and profitability.

The retail business is highly competitive. We compete for customers, employees, locations, products and other important aspects of our business with many other local, regional, national and international retailers. Pressure from our competitors, some of which have a greater market presence and financial resources than we do, could require us to reduce our prices or increase our costs of doing business. As a result of this competition, we may experience lower revenue and/or higher operating costs, which could materially adversely affect our results of operations.

General economic conditions, a decline in consumer discretionary spending or other conditions may materially adversely impact our sales in a disproportionate fashion.

We sell products and services that consumers tend to view as conveniences rather than necessities. As a result, our results of operations are more sensitive to changes in general economic conditions that impact consumer spending, including discretionary spending. Future economic conditions and other factors including consumer confidence, employment levels, interest rates, tax rates, consumer debt levels, fuel and energy costs and the availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the U.S. economy or in the global economy, or an uncertain economic outlook, could materially adversely affect consumer spending habits and our operating results.

The domestic and international political situation also affects consumer confidence. The outcomes of political races and the threat or outbreak of terrorism or other hostilities could lead to a decrease in consumer spending. Any of these events and factors could cause a decrease in revenue or an increase in inventory markdowns or certain operating expenses, which could materially adversely affect our results of operations.

Our growth strategy includes expanding our business, both in existing markets and by opening stores in new markets.

Our future growth is dependent, in part, on our ability to build, buy or lease new stores. We compete with other retailers and businesses for suitable locations for our stores. Local land use, local zoning issues, environmental regulations and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations, and also influence the cost of building, buying and leasing our stores. We also may have difficulty negotiating real estate purchase agreements and leases on acceptable terms. Failure to manage effectively these and other similar factors will affect our ability to build, buy and lease new stores, which may have a material adverse effect on our future profitability.

We seek to expand our business in existing markets in order to attain a greater overall market share. Because our stores typically draw customers from their local areas, a new store may draw customers away from our nearby existing stores and may cause customer traffic and comparable store sales performance to decline at those existing stores.

We also intend to open stores in new markets. The risks associated with entering a new market include difficulties in attracting customers due to a lack of customer familiarity with our brand, our lack of familiarity with local customer preferences, seasonal differences in the market and our ability to obtain the necessary governmental approvals. In addition, entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence. We cannot ensure that our new stores will be profitably deployed; as a result, our future profitability may be materially adversely affected.

Risks associated with the vendors from whom our products are sourced could materially adversely affect our revenue and gross profit.

The products we sell are sourced from a wide variety of domestic and international vendors. Global sourcing has become an increasingly important part of our business and positively affects our financial performance. Our 20 largest suppliers account for just over 60% of the merchandise we purchase. If any of our key vendors fails to supply us with products, we may not be able to meet the demands of our customers and our revenue could materially decline. We require all of our vendors to comply with applicable laws, including labor and environmental laws, and otherwise be certified as meeting our required vendor standards of conduct. Our ability to find qualified vendors who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, outbreak of pandemics and other factors relating to foreign trade are beyond our control. These and other issues affecting our vendors could materially adversely affect our revenue and gross profit.

We are subject to certain regulatory and legal developments which could have a material adverse impact on our business.

Our regulatory and legal environment exposes us to complex compliance and litigation risks that could materially adversely affect our operations and financial results. The most significant compliance and litigation risks we face are:

- The difficulty in complying with sometimes conflicting regulations in local, national or international jurisdictions and new or changing regulations that affect how we operate;

- The impact of changes in tax laws (or interpretations thereof) and accounting standards; and

- The impact of litigation trends, including class action lawsuits involving consumers and shareholders, and labor and employment matters.

Defending against lawsuits and other proceedings may involve significant expense and divert management's attention and resources from other matters.

Our International activities subject us to risks associated with the legislative, judicial, accounting, regulatory, political and economic conditions specific to the countries or regions in which we operate, which could materially adversely affect our financial performance.

We have a presence in various foreign countries including Bermuda, Canada, China, Luxembourg, Mexico, the Republic of Mauritius, Turkey, Turks and Caicos, and the United Kingdom. During fiscal 2008, our International operations generated 17% of our revenue. Our growth strategy includes expansion into new or existing international markets, and we expect that our International operations will account for a larger portion of our revenue in the future. Our future operating results in these countries and in other countries or regions throughout the world where we may operate in the future could be materially adversely affected by a variety of factors, many of which are beyond our control including political conditions, economic conditions, legal and regulatory constraints and foreign currency regulations.

In addition, foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our International operations, and could materially adversely affect our financial performance. Moreover, the economies of some of the countries in which we have operations have in the past suffered from high rates of inflation and currency devaluations, which, if they occurred again, could materially adversely affect our financial performance. Other factors which may materially adversely impact our International operations include foreign trade, monetary, tax and fiscal policies both of the U.S. and of other countries; laws, regulations and other activities of foreign governments, agencies and similar organizations; and maintaining facilities in countries which have historically been less stable than the U.S..

Additional risks inherent in our International operations generally include, among others, the costs and difficulties of managing international operations, adverse tax consequences and greater difficulty in enforcing intellectual property rights in countries other than the U.S.. The various risks inherent in doing business in the U.S. generally also exist when doing business outside of the U.S., and may be exaggerated by the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws and regulations.

We rely heavily on our management information systems for inventory management, distribution and other functions. If our systems fail to perform these functions adequately or if we experience an interruption in their operation, our business and results of operations could be materially adversely affected.

The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to manage our order entry, order fulfillment, pricing, point-of-sale and inventory replenishment processes. The failure of our management information systems to perform as we anticipate could disrupt our business and could result in decreased revenue, increased overhead costs and excess or out-of-stock inventory levels, causing our business and results of operations to suffer materially.

A disruption in our relationship with Accenture, who manages our information technology and human resources operations and conducts certain procurement activities, could materially adversely affect our business and results of operations.

We have engaged Accenture LLP ("Accenture"), a global management consulting, technology services and outsourcing company, to manage significant portions of our information technology and human resources operations as well as to conduct certain procurement activities. We rely heavily on our management information systems for inventory management, distribution and other functions. We also rely heavily on human resources support to attract, develop and retain a sufficient number of qualified employees. We also use Accenture to provide procurement support to research and purchase certain non-merchandise products and services. Any disruption in our relationship with Accenture could result in decreased revenue and increased overhead costs, causing our business and results of operations to suffer materially.

Failure to protect the integrity and security of our customers' information could expose us to litigation and materially damage our standing with our customers.

The use of individually identifiable data by our business and our business associates is regulated at the state, federal and international levels. Increasing costs associated with information security such as increased investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud could cause our business and results of operations to suffer materially. Additionally, the success of our online operations depends upon the secure transmission of confidential information over public networks, including the use of cashless payments. While we are taking significant steps to protect customer and confidential information, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. If any such compromise of our security were to occur, it could have a material adverse effect on our reputation, operating results and financial condition. Any such compromise may materially increase the costs we incur to protect against such information security breaches and could subject us to additional legal risk.

Failure in our pursuit or execution of new business ventures, strategic alliances and acquisitions could have a material adverse impact on our business.

Our growth strategy includes expansion via new business ventures, strategic alliances and acquisitions. Assessing a potential growth opportunity involves extensive due diligence. However, the amount of information we can obtain about a potential growth opportunity may be limited, and we can give no assurance that new business ventures, strategic alliances and acquisitions will positively affect our financial performance or will perform as planned. Integrating new stores and concepts can be a difficult task. Cultural differences in some markets into which we expand or into which we introduce new retail concepts may result in customers in those markets being less receptive than originally anticipated. These types of transactions may divert our capital and our management's attention from other business issues and opportunities. We may not be able to successfully assimilate or integrate companies that we acquire, including their personnel, financial systems, distribution, operations and general operating procedures. We may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company. If we fail to assimilate or integrate acquired companies successfully, our business and operating results could suffer materially.

We are highly dependent on the cash flows and net earnings we generate during our fourth fiscal quarter, which includes the majority of the holiday selling season.

Approximately one-third of our revenue and more than one-half of our net earnings are generated in our fourth fiscal quarter, which includes the majority of the holiday shopping season in the U.S. and Canada. Unexpected events or developments such as natural or man-made disasters, product sourcing issues or adverse economic conditions in our fourth quarter could have a material adverse effect on our revenue and earnings.

The foregoing should not be construed as an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Stores, Distribution Centers and Corporate Facilities

Domestic Segment

The following table summarizes the geographic location of our Domestic segment stores at the end of fiscal 2008:

	U.S. Best Buy Stores	Pacific Sales Stores	Magnolia Audio Video Stores	Best Buy Mobile Stores(1)	U.S. Geek Squad Stores
Alabama	12				
Alaska	1				
Arizona	24				
Arkansas	6				
California	103	19	8		2
Colorado	18				1
Connecticut	10				
Delaware	4				
District of Columbia	1				
Florida	50				
Georgia	28				1
Hawaii	2				
Idaho	5				
Illinois	54				
Indiana	19				
Iowa	12				
Kansas	8				
Kentucky	9				
Louisiana	12				
Maine	6				
Maryland	22				
Massachusetts	25				
Michigan	32				
Minnesota	25				2
Mississippi	7				
Missouri	19				
Montana	3				
Nebraska	5				
Nevada	9				
New Hampshire	6				
New Jersey	21				
New Mexico	5				
New York	43			5	
North Carolina	27			4	
North Dakota	4				
Ohio	37				
Oklahoma	9				
Oregon	9		1		
Pennsylvania	30				
Puerto Rico	1				
Rhode Island	1				
South Carolina	14				
South Dakota	2				
Tennessee	14				
Texas	89				1

	U.S. Best Buy Stores	Pacific Sales Stores	Magnolia Audio Video Stores	Best Buy Mobile Stores(1)	U.S. Geek Squad Stores
Utah	9				
Vermont	1				
Virginia	28				
Washington	20		4		
West Virginia	2				
Wisconsin	20				
Total	923	19	13	9	7

(1)
Store counts have been adjusted to reflect Best Buy Mobile stand-alone stores test marketed in New York in fiscal 2007.

Note: At the end of fiscal 2008, we owned 24 of our U.S. Best Buy locations. Also at the end of fiscal 2008, we operated 32 U.S. Best Buy stores with owned improvements on leased land. All other stores in the Domestic segment at the end of fiscal 2008 were leased.

At the end of fiscal 2008, we operated 923 U.S. Best Buy stores, 19 Pacific Sales stores, 13 Magnolia Audio Video stores, nine Best Buy Mobile stand-alone stores and seven Geek Squad stand-alone stores, totaling approximately 37.5 million retail square feet.

We service the operations of the Domestic segment primarily with the following distribution centers:

Location	Square Footage	Owned or Leased
Dinuba, California	1,028,000	Owned
Findlay, Ohio	1,010,000	Leased
Nichols, New York	720,000	Owned
Ardmore, Oklahoma	720,000	Owned
Franklin, Indiana	714,000	Owned
Staunton, Virginia	709,000	Leased
Dublin, Georgia	700,000	Leased
Bloomington, Minnesota	425,000	Leased
Whittier, California	305,000	Leased
Total	6,331,000	

We also lease approximately 3.0 million square feet of space in 13 satellite warehouses in metropolitan markets for home delivery of major appliances and large-screen televisions. We also lease approximately 0.2 million square feet of space in Louisville, Kentucky, that is used by our Geek Squad operations to service notebook and desktop computers.

Our principal corporate office is located in Richfield, Minnesota, and is an owned facility consisting of four interconnected buildings totaling approximately 1.5 million square feet. Accenture, who manages our information technology and human resources operations and conducts certain procurement activities for us, and certain other of our vendors who provide us with a variety of additional corporate services, occupy a portion of our principal corporate office. We also lease an aggregate of approximately 0.1 million square feet of corporate office space in California for our Pacific Sales operations and in Washington for both our Magnolia Audio Video and Speakeasy operations.

International Segment

The following table summarizes the geographic location of our International segment stores at the end of fiscal 2008:

	Canada		China	
	Canada Best Buy Stores	Future Shop Stores	China Best Buy Stores	Five Star Stores
Alberta	7	15		
British Columbia	7	21		
Manitoba	2	5		
New Brunswick		3		
Newfoundland		1		
Nova Scotia	1	3		
Ontario	25	55		
Prince Edward Island		1		
Quebec	8	24		
Saskatchewan	1	3		
Anhui				12
Henan				9
Jiangsu				99
Shandong				9
Shanghai			1	
Sichuan				6
Yunnan				4
Zhejiang				21

	Canada		China	
Total	51	131	1	160

Note: At the end of fiscal 2008, we owned three of our Canada Best Buy stores, six of our Five Star stores and our China Best Buy store. All other stores in the International segment at the end of fiscal 2008 were leased.

At the end of fiscal 2008, we operated 131 Future Shop stores, 51 Canada Best Buy stores, 160 Five Star stores and one China Best Buy store, totaling approximately 11.1 million retail square feet.

We lease approximately 1.1 million square feet of distribution center space in Brampton, Ontario, and approximately 0.4 million square feet of distribution center space in Vancouver, British Columbia, to service our Canada operations.

We also lease approximately 1.0 million square feet of distribution center space in Jiangsu province, and an additional approximately 0.6 million square feet of distribution center space throughout the Five Star retail chain to support our Five Star distribution network. We lease less than 0.1 million square feet of distribution center space in Shanghai to service our Best Buy China operations.

The principal office for our Canada operations is located in a 141,000-square-foot leased facility in Burnaby, British Columbia. The principal office for our Five Star operations is located in a 46,000-square-foot owned facility in Nanjing, Jiangsu. The principal office for our China Best Buy operations is located in a 27,000-square-foot leased facility in Shanghai. In addition, our International operations lease a 4,000-square foot facility in Vancouver, British Columbia.

Global Sourcing

In support of our global sourcing initiative, we lease office space in China totaling approximately 45,000 square feet at the end of fiscal 2008.

Operating Leases

Almost all of our stores and a majority of our distribution facilities are leased. Terms of the lease agreements generally range from 10 to 20 years. Most of the leases contain renewal options and rent escalation clauses.

Additional information regarding our operating leases is available in Note 6, *Leases*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

On December 8, 2005, a purported class action lawsuit captioned, *Jasmen Holloway, et al. v. Best Buy Co., Inc.,* was filed against us in the U.S. District Court for the Northern District of California. This federal court action alleges that we discriminate against women and minority individuals on the basis of gender, race, color and/or national origin in our stores with respect to our employment policies and practices. The action seeks an end to discriminatory policies and practices, an award of back and front pay, punitive damages and injunctive relief, including rightful place relief for all class members. We believe the allegations are without merit and intend to defend this action vigorously.

We are involved in various other legal proceedings arising in the normal course of conducting business. We believe the amounts provided in our consolidated financial statements, as prescribed by GAAP, are adequate in light of the probable and estimable liabilities. The resolution of those proceedings is not expected to have a material effect on our results of operations or financial condition.

Executive Officers of the Registrant

(As of March 1, 2008)

Name	Age	Position With the Company	Years With the Company
Richard M. Schulze	67	Founder and Chairman of the Board	42
Bradbury H. Anderson	58	Vice Chairman and Chief Executive Officer	35
Allen U. Lenzmeier	64	Vice Chairman	24
Brian J. Dunn	47	President and Chief Operating Officer	23
James L. Muehlbauer(1)	46	Enterprise Chief Financial Officer (Interim)	6
Robert A. Willett	61	Chief Executive Officer Best Buy International and Chief Information Officer	4
Shari L. Ballard	41	Executive Vice President Retail Channel Management	15
David P. Berg	46	Executive Vice President International Strategy and Corporate Development	6
Thomas C. Healy(2)	46	Executive Vice President Best Buy For Business	18
Kevin T. Layden	47	Chief Operating Officer Best Buy International	11
Timothy D. McGeehan	41	Executive Vice President Best Buy Mobile Worldwide	20
David J. Morrish	50	Executive Vice President Connected Digital Solutions	10
Kalendu Patel	44	Executive Vice President Emerging Business	5
Jonathan E. Pershing	37	Executive Vice President Human Capital	19
Michael J. Pratt	40	President Best Buy Canada	17
Michael A. Vitelli	52	Executive Vice President Customer Operating Groups	4
Joseph M. Joyce	56	Senior Vice President, General Counsel and Assistant Secretary	17
John Noble	49	Senior Vice President and Chief Financial Officer Best Buy International	6
Ryan D. Robinson	42	Senior Vice President, U.S. SBU CFO and Treasurer	6
Susan S. Grafton	51	Vice President, Controller and Chief Accounting Officer	7

(1) Effective April 18, 2008, our Board appointed Mr. Muehlbauer, Executive Vice President Finance and Chief Financial Officer.

(2) Effective April 26, 2008, Mr. Healy resigned from Best Buy.

Richard M. Schulze is a founder of Best Buy. He has been an officer and director from our inception in 1966 and currently is Chairman of the Board. Effective in June 2002, he relinquished the duties of Chief Executive Officer. He had been our principal executive officer for more than 30 years. He is on the board of the University of St. Thomas, chairman of its Executive and Institutional Advancement Committee, and a member of its Board Affairs Committee. Mr. Schulze is also chairman of the board of the University of St. Thomas Business School.

Bradbury H. Anderson has been a director since August 1986 and is currently our Vice Chairman and Chief Executive Officer. He assumed the responsibility of Chief Executive Officer in June 2002, having previously served as President and Chief Operating Officer since April 1991. He has been employed in various capacities with us since 1973. In addition, he serves on the board of General Mills, Inc. and the Retail Industry Leaders Association, as well as on the boards of the American Film Institute, Minnesota Early Learning Foundation, The Best Buy Children's Foundation, Minnesota Public Radio and Waldorf College.

Allen U. Lenzmeier has been a director since February 2001 and is currently our Vice Chairman, serving on a part-time basis to support our international expansion. Prior to his promotion to his current position in 2004, he served in various capacities since joining us in 1984, including as President and Chief Operating Officer from 2002 to 2004, and as President of Best Buy Retail Stores from 2001 to 2002. He serves on the board of UTStarcom, Inc. He is also a national trustee for the Boys and Girls Clubs of America and serves on its Twin Cities board.

Brian J. Dunn was named President and Chief Operating Officer in February 2006. Prior to his promotion to his current position, he served as President Retail, North America since December 2004. Mr. Dunn joined us in 1985 and has held positions as Executive Vice President, Senior Vice President, Regional Vice President, regional manager, district manager and store manager. He serves on the board of Dick's Sporting Goods, Inc.

James L. Muehlbauer was named Executive Vice President Finance and Chief Financial Officer in April 2008. Previously, he served as Enterprise Chief Financial Officer (Interim), Chief Financial Officer Best Buy U.S., Senior Vice President Finance, and Vice President and Chief Financial Officer Musicland. Prior to joining us, Mr. Muehlbauer spent 10 years with The Pillsbury Company, a consumer packaged goods company, where he held various senior-level finance management positions, including Vice President and Worldwide Controller, Vice President of Operations, divisional finance director, director of mergers and acquisitions, and director of internal audit. A certified public accountant (inactive), Mr. Muehlbauer spent eight years with Coopers & Lybrand LLP and most recently served as a senior manager in the firm's audit and consulting practice.

Robert A. Willett is our Chief Executive Officer Best Buy International and Chief Information Officer. He previously served as Executive Vice President Operations from 2004 to 2006. In 2002, we engaged Mr. Willett as a consultant and special advisor to our Board on matters relating to operational efficiency and excellence. Prior to that, he was the global managing partner for the retail practice at Accenture LLP, a global management consulting, technology services and outsourcing company, and was also a member of its Executive Committee. Mr. Willett launched his career in store management at Marks & Spencer P.L.C., a leading British department store chain, and has held executive positions of managing director and group CEO at other retailers in Europe.

Shari L. Ballard was named Executive Vice President Retail Channel Management in September 2007. Previously, she served as Executive Vice President Human Resources and Legal since December 2004. Ms. Ballard joined us in 1993 and has held positions as Senior Vice President, Vice President, and general and assistant store manager.

David P. Berg was named Executive Vice President International Strategy and Corporate Development in March 2008. Prior to his strategy and development role, he was Senior Vice President and Chief Operating Officer of Best Buy International. Mr. Berg joined Best Buy in 2002 as Vice President and Associate General Counsel.

Thomas C. Healy resigned from Best Buy in April 2008. He had been Executive Vice President Best Buy For Business since December 2004. Mr. Healy joined us in 1990 and held positions as President Best Buy International, Senior Vice President, Regional Vice President, district manager and store manager.

Kevin T. Layden was named Chief Operating Officer Best Buy International in January 2008. He previously served as President and Chief Operating Officer Best Buy Canada (formerly Future Shop Ltd.) with responsibility for both our Future Shop and Canada Best Buy operations. Mr. Layden joined us in 1997 as Vice President Merchandising. Before joining Best Buy, he spent approximately 17 years with Circuit City Stores, Inc., a retailer of consumer electronics, serving in positions of increasing responsibility, including most recently as assistant vice president and general manager for New York. Mr. Layden also serves on the board of the Business Council of British Columbia and is the chairman of the Retail Council of Canada. He is a trustee, board member and audit committee member of Tree Island Industries, Inc. and serves as a cabinet member of the United Way for Lower Mainland Vancouver.

Timothy D. McGeehan was named Executive Vice President Best Buy Mobile Worldwide in October 2007. Mr. McGeehan joined us in 1988 and has held positions as Executive Vice President Retail Sales, Senior Vice President, Regional Vice President, regional manager, district manager and store manager.

David J. Morrish became Executive Vice President Connected Digital Solutions in March 2008. Mr. Morrish joined us in 1998 as Vice President, Merchandising and most recently served as a Senior Vice President PC Mobility Solutions. Prior to joining us, he spent 17 years with Sears Canada Inc., where he held a variety of positions of increasingly responsibility including as vice president/general merchandising manager.

Kalendu Patel was named Executive Vice President Emerging Business in September 2007. Mr. Patel joined us in 2003 and has held positions as Executive Vice President Strategy and International, Senior Vice President and Vice President. Prior to joining us, Mr. Patel was a partner at Strategos, a strategic consulting firm.

Prior to that, he held various positions with KPMG Consulting Inc. and Courtaulds PLC in the U.K.

Jonathan E. Pershing was named Executive Vice President Human Capital in December 2007. Mr. Pershing joined us in 1989 as a retail manager. He has held various positions, including Divisional Manager Loss Prevention, Vice President Retail Operations for Musicland and Vice President Organizational Alignment. He serves as a member of the board of directors for Project Success in theTwin Cities.

Michael J. Pratt became President Best Buy Canada in January 2008. Prior to his new role, Mr. Pratt was a Senior Vice President of Best Buy Canada. He has held numerous roles in his 17 years with Future Shop and Best Buy Canada, most recently responsible for Best Buy stores, marketing, advertising, store design and Canada's Commercial Sales Group.

Michael A. Vitelli became Executive Vice President Customer Operating Groups in March 2008. Mr. Vitelli joined us in February 2004 and has held positions such as Senior Vice President and General Manager Home Solutions. Prior to joining us, his professional career included 23 years at Sony Electronics, Inc., serving in positions of increasing responsibility, including executive vice president of Sony's Visual Products Company. Mr. Vitelli serves on the boards of the National Consumer Technology Industry chapter of the Anti-Defamation League where he serves as the industry chair and the National Multiple Sclerosis Society's Minnesota Chapter.

Joseph M. Joyce was named Senior Vice President, General Counsel and Assistant Secretary in 1997. Mr. Joyce joined us in 1991 as Vice President Human Resources and General Counsel. Prior to joining us, Mr. Joyce was with Tonka Corporation, a toy maker, having most recently served as vice president, secretary and general counsel.

John Noble was named Senior Vice President and Chief Financial Officer Best Buy International in May 2006. Mr. Noble joined us in 2002 and has held positions as Senior Vice President and Chief Financial Officer Best Buy Canada, and Vice President Finance. Prior to joining us, Mr. Noble spent 10 years with The Pillsbury Company, and most recently served as vice president finance for operations.

Ryan D. Robinson was named Senior Vice President, U.S. SBU CFO and Treasurer in December 2007. Mr. Robinson joined us in 2002 and has held positions as Senior Vice President and Chief Financial Officer New Growth Platforms, Senior Vice President Finance and Treasurer, and Vice President Finance and Treasurer. Prior to joining us, he spent 15 years at ABN AMRO Holding N.V., an international bank, and most recently served as senior vice president and director of that financial institution's North American private-equity activities. Mr. Robinson also held management positions in ABN AMRO Holding N.V.'s corporate finance, finance advisory, acquisitions and asset securitization divisions.

Susan S. Grafton was named Vice President, Controller and Chief Accounting Officer in December 2006. Ms. Grafton joined us in 2000 and has held positions as Vice President Financial Operations and Controller, Vice President Planning and Performance Management, senior director, and director. Prior to joining us, she was with The Pillsbury Company and Pitney Bowes, Inc. in numerous finance and accounting positions. Ms. Grafton serves on the Finance Leaders Council for the National Retail Industry Leaders Association and the Financial Executive Council for the National Retail Federation.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the New York Stock Exchange under the ticker symbol BBY. The table below sets forth the high and low sales prices of our common stock as reported on the New York Stock Exchange   Composite Index during the periods indicated.

	Sales Price	
	High	Low
Fiscal 2008		
First Quarter	$ 50.19	$ 44.70
Second Quarter	49.44	41.85
Third Quarter	51.98	42.39
Fourth Quarter	53.90	41.92
Fiscal 2007		
First Quarter	$ 59.50	$ 50.49
Second Quarter	55.51	43.51
Third Quarter	58.49	44.53
Fourth Quarter	56.69	45.08

Holders

As of April 25, 2008, there were 3,540 holders of record of Best Buy common stock.

Dividends

In fiscal 2004, our Board initiated the payment of a regular quarterly cash dividend. A quarterly cash dividend has been paid in each subsequent quarter and have historically increased each year. Effective with the quarterly cash dividend paid in the third quarter of fiscal 2007, we increased our quarterly cash dividend per common share by 25% to $0.10 per common share per quarter. Effective with the quarterly cash dividend paid in the third quarter of fiscal 2008, we increased our quarterly cash dividend per common share by 30% to $0.13 per common share per quarter. The payment of cash dividends is subject to customary legal and contractual restrictions.

Future dividend payments will depend on our earnings, capital requirements, financial condition and other factors considered relevant by our Board.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board. We may repurchase our common stock for a variety of reasons, such as acquiring shares to offset dilution related to equity-based incentives, including stock options and our employee stock purchase plan, and optimizing our capital structure.

In June 2007, our Board authorized a $5.5 billion share repurchase program. The program, which became effective on June 26, 2007, terminated and replaced a $1.5 billion share repurchase program authorized by our Board in June 2006. There is no expiration date governing the period over which we can make our share repurchases under the June 2007 share repurchase program.

In accordance with our June 2007 share repurchase program, on June 26, 2007, we entered into an accelerated share repurchase ("ASR") program authorized by the Board. The ASR program consisted of two agreements to purchase shares of our common stock from Goldman, Sachs & Co. ("Goldman") for an aggregate purchase price of $3.0 billion. The ASR program concluded in February 2008.

During the fourth quarter of fiscal 2008, we received from Goldman and retired 10.1 million shares under the ASR program. Total aggregate shares delivered to us under the ASR program totaled 65.8 million shares at an average purchase price of $45.59 per share. At the end of fiscal

2008, $2.5 billion of the $5.5 billion of the share repurchase program authorized by our Board in June 2007 was available for future share repurchases.

We consider several factors in determining when to make share repurchases including, among other things, our cash needs and the market price of our stock. We expect that cash provided by future operating activities, as well as available cash and cash equivalents and short-term investments, will be the sources of funding for our share repurchase program. Based on the anticipated amounts to be generated from those sources of funds in relation to the remaining authorization approved by our Board under the June 2007 share repurchase program, we do not expect that future share repurchases will have a material impact on our short-term or long-term liquidity.

The following table presents the total number of shares repurchased during the fourth quarter of fiscal 2008 by fiscal month, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase plan, and the approximate dollar value of shares that may yet be purchased pursuant to the $5.5 billion share repurchase program as of the end of fiscal 2008:

Fiscal Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
December 2, 2007, through January 5, 2008				$ 2,500,000,000
January 6, 2008, through February 2, 2008	2,567,332	$ 45.59	2,567,332	2,500,000,000
February 3, 2008, through March 1, 2008	7,539,054	45.59	7,539,054	2,500,000,000
Total Fiscal 2008 Fourth Quarter	10,106,386	$ 45.59	10,106,386	$ 2,500,000,000

(1) In accordance with our June 2007 share repurchase program, on June 26, 2007, we entered into an ASR program authorized by the Board. The ASR program consisted of two agreements to purchase shares of our common stock from Goldman for an aggregate purchase price of $3.0 billion. This program concluded in February 2008. Total aggregate shares delivered to us under the ASR program totaled 65.8 million shares at an average purchase price of $45.59 per share, which is reflected in "Average Price Paid per Share" above. During the fourth quarter of fiscal 2008, we received from Goldman and retired 10.1 million shares. Shares purchased pursuant to the ASR program are presented under "Total Number of Shares Purchased" and "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" in the periods in which they were received. For additional information regarding our common stock repurchases, see Note 5, *Shareholders' Equity*, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

(2) "Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs" reflects our $5.5 billion share repurchase program less the $3.0 billion purchased under the ASR program. There is no stated expiration for the June 2007 share repurchase program.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our common stock that may be issued under our equity compensation plans as of March 1, 2008.

Plan Category	Securities to Be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price per Share(1)	Securities Available for Future Issuance(2)
Equity compensation plans approved by security holders(3)	31,066,404(4)	$ 39.73	20,522,135
Equity compensation plans not approved by security holders(5)	11,250	34.44	NA
Total	31,077,654	$ 39.73	20,522,135

(1) Includes weighted-average exercise price of outstanding stock options only.

(2) Includes 2,712,535 shares of our common stock which have been reserved for issuance under the Best Buy Co., Inc. 2003 Employee Stock Purchase Plan.

(3) Includes the 1994 Full-Time Non-Qualified Stock Option Plan, the 1997 Directors' Non-Qualified Stock Option Plan, the 1997 Employee Non-Qualified Stock Option Plan, the Assumed Musicland 1998 Stock Incentive Plan, the 2000 Restricted Stock Award Plan, and the 2004 Omnibus Stock and Incentive Plan.

(4) Includes grants of stock options and performance-based and time-based restricted stock.

(5) Represents non-plan options issued to one of our executive officers in 2002 in consideration of his service to the Board prior to his employment with us.

Best Buy Stock Comparative Performance Graph

The information contained in this Best Buy Stock Comparative Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

The graph below compares the cumulative total shareholder return on Best Buy common stock for the last five fiscal years with the cumulative total return on the Standard & Poor's 500 Index ("S&P 500"), of which we are a component, and the Standard & Poor's Retailing Group Industry Index ("S&P Retailing Group"), of which we are a component. The S&P Retailing Group is a capitalization-weighted index of domestic equities traded on the NYSE, the American Stock Exchange and NASDAQ, and includes high-capitalization stocks representing the retail sector of the S&P 500.

The graph assumes an investment of $100 at the close of trading on February 28, 2003, the last trading day of fiscal 2003, in Best Buy common stock, the S&P 500 and the S&P Retailing Group.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Best Buy Co., Inc., the S&P 500
and the S&P Retailing Group

	FY03	FY04	FY05	FY06	FY07	FY08
Best Buy Co., Inc.	$ 100.00	$ 184.49	$ 180.48	$ 285.16	$ 246.23	$ 230.68
S&P 500	100.00	138.52	148.19	160.63	179.86	173.39
S&P Retailing Group	100.00	150.88	163.04	182.98	203.89	157.55

* Cumulative Total Return assumes dividend reinvestment.

Source: Research Data Group, Inc.

Item 6. Selected Financial Data.

The following table presents our selected financial data. The table should be read in conjunction with Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K. Certain prior-year amounts have been reclassified to conform to the current-year presentation. In fiscal 2004, we sold our interest in Musicland. All fiscal years presented reflect the classification of Musicland's financial results as discontinued operations.

Five-Year Financial Highlights

$ in millions, except per share amounts

Fiscal Year	**2008**	**2007(1)**	**2006(2)**	**2005(3)**	**2004**
Consolidated Statements of Earnings Data					
Revenue	$ 40,023	$ 35,934	$ 30,848	$ 27,433	$ 24,548
Operating income	2,161	1,999	1,644	1,442	1,304
Earnings from continuing operations	1,407	1,377	1,140	934	800
Loss from discontinued operations, net of tax					(29)
Gain (loss) on disposal of discontinued operations, net of tax				50	(66)
Net earnings	1,407	1,377	1,140	984	705
Per Share Data[4]					
Continuing operations	$ 3.12	$ 2.79	$ 2.27	$ 1.86	$ 1.61
Discontinued operations					(0.06)
Gain (loss) on disposal of discontinued operations				0.10	(0.13)
Net earnings	3.12	2.79	2.27	1.96	1.42
Cash dividends declared and paid	0.46	0.36	0.31	0.28	0.27
Common stock price:					
High	53.90	59.50	56.00	41.47	41.80
Low	41.85	43.51	31.93	29.25	17.03
Operating Statistics					
Comparable store sales gain[5]	2.9%	5.0%	4.9%	4.3%	7.1%
Gross profit rate	23.9%	24.4%	25.0%	23.7%	23.9%
Selling, general and administrative expenses rate	18.5%	18.8%	19.7%	18.4%	18.6%
Operating income rate	5.4%	5.6%	5.3%	5.3%	5.3%
Year-End Data					
Current ratio[6][7]	1.1	1.4	1.3	1.4	1.3
Total assets[6]	$ 12,758	$ 13,570	$ 11,864	$ 10,294	$ 8,652
Debt, including current portion[6]	816	650	596	600	850
Total shareholders' equity	4,484	6,201	5,257	4,449	3,422
Number of stores					
Domestic[8]	971	873	774	694	631
International	343	304	167	144	127
Total[8]	1,314	1,177	941	838	758
Retail square footage (000s)[9]					
Domestic[8]	37,511	34,092	30,874	28,513	26,699
International	11,069	9,419	4,652	4,057	3,587
Total[8]	48,580	43,511	35,526	32,570	30,286

(1)

Fiscal 2007 included 53 weeks. All other periods presented included 52 weeks.

(2)

In the first quarter of fiscal 2006, we early-adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("123(R)"), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123(R) and, accordingly, financial results for years prior to fiscal 2006 have not been restated. Stock-based compensation expense in fiscal 2008, 2007 and 2006 was $105 ($72 net of tax), $121 ($82 net of tax) and $132 ($87 net of tax), respectively. Stock-based compensation expense recognized in our financial results for years prior to fiscal 2006 was not significant.

(footnotes continue on following page)

$ in millions, except per share amounts

(footnotes continued)

(3)

During the fourth quarter of fiscal 2005, following a review of our lease accounting practices, we recorded a cumulative charge of $36 pre-tax ($23 net of tax) to correct our accounting for certain operating lease matters. Additionally, during the same quarter, we established a sales return liability, which reduced gross profit by $15 pre-tax ($10 net of tax). Further, in fiscal 2005, we recognized a $50 tax benefit related to the reversal of valuation allowances on deferred tax assets as a result of the favorable resolution of outstanding tax matters with the Internal Revenue Service regarding the disposition of our interest in Musicland. The tax benefit was classified as discontinued operations.

(4)

Earnings per share is presented on a diluted basis and reflects a three-for-two stock split effected in August 2005.

(5)

Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales percentage gain excludes the effect of fluctuations in foreign currency exchange rates. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

(6)

Includes both continuing and discontinued operations.

(7)

The current ratio is calculated by dividing total current assets by total current liabilities.

(8)

Fiscal 2007 store counts and square footage have been adjusted to reflect Best Buy Mobile stand-alone stores test marketed in fiscal 2007.

(9)

Prior years' retail square footage has been adjusted to reflect all square footage on a gross basis.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We believe transparency and clarity are the primary goals of successful financial reporting. We remain committed to increasing the transparency of our financial reporting, providing our shareholders with informative financial disclosures and presenting an accurate view of our financial position and operating results.

In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting and concluded that such control was effective as of March 1, 2008. Management's report on the effectiveness of our internal control over financial reporting and the related report of our independent registered public accounting firm are included in Item 8, *Financial Statements and Supplementary Data,* of this Annual Report on Form 10-K.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in eight sections:

- Overview
- Business Strategy and Core Philosophies
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Critical Accounting Estimates
- New Accounting Standards
- Outlook for Fiscal 2009

We consolidate the financial results of our China operations on a two-month lag. Consistent with such consolidation, the financial and non-financial information presented in our MD&A relative to our China operations is also presented on a two-month lag. No significant intervening event occurred in our China operations that would have materially affected our financial condition, results of operations, liquidity or other factors had it been recorded during fiscal 2008.

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, *Financial Statements and Supplementary Data,* of this Annual Report on Form 10-K.

Our fiscal year ends on the Saturday nearest the end of February. Fiscal 2008 and 2006 each included 52 weeks, whereas our fiscal 2007 included 53 weeks.

Overview

Best Buy is a specialty retailer of consumer electronics, home office products, entertainment software, appliances and related services.

We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all store, call center and online operations, including Best Buy, Best Buy Mobile, Geek Squad, Magnolia Audio Video, Pacific Sales and Speakeasy located within the U.S. and its territories. U.S. Best Buy stores offer a wide variety of consumer electronics, home office products, entertainment software, appliances and related services, operating 923 stores in 49 states, the District of Columbia and Puerto Rico at the end of fiscal 2008. Best Buy Mobile offers a wide selection of mobile phones, accessories and services through nine stand-alone stores located in New York and North Carolina, as well as in 181 U.S. Best Buy stores at the end of fiscal 2008. Geek Squad offers residential and commercial computer repair, support and installation services in all U.S. Best Buy stores and seven stand-alone stores at the end of fiscal 2008. Magnolia Audio Video stores offer high-end audio and video products and related services from 13 stores located in California, Oregon and Washington, as well as through 346 Magnolia Home Theater rooms located in U.S. Best Buy stores at the end of fiscal 2008. Pacific Sales stores offer high-end home-improvement products including appliances, consumer electronics and related services, operating 19 stores in California at the end of fiscal 2008. Speakeasy provides broadband voice, data and information technology services to home and small business users through a network of experienced sales associates.

The International segment is comprised of all Canada store, call center and online operations, including Best Buy, Future Shop and Geek Squad, as well as all China store and online operations, including Best Buy, Five Star and Geek Squad. Our International segment offers products and services similar to our Domestic segment's offerings. However, Canada Best Buy stores do not carry appliances, the China Best Buy store and Five Star stores do not carry entertainment software, and Geek Squad services in Canada and China are offered only through our Best Buy stores. At the end of fiscal 2008, we operated 51 Canada Best Buy stores in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan; 131 Future Shop stores throughout all of Canada's provinces; 160 Five Star stores located in seven of China's 34 provinces; and one China Best Buy store in Shanghai.

In support of our retail store operations, we also operate Web sites for each of our brands (BestBuy.com, BestBuy.ca, BestBuy.com.cn, BestBuyMobile.com, Five-Star.cn, FutureShop.ca, GeekSquad.com, GeekSquad.ca, MagnoliaAV.com, PacificSales.com and Speakeasy.net).

Our business, like that of many U.S. retailers, is seasonal. Historically, we have realized more of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S. and Canada, than in any other fiscal quarter. The timing of new store openings, costs associated with the development of new businesses, as well as general economic conditions may affect our future results.

Acquisition

Speakeasy, Inc.

On May 1, 2007, we acquired Speakeasy, Inc. ("Speakeasy") for $103 million in cash, or $89 million net of cash acquired, which included transaction costs and the repayment of $5 million of Speakeasy's debt. We acquired Speakeasy, an independent U.S. broadband, voice, data and information technology services provider, to strengthen our portfolio of technology solutions. The premium we paid, in excess of the fair value of the net assets acquired, was primarily for the synergies we believe Speakeasy will generate by providing new technology solutions for our existing and future customers, as well as to obtain Speakeasy's skilled, established workforce. Speakeasy contributed revenue of $78 million to our consolidated financial results in fiscal 2008.

Financial Reporting Changes

To maintain consistency and comparability, we reclassified certain prior-year amounts to conform to the current-year presentation as described in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, effective March 4, 2007. FIN No. 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction. See Note 8, *Income Taxes*, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Business Strategy and Core Philosophies

Our business, broadly defined, is about meeting the wants and needs of consumers. We believe that our assets position us to solve more customer problems than ever. Specifically, our assets include approximately 150,000 engaged employees; valuable relationships with vendors all over the world; continuing and emerging relationships with companies like Apple, Dell and The Carphone Warehouse Group PLC ("CPW"); and all of the other mutually enriching business relationships that our people continue to establish and develop wherever we go, from Asia to Silicon Valley. We also generate significant positive cash flows. All of these assets are at our disposal as we envision how we will deepen our relationships with customers and increase shareholder value.

Our business strategy is customer centricity. We define customer centricity through its parts, which we call our three core philosophies: inviting our employees to contribute their unique ideas and experiences in service of customers; treating customers uniquely and honoring their differences; and meeting customers' unique needs, end-to-end.

We start with a view of all of our customers, including what their problems are and what their desires are. We try to match that against everything we know about the solutions that now exist, or that could be created. Then we figure out how to get customers the right solutions by using our employees' unique capabilities, as well as our network of vendors and other third-party providers. If we accomplish what we have set out to do, we believe these solutions may give us something unique in the marketplace, and something truly differentiated.

Mass merchants, direct sellers, other specialty retailers and online retailers are increasingly interested in our revenue categories because of rising demand. We believe that by understanding our customers better than our competitors do, and by inspiring our employees to have richer interactions with customers, we can differentiate ourselves and compete more effectively. We further believe that this strategy can be successful for us with a variety of products and services, store formats, customer groups and even countries.

We believe that our customer centricity strategy provides the framework to grow and to enhance our business in the future. Examples of new growth areas in the past year include our Best Buy Mobile and Apple store-within-a-store experiences, our introduction of Dell computers to all U.S. Best Buy stores (making us the only U.S. retailer offering all major computing brands), our acquisition of Speakeasy and our entry into Puerto Rico.

Our future growth plans include focusing on investments that will quicken our progress in transforming the customer experience. We plan to do this by scaling the Best Buy Mobile store-within-a-store experience to the majority of our U.S. Best Buy stores in the next 18 months. In addition, we plan to invest in approximately 250 additional Apple store-within-a-store locations in the next year and to expand our private label business, which provides customers with an affordable alternative in several product categories such as home theater, computing and MP3.

We expect to continue expanding into new product categories such as musical instruments and recreation and plan to increase our market share in existing product categories such as home theater, navigation, mobile phones and gaming by improving our in-store and online customer experiences. We plan to focus the in-store customer experience on customer value propositions that provide for better and localized product assortments and resets in our store lay-out that enhance and highlight products that are generating the most customer interest such as our offerings in gaming, navigation devices, digital SLR cameras and computing. We expect online offerings to include greater assortments which include Best Buy Mobile offerings, online services scheduling, personalized shopping options and auction and outlet sites that offer more favorable pricing. Members of Reward Zone, our customer loyalty program, will also see increased benefits and program offerings in the next year with rewards becoming even greater the more they shop with us.

Our plans in fiscal 2009 also include significant investments internationally as we prepare to enter Mexico and Turkey and to expand further in China. These investments include real estate, personnel, training and enhanced information, supply chain and customer analytic systems. Our continuing plans for international expansion have been thoughtfully managed and we plan to offer tailored market assortments at optimum prices in each country we enter.

We anticipate expanding our private label business to other retailers internationally, including retailers in countries where we do not have a footprint presently. We plan to grow and to optimize our Canada business by implementing labor model changes at Future Shop, expanding financial services and broadening our loyalty program given the success we have had in the U.S. We believe the growth we are planning for in Canada will help offset our international investments in fiscal 2009. Not only are we executing on organic growth drivers, we are evaluating options to leverage our existing relationship with CPW, as well as considering potential new relationships to support our international expansion.

Results of Operations

Fiscal 2008 Summary

Net earnings in fiscal 2008 increased 2% to slightly more than $1.4 billion, or $3.12 per diluted share, compared with nearly $1.4 billion, or $2.79 per diluted share, in fiscal 2007. The modest increase in net earnings was driven by revenue growth and a decrease in our selling, general and administrative expense ("SG&A") rate, offset by a decrease in our gross profit rate and a higher effective income tax rate. The increase in net earnings per diluted share was due primarily to the lower average number of shares outstanding, resulting from our share repurchases in fiscal 2008.

Revenue in fiscal 2008 increased 11% to $40.0 billion. The increase reflected market share gains and was driven by the net addition of 137 new stores during fiscal 2008; a 2.9% comparable store sales gain; the non-comparable store sales generated from the acquisition of Five Star, Pacific Sales and Speakeasy; and favorable fluctuations in foreign currency exchange rates, partially offset by the impact of an extra week of business in fiscal 2007.

Our gross profit rate in fiscal 2008 decreased by 0.5% of revenue to 23.9% of revenue. The decrease was due primarily to increased sales of lower-margin products, including increased revenue from notebook computers and video gaming hardware. Our China operations, which carry a significantly lower gross profit rate than our other operations, reduced our gross profit rate by approximately 0.2% of revenue in fiscal 2008.

Our SG&A rate in fiscal 2008 decreased by 0.3% of revenue to 18.5% of revenue. The improvement was due primarily to the leveraging effect of the 11% growth in revenue and store operating model improvements. Our China operations, which carry a significantly lower SG&A rate than our other operations, reduced our SG&A rate by approximately 0.1% of revenue in fiscal 2008.

During fiscal 2008, we added the Apple store-within-a-store experience to 357 new and existing U.S. Best Buy stores, the Best Buy Mobile store-within-a-store experience to 181 new and existing U.S. Best Buy stores and 44 Magnolia Home Theater rooms to new and existing U.S. Best Buy stores, bringing the total number of Magnolia Home Theater rooms to 346 at the end of fiscal 2008.

Effective with the cash dividend paid in the third quarter of fiscal 2008, we increased our quarterly cash dividend per common share by 30%, to $0.13 per common share. During fiscal 2008, we made four dividend payments totaling $0.46 per common share, or $204 million in the aggregate.

During fiscal 2008, we purchased and retired 75.6 million shares of our common stock at a cost of $3.5 billion pursuant to our share repurchase programs.

In fiscal 2008, we and The Best Buy Children's Foundation contributed approximately $32 million to local communities. The Best Buy Children's Foundation supports educational programs that integrate and leverage today's technology.

Consolidated Results

The following table presents selected consolidated financial data for each of the past three fiscal years ($ in millions, except per share amounts):

Consolidated Performance Summary	2008	2007(1)	2006
Revenue	$ 40,023	$ 35,934	$ 30,848
Revenue gain %	11%	16%	12%
Comparable store sales % gain(2)	2.9%	5.0%	4.9%
Gross profit as % of revenue	23.9%	24.4%	25.0%
SG&A as % of revenue	18.5%	18.8%	19.7%
Operating income	$ 2,161	$ 1,999	$ 1,644
Operating income as % of revenue	5.4%	5.6%	5.3%
Net earnings	$ 1,407	$ 1,377	$ 1,140
Diluted earnings per share	$ 3.12	$ 2.79	$ 2.27

(1) Fiscal 2007 included 53 weeks. Fiscal 2008 and 2006 each included 52 weeks.

(2) Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales percentage gain excludes the effect of fluctuations in foreign currency exchange rates. All comparable store sales percentage calculations reflect an equal number of weeks.

The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

Fiscal 2008 Results Compared With Fiscal 2007

Fiscal 2008 net earnings were slightly more than $1.4 billion, or $3.12 per diluted share, compared with nearly $1.4 billion, or $2.79 per diluted share, in fiscal 2007. The modest increase in net earnings was driven by revenue growth and a decrease in our SG&A rate, offset by a decrease in our gross profit rate and a higher effective income tax rate. The increase in net earnings per diluted share was due primarily to the lower average number of shares outstanding, resulting from our share repurchases in fiscal 2008.

Revenue in fiscal 2008 increased 11% to $40.0 billion, compared with $35.9 billion in fiscal 2007. The increase resulted primarily from the net addition of 137 new Best Buy, Future Shop, Five Star, Pacific Sales and Best Buy Mobile stores during fiscal 2008, a full year of revenue from new stores added in fiscal 2007, a 2.9% comparable store sales gain and the non-comparable store sales generated from the acquisition of Five Star, Pacific Sales and Speakeasy. The remainder of the revenue increase was due primarily to the favorable effect of fluctuations in foreign currency exchange rates. Excluding the impact of the extra week in fiscal 2007, the net addition of new stores during the past fiscal year accounted for more than one-half of the revenue increase in fiscal 2008; the comparable store sales gain accounted for more than two-tenths of the revenue increase; the non-comparable store sales generated from the acquisition of Five Star, Pacific Sales and Speakeasy accounted for more than one-tenth of the revenue increase; and the remainder of the revenue increase was due to the favorable effect of fluctuations in foreign currency exchange rates.

The following table presents consolidated revenue mix percentages and comparable store sales percentage changes by revenue category in fiscal 2008 and 2007:

	Revenue Mix Summary		**Comparable Store Sales Summary(1)**	
	Year Ended		**Year Ended**	
	March 1, 2008	**March 3, 2007**	**March 1, 2008**	**March 3, 2007**
Consumer electronics	41%	42%	(1.3)%	9.1%
Home office	28%	27%	7.1%	0.0%
Entertainment software	19%	18%	7.9%	3.2%
Appliances	6%	6%	(2.6)%	(0.8)%
Services[(2)]	6%	6%	5.5%	9.5%
Other[(3)]	<1%	<1%	n/a	n/a
Total	100%	100%	2.9%	5.0%

(1)
Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales percentage gain excludes the effect of fluctuations in foreign currency exchange rates. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

(2)
Services consists primarily of commissions from the sale of extended service contracts; revenue from computer-related services; product repair revenue; and delivery and installation revenue derived from home theater, mobile audio and appliances.

(3)
Other includes revenue, such as fees received from cardholder account activations, that is recognized over time, resulting in revenue recognition that is not indicative of sales activity in the current period. Other also includes gift card breakage. These revenue types are excluded from our comparable store sales calculation. Finally, other includes revenue from the sale of products that are not related to our core offerings. For these

reasons, we do not provide a comparable store sales metric for this revenue category.

Our comparable store sales gain in fiscal 2008 benefited from a higher average transaction amount driven by the continued growth in higher-ticket items, including video gaming hardware, flat-panel televisions and notebook computers. Products having the largest impact on our fiscal 2008 comparable store sales gain included video gaming hardware and software, notebook computers, flat-panel televisions and navigation products. An increase in online purchases also contributed to the fiscal 2008 comparable store sales gain. Revenue from our online operations increased more than 25% in fiscal 2008 and added to the overall comparable store sales increase.

Our gross profit rate in fiscal 2008 decreased by 0.5% of revenue to 23.9% of revenue. The decrease was due primarily to increased sales of lower-margin products, including increased revenue from notebook computers and video gaming hardware. Our China operations, which carry a significantly lower gross profit rate than our other operations, reduced our gross profit rate in fiscal 2008 by approximately 0.2% of revenue. These factors were partially offset by better promotional programs in home theater, as well as lower financing rates and Reward Zone costs.

Our SG&A rate in fiscal 2008 decreased by 0.3% of revenue to 18.5% of revenue. The improvement was due primarily to the leveraging effect of the 11% growth in revenue and store operating model improvements. Our China operations, which carry a significantly lower SG&A rate than our other operations, reduced our SG&A rate by approximately 0.1% of revenue in fiscal 2008.

Because retailers do not uniformly record costs of operating their supply chain between cost of goods sold and SG&A, our gross profit rate and SG&A rate may not be comparable to other retailers' corresponding rates. For additional information regarding costs classified in cost of goods sold and SG&A, refer to Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financials Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Fiscal 2007 Results Compared With Fiscal 2006

Fiscal 2007 net earnings were nearly $1.4 billion, or $2.79 per diluted share, compared with just over $1.1 billion, or $2.27 per diluted share, in fiscal 2006. The increase was driven by revenue growth and a decrease in our SG&A rate. These factors were partially offset by a decrease in our gross profit rate and a higher effective income tax rate. Net earnings in fiscal 2007 also benefited from net interest income of $111 million, compared with net interest income of $77 million in fiscal 2006.

Revenue in fiscal 2007 increased 16% to $35.9 billion, compared with $30.8 billion in fiscal 2006. The increase resulted primarily from the net addition of 87 new Best Buy and Future Shop stores during fiscal 2007, a full year of revenue from new stores added in fiscal 2006, a 5.0% comparable store sales gain, and the acquisitions of Five Star and Pacific Sales. The remainder of the revenue increase was due primarily to the inclusion of an extra week of business in fiscal 2007, the favorable effect of fluctuations in foreign currency exchange rates and income related to our recognition of additional gift card breakage from prior years. The addition of new Best Buy and Future Shop stores accounted for nearly four-tenths of the revenue increase in fiscal 2007; the comparable store sales gain accounted for three-tenths of the revenue increase; the acquisitions of Five Star and Pacific Sales accounted for nearly two-tenths of the revenue increase; the inclusion of an extra week of business in fiscal 2007 accounted for one-tenth of the revenue increase; and the remainder of the revenue increase was due to the favorable effect of fluctuations in foreign currency exchange rates, as well as income related to our recognition of additional gift card breakage from prior years.

Our comparable store sales gain in fiscal 2007 benefited from a higher average transaction amount driven by the continued growth in higher-ticket items, including flat-panel televisions and notebook computers. In addition, comparable store sales were driven by continued customer demand for and the increased affordability of these products, as strong unit volume growth was somewhat muted by declines in average selling prices. Products having the largest impact on our fiscal 2007 comparable store sales gain included flat-panel televisions, notebook computers, video gaming hardware and software and MP3 players and accessories. An increase in online purchases also contributed to the fiscal 2007 comparable store sales gain, as we continued to add features and capabilities to our Web sites. Revenue from our online operations increased approximately 36% in fiscal 2007 and added to the overall comparable store sales increase.

Our gross profit rate in fiscal 2007 decreased by 0.6% of revenue to 24.4% of revenue. The decrease was due primarily to a lower-margin revenue mix, including increased revenue from notebook computers and video gaming hardware. Also contributing to the decrease, in order of impact, were a more promotional environment in the consumer electronics and home office revenue categories, and the inclusion of our China operations for a portion of the year. Our China operations, which carry a significantly lower gross profit rate than our other operations, reduced our gross profit rate in fiscal 2007 by approximately 0.2% of revenue.

Our SG&A rate in fiscal 2007 decreased by 0.9% of revenue to 18.8% of revenue. The decrease was due primarily to the leveraging effect of the 16% growth in revenue and reduced performance-based incentive compensation. Also contributing to the decrease, in order of impact, were controlled expenses related to our strategic initiatives and expense reduction efforts. Our China operations, which carry a significantly lower SG&A rate than our other operations, reduced our SG&A rate by approximately 0.1% of revenue in fiscal 2007. These factors were partially offset by expenses related to increased asset impairments, litigation and business closure costs.

Segment Performance

Domestic

The following table presents selected financial data for our Domestic segment for each of the past three fiscal years ($ in millions):

Domestic Segment Performance Summary	2008	2007(1)(2)	2006
Revenue	$ 33,328	$ 31,031	$ 27,380
Revenue gain %	7%	13%	11%
Comparable store sales % gain[3]	1.9%	4.1%	5.1%
Gross profit as % of revenue	24.5%	24.8%	25.3%
SG&A as % of revenue	18.5%	18.7%	19.5%
Operating income	$ 1,999	$ 1,900	$ 1,588
Operating income as % of revenue	6.0%	6.1%	5.8%

(1) Fiscal 2007 included 53 weeks. Fiscal 2008 and 2006 each included 52 weeks.

(2) Fiscal 2007 amounts have been adjusted to conform to the current-year presentation, which allocates to the International segment certain SG&A support costs previously reported as part of the Domestic segment.

(3) Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

Fiscal 2008 Results Compared With Fiscal 2007

In fiscal 2008, our Domestic segment's operating income was $2.0 billion, or 6.0% of revenue, compared with $1.9 billion, or 6.1% of revenue, in fiscal 2007. The Domestic segment's operating income rate in fiscal 2008 benefited from revenue gains and an improvement in the SG&A rate, partially offset by a decrease in the gross profit rate.

Our Domestic segment's revenue in fiscal 2008 increased 7% to $33.3 billion. Excluding the impact of an extra week of business in fiscal 2007, revenue increased 9% in fiscal 2008. Excluding the impact of the extra week, the net addition of new stores accounted for nearly eight-tenths of the revenue increase in fiscal 2008; the 1.9% comparable store sales gain accounted for nearly two-tenths of the revenue increase; and the remainder of the revenue increase was due to the non-comparable store sales generated from the acquisition of Speakeasy.

The following table presents the Domestic segment's revenue mix percentages and comparable store sales percentage changes by revenue category in fiscal 2008 and 2007:

	Revenue Mix Summary		Comparable Store Sales Summary(1)	
	Year Ended		Year Ended	
	March 1, 2008	March 3, 2007	March 1, 2008	March 3, 2007

	Revenue Mix Summary		Comparable Store Sales Summary(1)	
Consumer electronics	41%	42%	(2.4)%	8.3%
Home office	28%	27%	7.0%	(1.2)%
Entertainment software	20%	19%	6.1%	2.4%
Appliances	5%	6%	(5.0)%	(1.7)%
Services[2]	6%	5%	4.1%	9.0%
Other[3]	<1%	<1%	n/a	n/a
Total	100%	100%	1.9%	4.1%

(1)

Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

(2)

Services consists primarily of commissions from the sale of extended service contracts; revenue from computer-related services; product repair revenue; and delivery and installation revenue derived from home theater, mobile audio and appliances.

(3)

Other includes revenue, such as fees received from cardholder account activations, that is recognized over time, resulting in revenue recognition that is not indicative of sales activity in the current period. Other also includes gift card breakage. These revenue types are excluded from our comparable store sales calculation. Finally, other includes revenue from the sale of products that are not related to our core offerings. For these reasons, we do not provide a comparable store sales metric for this revenue category.

Our Domestic segment's comparable store sales gain in fiscal 2008 benefited from a higher average transaction amount driven by the continued growth in sales of higher-ticket items, including video gaming hardware, flat-panel televisions and notebook computers. Also contributing to the fiscal 2008 comparable store sales gain was an increase in online purchases, as we continued to add features and capabilities to our Web sites, including the launch of a Spanish-language version of BestBuy.com and the ability of our loyalty club members to redeem Reward Zone certificates online. Revenue from our Domestic segment's online operations increased approximately 30% in fiscal 2008 and added to the overall comparable store sales increase.

Our Domestic segment's consumer electronics revenue category posted a 2.4% comparable store sales decline, driven by declines in tube and projection televisions and MP3 players and accessories, which was offset by gains in the sales of flat-panel televisions and navigation products.

A 7.0% comparable store sales gain in our Domestic segment's home office revenue category was driven primarily by increased sales of notebook computers. The comparable store sales gain was partially offset by declines in the sales of desktop computers, printers and monitors.

Our Domestic segment's entertainment software revenue category recorded a 6.1% comparable store sales gain due primarily to sales growth in video gaming hardware and software, fueled by increased availability of hardware and greater selection of software. The comparable store sales gain was partially offset by continued declines in sales of CDs and DVDs.

A 5.0% comparable store sales decline in our Domestic segment's appliances revenue category was driven primarily by declines in sales of major appliances and small electrics due to soft macro-economic conditions in the housing sector.

Our Domestic segment's services revenue category recorded a 4.1% comparable store sales gain due primarily to sales growth in home theater installation and computer services, partially offset by declines in sales of extended service contracts.

Our Domestic segment's gross profit rate in fiscal 2008 decreased by 0.3% of revenue to 24.5% of revenue. The decrease was due primarily to a lower-margin revenue mix, including increased revenue from video gaming hardware and notebook computers. These declines were partially offset by better promotional spending in home theater, music and movies, as well as lower financing rates and Reward Zone costs.

Our Domestic segment's SG&A rate in fiscal 2008 decreased by 0.2% of revenue to 18.5% of revenue. The improvement was due primarily to the leveraging effect of the 7% growth in revenue and store operating model improvements, which includes labor efficiencies and operating procedure changes.

The following table reconciles Domestic stores open at the beginning and end of fiscal 2008:

	Total Stores at End of Fiscal 2007	Stores Opened	Stores Acquired	Stores Closed	Total Stores at End of Fiscal 2008
U.S. Best Buy	822	101			923
Pacific Sales	14	5			19
Magnolia Audio Video	20			(7)	13
Best Buy Mobile[(1)]	5	4			9
U.S. Geek Squad	12			(5)	7

	Total Stores at End of Fiscal 2007	Stores Opened	Stores Acquired	Stores Closed	Total Stores at End of Fiscal 2008
Total Domestic stores	873	110		(12)	971

(1) Fiscal 2007 store counts have been adjusted to reflect Best Buy Mobile stand-alone stores test marketed in fiscal 2007.

Note: During fiscal 2008, we relocated eight U.S. Best Buy stores. No other store in the Domestic segment was relocated during fiscal 2008. At the end of fiscal 2008, we operated 923 U.S. Best Buy stores in 49 states, the District of Columbia and Puerto Rico; 19 Pacific Sales stores in California; 13 Magnolia Audio Video stores in California, Oregon and Washington; nine Best Buy Mobile stores in New York and North Carolina; and seven U.S. Geek Squad stores in California, Colorado, Georgia, Minnesota and Texas.

The following table reconciles Domestic stores open at the beginning and end of fiscal 2007:

	Total Stores at End of Fiscal 2006	Stores Opened	Stores Acquired	Stores Closed	Total Stores at End of Fiscal 2007
U.S. Best Buy	742	80			822
Pacific Sales			14		14
Magnolia Audio Video	20				20
Best Buy Mobile[(1)]		5			5
U.S. Geek Squad	12				12
Total Domestic stores	774	85	14		873

(1) Fiscal 2007 store counts have been adjusted to reflect Best Buy Mobile stand alone-stores test marketed in fiscal 2007.

Note: During fiscal 2007, we relocated 13 U.S. Best Buy stores. No other store in the Domestic segment was relocated during fiscal 2007. At the end of fiscal 2007, we operated 822 U.S. Best Buy stores in 49 states and the District of Columbia; 14 Pacific Sales stores in California; 20 Magnolia Audio Video stores in California, Oregon and Washington; five Best Buy Mobile stores in New York; and 12 U.S. Geek Squad stores in California, Colorado, Georgia, Minnesota, Texas and Wisconsin.

Fiscal 2007 Results Compared With Fiscal 2006

In fiscal 2007, our Domestic segment's operating income was $1.9 billion, or 6.1% of revenue, compared with $1.6 billion, or 5.8% of revenue, in fiscal 2006. The Domestic segment's operating income rate in fiscal 2007 benefited from revenue gains and a decrease in the SG&A rate, partially offset by a decrease in the gross profit rate.

Our Domestic segment's revenue in fiscal 2007 increased 13% to $31.0 billion. The addition of new stores accounted for nearly one-half of the revenue increase in fiscal 2007; a 4.1% comparable store sales gain accounted for approximately three-tenths of the revenue increase; the inclusion of an extra week of business in fiscal 2007 accounted for just over one-tenth of the revenue increase; and the remainder of the revenue increase was due primarily to the acquisition of Pacific Sales and income related to our recognition of additional gift card breakage from prior years.

Our Domestic segment's comparable store sales gain in fiscal 2007 benefited from a higher average transaction amount driven by the continued growth in higher-ticket items, including flat-panel televisions and notebook computers. Also contributing to the fiscal 2007 comparable store sales gain was an increase in online purchases, as we continued to add features and capabilities to our Web sites. Revenue from our Domestic segment's online operations increased approximately 39% in fiscal 2007 and added to the overall comparable store sales increase.

Our Domestic segment's consumer electronics revenue category posted an 8.3% comparable store sales gain, driven by sales of flat-panel televisions and MP3 players and accessories, partially offset by declines in tube and projection televisions. Comparable store sales gains from flat-panel television unit-volume growth and increased screen size were somewhat muted by declines in average selling prices.

Our Domestic segment's home office revenue category recorded a 1.2% comparable store sales decrease, driven primarily by declines in desktop computers and printers. The comparable store sales declines were partially offset by growth in notebook computers, reflecting continued consumer demand for portable technology.

A 2.4% comparable store sales gain in our Domestic segment's entertainment software revenue category was due primarily to sales growth in video gaming, driven by the increased affordability of existing platforms, as well as the launches of Sony Playstation 3 and Nintendo Wii. The comparable store sales gains were partially offset by continued declines in sales of new music and movie releases.

A 1.7% comparable store sales decline in our Domestic segment's appliances revenue category was driven primarily by declines in sales of small electrics.

Comparable store sales of major appliances were flat in fiscal 2007, as benefits from the expansion of our improved appliance assortments were offset by a softer housing market.

A 9.0% comparable store sale gain in our Domestic segment's services revenue category was driven primarily by sales growth in home theater installation and computer services partially offset by declines in the sales of extended service contracts.

Our Domestic segment's gross profit rate in fiscal 2007 decreased by 0.5% of revenue to 24.8% of revenue. The decrease was due primarily to a lower-margin revenue mix, including increased revenue from notebook computers and video gaming hardware. Also contributing to the decrease was a more promotional environment in the consumer electronics and home office revenue categories.

Our Domestic segment's SG&A rate in fiscal 2007 decreased by 0.8% of revenue to 18.7% of revenue. The improvement was due primarily to the leveraging effect of the 13% growth in revenue and reduced performance-based incentive compensation. Also contributing to the improvement, in order of impact, were controlled expenses related to our strategic initiatives and expense reduction efforts. These factors were partially offset by expenses related to increased asset impairments, litigation and business closure costs.

International

The following table presents selected financial data for our International segment for each of the past three fiscal years ($ in millions):

International Segment Performance Summary	2008	2007(1)(2)	2006
Revenue	$ 6,695	$ 4,903	$ 3,468
Revenue gain %	37%	41%	23%
Comparable store sales % gain(3)	9.0%	11.7%	2.8%
Gross profit as % of revenue	20.7%	21.6%	22.9%
SG&A as % of revenue	18.3%	19.6%	21.3%
Operating income	$ 162	$ 99	$ 56
Operating income as % of revenue	2.4%	2.0%	1.6%

(1) Fiscal 2007 included 53 weeks. Fiscal 2008 and 2006 each included 52 weeks.

(2) Fiscal 2007 amounts have been adjusted to conform to the current-year presentation, which allocates to the International segment certain SG&A support costs previously reported as part of the Domestic segment.

(3) Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales percentage gain excludes the effect of fluctuations in foreign currency exchange rates. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

Fiscal 2008 Results Compared With Fiscal 2007

In fiscal 2008, our International segment's operating income was $162 million, or 2.4% of revenue, compared with $99 million, or 2.0% of revenue, in fiscal 2007. The increase in our International segment's operating income resulted primarily from revenue gains and a significant improvement in the SG&A rate. These factors were partially offset by a decrease in the gross profit rate.

Our International segment's revenue increased 37% to $6.7 billion in fiscal 2008, compared with $4.9 billion in fiscal 2007. Excluding the impact of the extra week of business in fiscal 2007, revenue increased 38% in fiscal 2008. Excluding the impact of the extra week, the favorable effect of fluctuations in foreign currency exchange rates accounted for slightly more than three-tenths of the revenue increase; the non-comparable store sales generated from the acquisition of Five Star accounted for nearly three-tenths of the revenue increase; the 9.0% comparable store sales gain accounted for more than two-tenths of the revenue increase; and the remainder of the revenue increase was due to the net addition of new Future Shop and Best Buy stores in Canada and new Five Star stores in China during the past fiscal year. Revenue from our International segment's online operations increased approximately 12% in fiscal 2008 and added to the overall comparable store sales increase.

The following table presents the International segment's revenue mix percentages and comparable store sales percentage changes by revenue category in fiscal 2008 and 2007:

	Revenue Mix Summary		Comparable Store Sales Summary(1)	
	Year Ended		Year Ended	
	March 1, 2008	March 3, 2007	March 1, 2008	March 3, 2007
Consumer electronics	39%	41%	5.4%	15.7%
Home office	30%	32%	7.7%	7.4%
Entertainment software	13%	12%	23.7%	11.3%
Appliances	13%	10%	6.5%	8.0%
Services(2)	5%	5%	14.7%	13.8%
Other(3)	<1%	<1%	n/a	n/a
Total	100%	100%	9.0%	11.7%

(1)

Comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales percentage gain excludes the effect of fluctuations in foreign currency exchange rates. All comparable store sales percentage calculations reflect an equal number of weeks. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods.

(2)

Services consists primarily of commissions from the sale of extended service contracts; revenue from computer-related services; product repair revenue; and delivery and installation revenue derived from home theater, mobile audio and appliances.

(3)

Other includes gift card breakage, which is excluded from our calculation of comparable store sales. Other also includes revenue associated with Canada's private label credit card program and revenue from the sale of products that are not related to our core offerings. For these reasons, we do not provide a comparable store sales metric for this revenue category.

Our International segment's comparable store sales gain in fiscal 2008 reflected an increase in the average transaction amount, which was driven by continued growth in the sales of higher-priced products. The products having the largest positive effect on our International segment's comparable store sales gain were video gaming hardware and software, flat-panel televisions, notebook computers and navigation products. Growth in the sales of these products was partially offset by comparable store sales declines in projection and tube televisions, computer software and CDs.

In fiscal 2008, our International segment's consumer electronics revenue category posted a 5.4% comparable store sales gain resulting primarily from gains in the sales of flat-panel televisions, navigation products and digital cameras, partially offset by declines in the sales of tube and projection televisions and MP3 players and accessories. The home office revenue category posted a 7.7% comparable store sales gain, which resulted from comparable store sales gains in notebook and desktop computers, partially offset by a decline in the sales of cellular phones. The entertainment software revenue category recorded a 23.7% comparable store sales gain reflecting an increase in the sales of video gaming hardware and software, partially offset by an expected decline in the sales of computer software and CDs. The appliances revenue category recorded a 6.5% comparable store sales gain resulting primarily from increases in the sales of appliances in our Five Star operations, where appliances represent a larger percentage of the sales and whose results were included in the comparable store sales figures for the first time in fiscal 2008. Our services revenue category posted a 14.7% comparable store sales gain due primarily to an increase in revenue from our product repair business.

Our International segment's gross profit rate in fiscal 2008 decreased by 0.9% of revenue to 20.7% of revenue. Our China operations, which operate at a significantly lower gross profit rate than our Canada operations, reduced our International segment's gross profit rate by approximately 0.7% of revenue in fiscal 2008. The remainder of the decrease in our International segment's gross profit rate was due primarily to the increased sales of lower-margin products in both our Canada and China operations, which was partially offset by rate improvements in certain product categories as well as lower financing costs in Canada.

Our International segment's SG&A rate in fiscal 2008 decreased by 1.3% of revenue to 18.3% of revenue. Our China operations, which carry a significantly lower SG&A rate than our Canada operations, reduced our International segment's SG&A rate by approximately 0.5% of revenue in fiscal 2008. The remainder of the improvement in our International segment's SG&A rate was due primarily to the leveraging effect of the 37% growth in revenue and continued focus on SG&A optimization initiatives. Partially offsetting the decrease were continued costs incurred for infrastructure investments in China, the build-out of an international support team and the start-up costs for entry into Mexico and Turkey.

The following table reconciles International stores open at the beginning and end of fiscal 2008:

	Total Stores at End of Fiscal 2007	Stores Opened	Stores Acquired	Stores Closed	Total Stores at End of Fiscal 2008
Future Shop	121	10			131
Canada Best Buy	47	4			51
Five Star	135	31		(6)	160
China Best Buy	1				1
Total International stores	304	45		(6)	343

Note: During fiscal 2008, we relocated one Future Shop store. No other store in the International segment was relocated during fiscal 2008. At the end of fiscal 2008, we operated 131 Future Shop stores throughout all of Canada's provinces; 51 Canada Best Buy stores in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan; 160 Five Star stores throughout seven of China's 34 provinces; and one China Best Buy store in Shanghai.

The following table reconciles International stores open at the beginning and end of fiscal 2007:

	Total Stores at End of Fiscal 2006	Stores Opened	Stores Acquired	Stores Closed	Total Stores at End of Fiscal 2007
Future Shop	118	3			121
Canada Best Buy	44	3			47
Canada Geek Squad	5	1		(6)	
Five Star		8	131	(4)	135
China Best Buy		1			1
Total International stores	167	16	131	(10)	304

Note: During fiscal 2007, we relocated four Future Shop stores and three Five Star stores. No other store in the International segment was relocated during fiscal 2007. At the end of fiscal 2007, we operated 121 Future Shop stores throughout all of Canada's provinces; 47 Canada Best Buy stores in Ontario, Quebec, Alberta, British Columbia, Manitoba and Saskatchewan; 135 Five Star stores throughout seven of China's 34 provinces; and one China Best Buy store in Shanghai.

Fiscal 2007 Results Compared With Fiscal 2006

Fiscal 2007 amounts have been adjusted to conform to the current-year presentation, which allocates to the International segment certain SG&A support costs previously reported as part of the Domestic segment.

In fiscal 2007, our International segment's operating income was $99 million, or 2.0% of revenue, compared with $56 million, or 1.6% of revenue, in fiscal 2006. The increase in our International segment's operating income resulted primarily from revenue gains and a significant reduction in the SG&A rate. These factors were partially offset by a decrease in the gross profit rate.

Our International segment's revenue increased 41% to $4.9 billion in fiscal 2007, compared with $3.5 billion in fiscal 2006. The acquisition of Five Star accounted for nearly four-tenths of the revenue increase in fiscal 2007; the 11.7% comparable store sales gain accounted for nearly three-tenths of the revenue increase; the addition of new Best Buy and Future Shop stores during the past two fiscal years accounted for just over one-tenth of the revenue increase; fluctuations in foreign currency exchange rates accounted for just over one-tenth of the revenue increase; and the inclusion of an extra week of business in fiscal 2007 accounted for the remainder of the revenue increase.

We believe the comparable store sales increase reflected market share gains and was driven by increased sales of flat-panel televisions, video gaming hardware and software and notebook computers, partially offset by declines in tube and projection televisions. Our International segment reported comparable store sales increases in fiscal 2007 in the consumer electronics, home office, entertainment software, appliances and services revenue categories of 15.7%, 7.4%, 11.3%, 8.0% and 13.8%, respectively. Revenue from our International segment's online operations increased approximately 19% and added to the overall comparable store sales increase.

Our International segment's gross profit rate in fiscal 2007 decreased by 1.3% of revenue to 21.6% of revenue. Our China operations, which carry a significantly lower gross profit rate than our Canada operations, reduced our International segment's gross profit rate by approximately 1.1% of revenue in fiscal 2007. The remainder of the decrease in our International segment's gross profit rate was due primarily to increased financing costs, resulting from increased borrowing rates and a shift towards longer-term financing programs in conjunction with strong flat-panel television sales.

Our International segment's SG&A rate in fiscal 2007 decreased by 1.7% of revenue to 19.6% of revenue. Our China operations, which carry a significantly lower SG&A rate than our Canada operations, reduced our International segment's SG&A rate by approximately 0.7% of revenue in fiscal 2007. The remainder of the improvement in our International segment's SG&A rate was due primarily to, in order of impact, the leveraging effect of the 41% growth in revenue; improvements in the labor model used in our Canada Best Buy stores; reduced Canada headquarters payroll costs at the end of fiscal 2006; and the leveraging effect of the 11.7% comparable store sales gain on advertising expense as a percentage of revenue. These factors were partially offset by a performance-driven increase in incentive-based compensation, expenses incurred related to the closure of all six Canada Geek Squad stand-alone stores in the second quarter of fiscal 2007 and increased asset impairment charges.

Additional Consolidated Results

Other Income (Expense)

Our investment income and other in fiscal 2008 decreased to $129 million, compared with $162 million in fiscal 2007 and $107 million in fiscal 2006. The decrease in fiscal 2008 compared to fiscal 2007 was due to the impact of lower average cash and investment balances, as investments were liquidated to fund our ASR program in fiscal 2008 and a one-time $20 million gain on the sale of an equity investment in fiscal 2007. The change in fiscal 2007 compared to fiscal 2006 was due primarily to higher investment yields and the $20 million gain on the sale of an equity investment in fiscal 2007.

Interest expense in fiscal 2008 increased to $62 million, compared with $31 million and $30 million in fiscal 2007 and 2006, respectively. The increase in fiscal 2008 compared to fiscal 2007 and 2006 was due primarily to borrowings under our credit facilities related to the funding of the ASR program in fiscal 2008.

Effective Income Tax Rate

Our effective income tax rate increased to 36.6% in fiscal 2008, compared with 35.3% in fiscal 2007 and 33.7% in fiscal 2006. The increase in the effective income tax rate in fiscal 2008 compared to fiscal 2007 was due primarily to a reduced tax benefit from foreign operations, lower tax-exempt interest income and an increase in state income taxes. The increase in the effective income tax rate in fiscal 2007 compared to fiscal 2006 was due primarily to a change in the composition of taxable income between foreign and domestic entities.

Impact of Inflation and Changing Prices

Highly competitive market conditions and the general economic environment minimized inflation's impact on the selling prices of our products and services, and on our expenses. In addition, price deflation and the continued commoditization of key technology products affect our ability to increase our gross profit rate.

Liquidity and Capital Resources

Summary

We ended fiscal 2008 with $1.5 billion of cash and cash equivalents and short-term investments, compared with

$3.8 billion at the end of fiscal 2007. Working capital, the excess of current assets over current liabilities, was $0.6 billion at the end of fiscal 2008, down from $2.8 billion at the end of fiscal 2007. The decreases in cash and cash equivalents, short-term investments and working capital were due primarily to the liquidation of a substantial portion of our investment portfolio to repay debt and to fund our ASR program. In addition, at March 1, 2008, we reclassified $417 million (par value) of our short-term investments in auction-rate securities to non-current assets within equity and other investments in our consolidated balance sheet given the uncertainty of when these investments can be successfully liquidated at par as a result of the current market failures for auction-rate securities as described below.

In accordance with our investment policy, we invest with issuers who have high-quality credit and limit the amount of investment exposure to any one issuer. The primary objective of our investment activities is to preserve principal and maintain a desired level of liquidity to meet working capital needs. We seek to preserve principal and minimize exposure to interest-rate fluctuations by limiting default risk, market risk and reinvestment risk. All investment debt securities we own are investment grade. We do not have any investments in securities that are collateralized by assets that include mortgages or subprime debt. The vast majority of our investments in auction-rate securities are AAA/Aaa-rated and collateralized by student loans, which are guaranteed 95% to 100% by the U.S. government.

Until February 2008, the market for auction-rate securities was highly liquid. Beginning February 11, 2008, a substantial number of auctions began to fail as the amount of securities submitted for sale in those auctions exceeded the aggregate amount of the bids. Substantially all of our auction-rate securities portfolio at March 1, 2008, has been subject to failed auctions. For each unsuccessful auction, the interest rate moves to a maximum rate defined for each security. To date, we have collected all interest due on our auction-rate securities and expect to continue to do so in the future. Since March 1, 2008 and through April 25, 2008, we have liquidated $20 million of auction-rate securities at par value. At April 25, 2008, our auction-rate securities portfolio was $397 million (par value). The principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues, which range from 8 to 40 years.

We believe that the credit quality of our auction-rate securities is high and that we will ultimately recover all amounts invested in these securities. We do not believe the current illiquidity of these investments will have a material impact on our ability to execute our business plans as described below in the *Outlook for Fiscal 2009* section of this MD&A.

Our liquidity is also affected by restricted cash and investments in debt securities that are pledged as collateral or restricted to use for vendor payables, general liability insurance, workers' compensation insurance and warranty programs. Restricted cash and investments in debt securities totaled $408 million and $382 million at March 1, 2008, and March 3, 2007, respectively, and were included in other current assets or equity and other investments.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years ($ in millions):

	2008	2007	2006
Total cash provided by (used in):			
Operating activities	$ 2,025	$ 1,762	$