

Appendix

A

Financial Statement Information

This appendix includes financial information for (1) **Best Buy**, (2) **Circuit City**, (3) **RadioShack**, and (4) **Apple**. This information is taken from their annual 10-K reports filed with the SEC. An **annual report** is a summary of a company's financial results for the year along with its current financial condition and future plans. This report is directed to external users of financial information, but it also affects the actions and decisions of internal users.

A company uses an annual report to showcase itself and its products. Many annual reports include attractive photos, diagrams, and illustrations related to the company. The primary objective of annual reports, however, is the *financial section*, which communicates much information about a company, with most data drawn from the accounting information system. The layout of an annual report's financial section is fairly established and typically includes the following:

- Letter to Shareholders
- Financial History and Highlights
- Management Discussion and Analysis
- Management's Report on Financial Statements and on Internal Controls
- Report of Independent Accountants (Auditor's Report) and on Internal Controls
- Financial Statements
- Notes to Financial Statements
- List of Directors and Officers

This appendix provides the financial statements for Best Buy (plus selected notes), Circuit City, RadioShack, and Apple. The appendix is organized as follows:

- **Best Buy** A-2 through A-18
- **Circuit City** A-19 through A-23
- **RadioShack** A-24 through A-28
- **Apple Computer** A-29 through A-33

Many assignments at the end of each chapter refer to information in this appendix. We encourage readers to spend time with these assignments; they are especially useful in showing the relevance and diversity of financial accounting and reporting.

Special note: The SEC maintains the EDGAR (Electronic Data Gathering, Analysis, and Retrieval) database at www.sec.gov. The **Form 10-K** is the annual report form for most companies. It provides electronically accessible information. The **Form 10-KSB** is the annual report form filed by "small businesses." It requires slightly less information than the Form 10-K. One of these forms must be filed within 90 days after the company's fiscal year-end. (Forms 10-K405, 10-KT, 10-KT405, and 10-KSB405 are slight variations of the usual form due to certain regulations or rules.)

BEST BUY

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BUY**

Financial Report

Selected Financial Data.

The following table presents our selected financial data. 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	2007⁽¹⁾	2006	2005	2004	2003
Consolidated Statements of Earnings Data					
Revenue	\$35,934	\$30,848	\$27,433	\$24,548	\$20,943
Operating income	1,999	1,644	1,442	1,304	1,010
Earnings from continuing operations	1,377	1,140	934	800	622
Loss from discontinued operations, net of tax	—	—	—	(29)	(441)
Gain (loss) on disposal of discontinued operations, net of tax	—	—	50	(66)	—
Cumulative effect of change in accounting principles, net of tax	—	—	—	—	(82)
Net earnings	1,377	1,140	984	705	99
Per Share Data					
Continuing operations	\$ 2.79	\$ 2.27	\$ 1.86	\$ 1.61	\$ 1.27
Discontinued operations	—	—	—	(0.06)	(0.89)
Gain (loss) on disposal of discontinued operations	—	—	0.10	(0.13)	—
Cumulative effect of accounting changes	—	—	—	—	(0.16)
Net earnings	2.79	2.27	1.96	1.42	0.20
Cash dividends declared and paid	0.36	0.31	0.28	0.27	—
Common stock price:					
High	59.50	56.00	41.47	41.80	35.83
Low	43.51	31.93	29.25	17.03	11.33
Operating Statistics					
Comparable store sales gain	5.0%	4.9%	4.3%	7.1%	2.4%
Gross profit rate	24.4%	25.0%	23.7%	23.9%	23.6%
Selling, general and administrative expenses rate	18.8%	19.7%	18.4%	18.6%	18.8%
Operating income rate	5.6%	5.3%	5.3%	5.3%	4.8%
Year-End Data					
Current ratio	1.4	1.3	1.4	1.3	1.3
Total assets	\$13,570	\$11,864	\$10,294	\$ 8,652	\$ 7,694
Debt, including current portion	650	596	600	850	834
Total shareholders' equity	6,201	5,257	4,449	3,422	2,730
Number of stores					
Domestic	868	774	694	631	567
International	304	167	144	127	112
Total	1,172	941	838	758	679
Retail square footage (000s)					
Domestic	33,959	30,826	28,465	26,640	24,432
International	7,926	3,564	3,139	2,800	2,375
Total	41,885	34,390	31,604	29,440	26,807

⁽¹⁾ Fiscal 2007 included 53 weeks. All other periods presented included 52 weeks.

Consolidated Balance Sheets

\$ in millions, except per share amounts

	March 3, 2007	February 25, 2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,205	\$ 748
Short-term investments	2,588	3,041
Receivables	548	449
Merchandise inventories	4,028	3,338
Other current assets	712	409
Total current assets	<u>9,081</u>	<u>7,985</u>
Property and Equipment		
Land and buildings	705	580
Leasehold improvements	1,540	1,325
Fixtures and equipment	2,627	2,898
Property under capital lease	32	33
	<u>4,904</u>	<u>4,836</u>
Less accumulated depreciation	<u>1,966</u>	<u>2,124</u>
Net property and equipment	2,938	2,712
Goodwill	919	557
Tradenames	81	44
Long-Term Investments	318	218
Other Assets	233	348
Total Assets	<u>\$13,570</u>	<u>\$11,864</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 3,934	\$ 3,234
Unredeemed gift card liabilities	496	469
Accrued compensation and related expenses	332	354
Accrued liabilities	990	878
Accrued income taxes	489	703
Short-term debt	41	—
Current portion of long-term debt	19	418
Total current liabilities	<u>6,301</u>	<u>6,056</u>
Long-Term Liabilities	443	373
Long-Term Debt	590	178
Minority Interests	35	—
Shareholders' Equity		
Preferred stock, \$1.00 par value: Authorized — 400,000 shares; Issued and outstanding — none	—	—
Common stock, \$.10 par value: Authorized — 1 billion shares; Issued and outstanding — 480,655,000 and 485,098,000 shares, respectively	48	49
Additional paid-in capital	430	643
Retained earnings	5,507	4,304
Accumulated other comprehensive income	216	261
Total shareholders' equity	<u>6,201</u>	<u>5,257</u>
Total Liabilities and Shareholders' Equity	<u>\$13,570</u>	<u>\$11,864</u>

Consolidated Statements of Earnings

\$ in millions, except per share amounts

Fiscal Years Ended	March 3, 2007	February 25, 2006	February 26, 2005
Revenue	\$35,934	\$30,848	\$27,433
Cost of goods sold	<u>27,165</u>	<u>23,122</u>	<u>20,938</u>
Gross profit	8,769	7,726	6,495
Selling, general and administrative expenses	<u>6,770</u>	<u>6,082</u>	<u>5,053</u>
Operating income	1,999	1,644	1,442
Net interest income	111	77	1
Gain on investments	<u>20</u>	<u>—</u>	<u>—</u>
Earnings from continuing operations before income tax expense	2,130	1,721	1,443
Income tax expense	752	581	509
Minority interest in earnings	<u>1</u>	<u>—</u>	<u>—</u>
Earnings from continuing operations	1,377	1,140	934
Gain on disposal of discontinued operations, net of tax	<u>—</u>	<u>—</u>	<u>50</u>
Net earnings	<u>\$ 1,377</u>	<u>\$ 1,140</u>	<u>\$ 984</u>
Basic earnings per share:			
Continuing operations	\$ 2.86	\$ 2.33	\$ 1.91
Gain on disposal of discontinued operations	<u>—</u>	<u>—</u>	<u>0.10</u>
Basic earnings per share	<u>\$ 2.86</u>	<u>\$ 2.33</u>	<u>\$ 2.01</u>
Diluted earnings per share:			
Continuing operations	\$ 2.79	\$ 2.27	\$ 1.86
Gain on disposal of discontinued operations	<u>—</u>	<u>—</u>	<u>0.10</u>
Diluted earnings per share	<u>\$ 2.79</u>	<u>\$ 2.27</u>	<u>\$ 1.96</u>
Basic weighted-average common shares outstanding (in millions)	482.1	490.3	488.9
Diluted weighted-average common shares outstanding (in millions)	496.2	504.8	505.0

Consolidated Statements of Changes in Shareholders' Equity

\$ and shares in millions

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances at February 28, 2004	487	\$49	\$819	\$ 2,468	\$ 86	\$3,422
Net earnings	—	—	—	984	—	984
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	—	—	—	—	59	59
Other	—	—	—	—	4	4
Total comprehensive income						<u>1,047</u>
Stock options exercised	10	1	219	—	—	220
Tax benefit from stock options exercised and employee stock purchase plan	—	—	60	—	—	60
Issuance of common stock under employee stock purchase plan	2	—	36	—	—	36
Vesting of restricted stock awards	—	—	1	—	—	1
Common stock dividends, \$0.28 per share	—	—	—	(137)	—	(137)
Repurchase of common stock	(6)	(1)	(199)	—	—	(200)
Balances at February 26, 2005	493	49	936	3,315	149	4,449
Net earnings	—	—	—	1,140	—	1,140
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	—	—	—	—	101	101
Other	—	—	—	—	11	11
Total comprehensive income						<u>1,252</u>
Stock options exercised	9	1	256	—	—	257
Tax benefit from stock options exercised and employee stock purchase plan	—	—	55	—	—	55
Issuance of common stock under employee stock purchase plan	1	—	35	—	—	35
Stock-based compensation	—	—	132	—	—	132
Common stock dividends, \$0.31 per share	—	—	—	(151)	—	(151)
Repurchase of common stock	(18)	(1)	(771)	—	—	(772)
Balances at February 25, 2006	485	49	643	4,304	261	5,257
Net earnings	—	—	—	1,377	—	1,377
Other comprehensive loss, net of tax:						
Foreign currency translation adjustments	—	—	—	—	(33)	(33)
Other	—	—	—	—	(12)	(12)
Total comprehensive income						<u>1,332</u>
Stock options exercised	7	1	167	—	—	168
Tax benefit from stock options exercised and employee stock purchase plan	—	—	47	—	—	47
Issuance of common stock under employee stock purchase plan	1	—	49	—	—	49
Stock-based compensation	—	—	121	—	—	121
Common stock dividends, \$0.36 per share	—	—	—	(174)	—	(174)
Repurchase of common stock	(12)	(2)	(597)	—	—	(599)
Balances at March 3, 2007	481	\$48	\$430	\$5,507	\$216	\$6,201

Consolidated Statements of Cash Flows

\$ in millions

Fiscal Years Ended	March 3, 2007	February 25, 2006	February 26, 2005
Operating Activities			
Net earnings	\$1,377	\$1,140	\$ 984
Gain from disposal of discontinued operations, net of tax	—	—	(50)
Earnings from continuing operations	1,377	1,140	934
Adjustments to reconcile earnings from continuing operations to total cash provided by operating activities from continuing operations:			
Depreciation	509	456	459
Asset impairment charges	32	4	22
Stock-based compensation	121	132	(1)
Deferred income taxes	82	(151)	(28)
Excess tax benefits from stock-based compensation	(50)	(55)	—
Other, net	(11)	(3)	24
Changes in operating assets and liabilities, net of acquired assets and liabilities:			
Receivables	(70)	(43)	(30)
Merchandise inventories	(550)	(457)	(240)
Other assets	(47)	(11)	(50)
Accounts payable	320	385	347
Other liabilities	185	165	243
Accrued income taxes	(136)	178	301
Total cash provided by operating activities from continuing operations	1,762	1,740	1,981
Investing Activities			
Additions to property and equipment, net of \$75 and \$117 noncash capital expenditures in fiscal 2006 and 2005, respectively	(733)	(648)	(502)
Purchases of available-for-sale securities	(4,541)	(4,319)	(8,517)
Sales of available-for-sale securities	4,886	4,187	7,730
Acquisitions of businesses, net of cash acquired	(421)	—	—
Proceeds from disposition of investments	24	—	—
Change in restricted assets	—	(20)	(140)
Other, net	5	46	7
Total cash used in investing activities from continuing operations	(780)	(754)	(1,422)
Financing Activities			
Repurchase of common stock	(599)	(772)	(200)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	217	292	256
Dividends paid	(174)	(151)	(137)
Repayments of debt	(84)	(69)	(371)
Proceeds from issuance of debt	96	36	—
Excess tax benefits from stock-based compensation	50	55	—
Other, net	(19)	(10)	(7)
Total cash used in financing activities from continuing operations	(513)	(619)	(459)
Effect of Exchange Rate Changes on Cash	(12)	27	9
Increase in Cash and Cash Equivalents	457	394	109
Cash and Cash Equivalents at Beginning of Year	748	354	245
Cash and Cash Equivalents at End of Year	\$1,205	\$ 748	\$ 354
Supplemental Disclosure of Cash Flow Information			
Income taxes paid	\$ 804	\$ 547	\$ 241
Interest paid	14	16	35

SELECTED Notes to Consolidated Financial Statements

\$ in millions, except per share amounts

1. Summary of Significant Accounting Policies**Description of Business**

Best Buy Co., Inc. is a specialty retailer of consumer electronics, home-office products, entertainment software, appliances and related services, with fiscal 2007 revenue from continuing operations of \$35.9 billion.

We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all U.S. store and online operations of Best Buy, Geek Squad, Magnolia Audio Video and Pacific Sales Kitchen and Bath Centers, Inc. ("Pacific Sales"). We acquired Pacific Sales on March 7, 2006. U.S. Best Buy stores offer a wide variety of consumer electronics, home-office products, entertainment software, appliances and related services through 822 stores at the end of fiscal 2007. Geek Squad provides residential and commercial computer repair, support and installation services in all U.S. Best Buy stores and at 12 stand-alone stores at the end of fiscal 2007. Magnolia Audio Video stores offer high-end audio and video products and related services through 20 stores at the end of fiscal 2007. Pacific Sales stores offer high-end home-improvement products, appliances and related services through 14 stores at the end of fiscal 2007.

Fiscal Year

Our fiscal year ends on the Saturday nearest the end of February. Fiscal 2007 included 53 weeks and fiscal 2006 and 2005 each included 52 weeks.

Cash and Cash Equivalents

Cash primarily consists of cash on hand and bank deposits. Cash equivalents primarily consist of money market accounts and other highly liquid investments with an original maturity of three months or less when purchased. We carry these investments at cost, which approximates market value. The amounts of cash equivalents at March 3, 2007, and February 25, 2006,

were \$695 and \$350, respectively, and the weighted-average interest rates were 4.8% and 3.3%, respectively.

Outstanding checks in excess of funds on deposit ("book overdrafts") totaled \$183 and \$230 at March 3, 2007, and February 25, 2006, respectively, and are reflected as current liabilities in our consolidated balance sheets.

Merchandise Inventories

Merchandise inventories are recorded at the lower of average cost or market. In-bound freight-related costs from our vendors are included as part of the net cost of merchandise inventories. Also included in the cost of inventory are certain vendor allowances that are not a reimbursement of specific, incremental and identifiable costs to promote a vendor's products. Other costs associated with acquiring, storing and transporting merchandise inventories to our retail stores are expensed as incurred and included in cost of goods sold.

Our inventory loss reserve represents anticipated physical inventory losses (e.g., theft) that have occurred since the last physical inventory date. Independent physical inventory counts are taken on a regular basis to ensure that the inventory reported in our consolidated financial statements is properly stated. During the interim period between physical inventory counts, we reserve for anticipated physical inventory losses on a location-by-location basis.

Property and Equipment

Property and equipment are recorded at cost. We compute depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of their estimated useful lives or the period from the date the assets are placed in service to the end of the initial lease term. Leasehold improvements made significantly after the initial lease term are depreciated over the shorter of their estimated useful lives or the remaining lease term, including renewal periods, if reasonably assured.

\$ in millions, except per share amounts

Accelerated depreciation methods are generally used for income tax purposes.

When property is fully depreciated, retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of earnings.

Repairs and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

Estimated useful lives by major asset category are as follows:

Asset	Life (in years)
Buildings	30–40
Leasehold improvements	3–25
Fixtures and equipment	3–20
Property under capital lease	3–20

Impairment of Long-Lived Assets

We account for the impairment or disposal of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets, such as property and equipment, to be evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Factors considered important that could result in an impairment review include, but are not limited to, significant underperformance relative to historical or planned operating results, significant changes in the manner of use of the assets or significant changes in our business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value based on quoted market prices or other valuation techniques.

Leases

We conduct the majority of our retail and distribution operations from leased locations. The leases require

payment of real estate taxes, insurance and common area maintenance, in addition to rent. The terms of our lease agreements generally range from 10 to 20 years. Most of the leases contain renewal options and escalation clauses, and certain store leases require contingent rents based on factors such as specified percentages of revenue or the consumer price index. Other leases contain covenants related to the maintenance of financial ratios.

Goodwill and Intangible Assets

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. We do not amortize goodwill but test it for impairment annually, or when indications of potential impairment exist, utilizing a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management.

Tradenames

We have an indefinite-lived intangible asset related to our Pacific Sales tradename which is included in the Domestic segment. We also have indefinite-lived intangible assets related to our Future Shop and Five Star tradenames which are included in the International segment.

We determine fair values utilizing widely accepted valuation techniques, including discounted cash flows and market multiple analyses. During the fourth quarter of fiscal 2007, we completed our annual impairment testing of our goodwill and tradenames, using the valuation techniques as described above, and determined there was no impairment.

Lease Rights

Lease rights represent costs incurred to acquire the lease of a specific commercial property. Lease rights are recorded at cost and are amortized to rent expense over the remaining lease term, including renewal periods, if reasonably assured. Amortization periods range up to 16 years, beginning with the date we take possession of the property.

\$ in millions, except per share amounts

Investments

Short-term and long-term investments are comprised of municipal and United States government debt securities as well as auction-rate securities and variable rate-demand notes. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and based on our ability to market and sell these instruments, we classify auction-rate securities, variable-rate demand notes and other investments in debt securities as available-for-sale and carry them at amortized cost, which approximates fair value. Auction-rate securities and variable-rate demand notes are similar to short-term debt instruments because their interest rates are reset periodically. Investments in these securities can be sold for cash on the auction date. We classify auction-rate securities and variable-rate demand notes as short-term or long-term investments based on the reset dates.

We also hold investments in marketable equity securities and classify them as available-for-sale. Investments in marketable equity securities are included in other assets in our consolidated balance sheets. Investments in marketable equity securities are reported at fair value, based on quoted market prices when available. All unrealized holding gains or losses are reflected net of tax in accumulated other comprehensive income in shareholders' equity.

We review the key characteristics of our debt and marketable equity securities portfolio and their classification in accordance with GAAP on an annual basis, or when indications of potential impairment exist. If a decline in the fair value of a security is deemed by management to be other than temporary, the cost basis of the investment is written down to fair value, and the amount of the write-down is included in the determination of net earnings.

Income Taxes

We account for income taxes under the liability method. Under this method, deferred tax assets and liabilities are

recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in our consolidated statement of earnings in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

Long-Term Liabilities

The major components of long-term liabilities at March 3, 2007, and February 25, 2006, included long-term rent-related liabilities, deferred compensation plan liabilities, self-insurance reserves and advances received under vendor alliance programs.

Foreign Currency

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at our consolidated balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive income. Gains and losses from foreign currency transactions, which are included in SG&A, have not been significant.

Revenue Recognition

We recognize revenue when the sales price is fixed or determinable, collectibility is reasonably assured and the customer takes possession of the merchandise, or in the case of services, at the time the service is provided.

\$ in millions, except per share amounts

Amounts billed to customers for shipping and handling are included in revenue. Revenue is reported net of estimated sales returns and excludes sales taxes.

We estimate our sales returns reserve based on historical return rates. We initially established our sales returns reserve in the fourth quarter of fiscal 2005. Our sales returns reserve was \$104 and \$78, at March 3, 2007, and February 25, 2006, respectively.

We sell extended service contracts on behalf of an unrelated third party. In jurisdictions where we are not deemed to be the obligor on the contract, commissions are recognized in revenue at the time of sale. In jurisdictions where we are deemed to be the obligor on the contract, commissions are recognized in revenue ratably over the term of the service contract. Commissions represented 2.2%, 2.5% and 2.6% of revenues in fiscal 2007, 2006 and 2005, respectively.

For revenue transactions that involve multiple deliverables, we defer the revenue associated with any undelivered elements. The amount of revenue deferred in connection with the undelivered elements is determined using the relative fair value of each element, which is generally based on each element's relative retail price. See additional information regarding our customer loyalty program in *Sales Incentives* below.

Gift Cards

We sell gift cards to our customers in our retail stores, through our Web sites, and through selected third parties. We do not charge administrative fees on unused gift cards and our gift cards do not have an expiration date. We recognize income from gift cards when: (i) the gift card is redeemed by the customer; or (ii) the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage") and we determine that we do not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. We determine our gift card breakage rate based upon historical redemption patterns. Based on our historical information, the

likelihood of a gift card remaining unredeemed can be determined 24 months after the gift card is issued. At that time, we recognize breakage income for those cards for which the likelihood of redemption is deemed remote and we do not have a legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdictions. Gift card breakage income is included in revenue in our consolidated statements of earnings.

We began recognizing gift card breakage income during the third quarter of fiscal 2006. Gift card breakage income was as follows in fiscal 2007, 2006 and 2005:

	2007 ⁽¹⁾	2006 ⁽¹⁾	2005
Gift card breakage income	\$46	\$43	\$ —

⁽¹⁾ Due to the resolution of certain legal matters associated with gift card liabilities, we recognized \$19 and \$27 of gift card breakage income in fiscal 2007 and 2006, respectively, that related to prior fiscal years.

Sales Incentives

We frequently offer sales incentives that entitle our customers to receive a reduction in the price of a product or service. Sales incentives include discounts, coupons and other offers that entitle a customer to receive a reduction in the price of a product or service by submitting a claim for a refund or rebate. For sales incentives issued to a customer in conjunction with a sale of merchandise or services, for which we are the obligor, the reduction in revenue is recognized at the time of sale, based on the retail value of the incentive expected to be redeemed.

Customer Loyalty Program

We have a customer loyalty program which allows members to earn points for each qualifying purchase. Points earned enable members to receive a certificate that may be redeemed on future purchases at U.S. Best Buy stores.

\$ in millions, except per share amounts

Cost of Goods Sold and Selling, General and Administrative Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Goods Sold	SG&A
<ul style="list-style-type: none"> • Total cost of products sold including: <ul style="list-style-type: none"> —Freight expenses associated with moving merchandise inventories from our vendors to our distribution centers; —Vendor allowances that are not a reimbursement of specific, incremental and identifiable costs to promote a vendor's products; and —Cash discounts on payments to vendors; • Cost of services provided including: <ul style="list-style-type: none"> —Payroll and benefits costs for services employees; and —Cost of replacement parts and related freight expenses; • Physical inventory losses; • Markdowns; • Customer shipping and handling expenses; • Costs associated with operating our distribution network, including payroll and benefit costs, occupancy costs, and depreciation; • Freight expenses associated with moving merchandise inventories from our distribution centers to our retail stores; and • Promotional financing costs. 	<ul style="list-style-type: none"> • Payroll and benefit costs for retail and corporate employees; • Occupancy costs of retail, services and corporate facilities; • Depreciation related to retail, services and corporate assets; • Advertising; • Vendor allowances that are a reimbursement of specific, incremental and identifiable costs to promote a vendor's products; • Charitable contributions; • Outside service fees; • Long-lived asset impairment charges; and • Other administrative costs, such as credit card service fees, supplies, and travel and lodging.

Advertising Costs

Advertising costs, which are included in SG&A, are expensed the first time the advertisement runs. Advertising costs consist primarily of print and television advertisements as well as promotional events. Net

advertising expenses were \$692, \$644 and \$597 in fiscal 2007, 2006 and 2005, respectively. Allowances received from vendors for advertising of \$140, \$123 and \$115, in fiscal 2007, 2006 and 2005, respectively, were classified as reductions of advertising expenses.

\$ in millions, except per share amounts

4. Investments

Short-Term and Long-Term Investments

The following table presents the amortized principal amounts, related weighted-average interest rates, maturities and major security types for our investments:

	March 3, 2007		Feb. 25, 2006	
	Amortized Principal Amount	Weighted- Average Interest Rate	Amortized Principal Amount	Weighted- Average Interest Rate
Short-term investments (less than one year)	\$2,588	5.68%	\$3,041	4.76%
Long-term investments (one to three years)	318	5.68%	218	4.95%
Total	<u>\$2,906</u>		<u>\$3,259</u>	
Municipal debt securities	\$2,840		\$3,155	
Auction-rate and asset-backed securities	66		97	
Debt securities issued by U.S. Treasury and other				
U.S. government entities	—		7	
Total	<u>\$2,906</u>		<u>\$3,259</u>	

The carrying value of our investments approximated fair value at March 3, 2007, and February 25, 2006, due to the rapid turnover of our portfolio and the highly liquid nature of these investments. Therefore, there were no significant realized or unrealized gains or losses.

Marketable Equity Securities

The carrying values of our investments in marketable equity securities at March 3, 2007, and February 25,

2006, were \$4 and \$28, respectively. Net unrealized (loss)/gain, net of tax, included in accumulated other comprehensive income was (\$1) and \$12 at March 3, 2007, and February 25, 2006, respectively.

\$ in millions, except per share amounts

5. Debt

Short-term debt consisted of the following:

	March 3, 2007	Feb. 25, 2006
Notes payable to banks, secured, interest rates ranging from 3.5% to 6.7%	\$ 21	\$ —
Revolving credit facility, secured, variable interest rate of 5.6% at March 3, 2007	<u>20</u>	<u>—</u>
Total short-term debt	<u>\$ 41</u>	<u>\$ —</u>
Weighted average interest rate	5.3%	—

Long-term debt consisted of the following:

	March 3, 2007	Feb. 25, 2006
Convertible subordinated debentures, unsecured, due 2022, interest rate 2.25%	\$402	\$ 402
Financing lease obligations, due 2009 to 2023, interest rates ranging from 3.0% to 6.5%	171	157
Capital lease obligations, due 2008 to 2026, interest rates ranging from 1.8% to 8.0%	24	27
Other debt, due 2010, interest rate 8.8%	<u>12</u>	<u>10</u>
Total debt	609	596
Less: current portion ⁽¹⁾	<u>(19)</u>	<u>(418)</u>
Total long-term debt	<u>\$590</u>	<u>\$ 178</u>

⁽¹⁾ Since holders of our debentures due in 2022 could have required us to purchase all or a portion of their debentures on January 15, 2007, we classified our debentures in the current portion of long-term debt at February 25, 2006. However, no holders of our debentures exercised this put option on January 15, 2007. The next time the holders of our debentures could require us to purchase all or a portion of their debentures is January 15, 2012. Therefore, we classified our debentures as long-term debt at March 3, 2007.

Certain debt is secured by property and equipment with a net book value of \$80 and \$41 at March 3, 2007, and February 25, 2006, respectively.

Convertible Debentures

In January 2002, we sold convertible subordinated debentures having an aggregate principal amount of \$402. The proceeds from the offering, net of \$6 in offering expenses, were \$396. The debentures mature in 2022 and are callable at par, at our option, for cash on or after January 15, 2007.

Holders may require us to purchase all or a portion of their debentures on January 15, 2012, and January 15, 2017, at a purchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest up to but not including the date of purchase. We have the option to settle the purchase price in cash, stock, or a combination of cash and stock.

\$ in millions, except per share amounts

Other

The fair value of debt approximated \$683 and \$693 at March 3, 2007, and February 25, 2006, respectively, based on the ask prices quoted from external sources, compared with carrying values of \$650 and \$596, respectively.

At March 3, 2007, the future maturities of long-term debt, including capitalized leases, consisted of the following:

Fiscal Year	
2008	\$ 19
2009	18
2010	27
2011	18
2012	420
Thereafter	<u>107</u>
	<u>\$609</u>

Earnings per Share

Our basic earnings per share calculation is computed based on the weighted-average number of common

shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, nonvested share awards and shares issuable under our ESPP, as well as common shares that would have resulted from the assumed conversion of our convertible debentures. Since the potentially dilutive shares related to the convertible debentures are included in the calculation, the related interest expense, net of tax, is added back to earnings from continuing operations, as the interest would not have been paid if the convertible debentures had been converted to common stock. Nonvested market-based share awards and nonvested performance-based share awards are included in the average diluted shares outstanding each period if established market or performance criteria have been met at the end of the respective periods.

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share from continuing operations in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Numerator:			
Earnings from continuing operations, basic	\$1,377	\$1,140	\$ 934
Adjustment for assumed dilution:			
Interest on convertible debentures due in 2022, net of tax	<u>7</u>	<u>7</u>	<u>7</u>
Earnings from continuing operations, diluted	<u>\$1,384</u>	<u>\$1,147</u>	<u>\$ 941</u>
Denominator (in millions):			
Weighted-average common shares outstanding	482.1	490.3	488.9
Effect of potentially dilutive securities:			
Shares from assumed conversion of convertible debentures	8.8	8.8	8.8
Stock options and other	<u>5.3</u>	<u>5.7</u>	<u>7.3</u>
Weighted-average common shares outstanding, assuming dilution	<u>496.2</u>	<u>504.8</u>	<u>505.0</u>
Basic earnings per share — continuing operations	\$ 2.86	\$ 2.33	\$ 1.91
Diluted earnings per share — continuing operations	\$ 2.79	\$ 2.27	\$ 1.86

\$ in millions, except per share amounts

Comprehensive Income

Comprehensive income is computed as net earnings plus certain other items that are recorded directly to shareholders' equity. In addition to net earnings, the significant components of comprehensive income include foreign currency translation adjustments and unrealized gains and losses, net of tax, on available-for-sale

marketable equity securities. Foreign currency translation adjustments do not include a provision for income tax expense when earnings from foreign operations are considered to be indefinitely reinvested outside the United States. Comprehensive income was \$1,332, \$1,252 and \$1,047 in fiscal 2007, 2006 and 2005, respectively.

7. Net Interest Income

Net interest income was comprised of the following in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Interest income	\$142	\$103	\$ 45
Interest expense	(31)	(30)	(44)
Dividend income	<u>—</u>	<u>4</u>	<u>—</u>
Net interest income	<u>\$111</u>	<u>\$ 77</u>	<u>\$ 1</u>

8. Leases

The composition of net rent expense for all operating leases, including leases of property and equipment, was as follows in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Minimum rentals	\$679	\$569	\$516
Contingent rentals	<u>1</u>	<u>1</u>	<u>1</u>
Total rent expense	680	570	517
Less: sublease income	<u>(20)</u>	<u>(18)</u>	<u>(16)</u>
Net rent expense	<u>\$660</u>	<u>\$552</u>	<u>\$501</u>

\$ in millions, except per share amounts

The future minimum lease payments under our capital, financing and operating leases by fiscal year (not including contingent rentals) at March 3, 2007, were as follows:

Fiscal Year	Capital Leases	Financing Leases	Operating Leases
2008	\$ 6	\$ 23	\$ 741
2009	4	23	715
2010	4	23	672
2011	3	23	632
2012	1	23	592
Thereafter	<u>17</u>	<u>112</u>	<u>3,316</u>
Subtotal	<u>35</u>	<u>227</u>	<u>\$6,668</u>
Less: imputed interest	<u>(11)</u>	<u>(56)</u>	
Present value of lease obligations	<u>\$24</u>	<u>\$171</u>	

Total minimum lease payments have not been reduced by minimum sublease rent income of approximately \$119 due under future noncancelable subleases.

10. Income Taxes

The following is a reconciliation of the federal statutory income tax rate to income tax expense from continuing operations in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Federal income tax at the statutory rate	\$ 747	\$ 603	\$ 505
State income taxes, net of federal benefit	38	34	29
Benefit from foreign operations	(36)	(37)	(7)
Non-taxable interest income	(34)	(28)	(22)
Other	<u>37</u>	<u>9</u>	<u>4</u>
Income tax expense	<u>\$ 752</u>	<u>\$ 581</u>	<u>\$ 509</u>
Effective income tax rate	35.3%	33.7%	35.3%

Income tax expense was comprised of the following in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Current:			
Federal	\$609	\$640	\$502
State	45	78	36
Foreign	<u>16</u>	<u>14</u>	<u>(1)</u>
	<u>670</u>	<u>732</u>	<u>537</u>
Deferred:			
Federal	51	(131)	(4)
State	19	(14)	(20)
Foreign	<u>12</u>	<u>(6)</u>	<u>(4)</u>
	<u>82</u>	<u>(151)</u>	<u>(28)</u>
Income tax expense	<u>\$752</u>	<u>\$581</u>	<u>\$509</u>

Deferred taxes are the result of differences between the bases of assets and liabilities for financial reporting and income tax purposes.

\$ in millions, except per share amounts

11. Segment and Geographic Information

Segment Information

We operate two reportable segments: Domestic and International. The Domestic segment is comprised of U.S. store and online operations, including Best Buy, Geek

Squad, Magnolia Audio Video and Pacific Sales. The International segment is comprised of all Canada store and online operations, including Best Buy, Future Shop and Geek Squad, as well as our Five Star and Best Buy retail and online operations in China.

The following tables present our business segment information for continuing operations in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Revenue			
Domestic	\$31,031	\$27,380	\$24,616
International	<u>4,903</u>	<u>3,468</u>	<u>2,817</u>
Total revenue	<u>\$35,934</u>	<u>\$30,848</u>	<u>\$27,433</u>
Operating Income			
Domestic	\$ 1,889	\$ 1,588	\$ 1,393
International	<u>110</u>	<u>56</u>	<u>49</u>
Total operating income	1,999	1,644	1,442
Net interest income	111	77	1
Gain on investments	<u>20</u>	<u>—</u>	<u>—</u>
Earnings from continuing operations before income tax expense	<u>\$ 2,130</u>	<u>\$ 1,721</u>	<u>\$ 1,443</u>
Assets			
Domestic	\$10,614	\$ 9,722	\$ 8,372
International	<u>2,956</u>	<u>2,142</u>	<u>1,922</u>
Total assets	<u>\$13,570</u>	<u>\$11,864</u>	<u>\$10,294</u>



Financial Reports

CIRCUIT CITY STORES, INC.

Circuit City Stores, Inc.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except share data)

 At February 28
 2007 2006

ASSETS
CURRENT ASSETS:

Cash and cash equivalents	\$ 141,141	\$ 315,970
Short-term investments	598,341	521,992
Accounts receivable, net of allowance for doubtful accounts	382,555	220,869
Merchandise inventory	1,636,507	1,698,026
Deferred income taxes	34,868	29,598
Income tax receivable	42,722	5,571
Prepaid expenses and other current assets	47,378	41,315

TOTAL CURRENT ASSETS	2,883,512	2,833,341
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Property and equipment, net of accumulated depreciation	921,027	839,356
Deferred income taxes	31,910	97,889
Goodwill	121,774	223,999
Other intangible assets, net of accumulated amortization	19,285	30,372
Other assets	29,775	44,087

TOTAL ASSETS	\$4,007,283	\$4,069,044
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LIABILITIES AND STOCKHOLDERS' EQUITY
CURRENT LIABILITIES:

Merchandise payable	\$ 922,205	\$ 850,359
Expenses payable	281,709	202,300
Accrued expenses and other current liabilities	404,444	379,768
Accrued compensation	98,509	84,743
Accrued income taxes	—	75,909
Short-term debt	—	22,003
Current installments of long-term debt	7,162	7,248

TOTAL CURRENT LIABILITIES	1,714,029	1,622,330
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Long-term debt, excluding current installments	50,487	51,985
Accrued straight-line rent and deferred rent credits	277,636	256,120
Accrued lease termination costs	76,326	79,091
Other liabilities	97,561	104,885

TOTAL LIABILITIES	2,216,039	2,114,411
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Commitments and contingent liabilities

STOCKHOLDERS' EQUITY:

Common stock, \$0.50 par value; 525,000,000 shares authorized; 170,689,406 shares issued and outstanding (174,789,390 in 2006)	85,345	87,395
Additional paid-in capital	344,144	458,211
Retained earnings	1,336,317	1,364,740
Accumulated other comprehensive income	25,438	44,287

TOTAL STOCKHOLDERS' EQUITY	1,791,244	1,954,633
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$4,007,283	\$4,069,044
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Circuit City Stores, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(Amounts in thousands except per share data)</i>	Years Ended February 28					
	2007	%	2006	%	2005	%
NET SALES	\$12,429,754	100.0	\$11,514,151	100.0	\$10,413,524	100.0
Cost of sales, buying and warehousing	9,501,438	76.4	8,703,683	75.6	7,861,364	75.5
GROSS PROFIT	2,928,316	23.6	2,810,468	24.4	2,552,160	24.5
Selling, general and administrative expenses	2,841,619	22.9	2,595,706	22.5	2,470,712	23.7
Impairment of goodwill.....	92,000	0.7	—	—	—	—
Finance income	—	—	—	—	5,564	0.1
OPERATING (LOSS) INCOME	(5,303)	—	214,762	1.9	87,012	0.8
Interest income	27,150	0.2	21,826	0.2	14,404	0.1
Interest expense	1,519	—	3,143	—	4,451	—
Earnings from continuing operations before income taxes	20,328	0.2	233,445	2.0	96,965	0.9
Income tax expense	30,510	0.2	85,996	0.7	36,396	0.3
NET (LOSS) EARNINGS FROM CONTINUING OPERATIONS	(10,182)	(0.1)	147,449	1.3	60,569	0.6
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	128	—	(5,350)	—	1,089	—
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES, NET OF TAX	1,773	—	(2,353)	—	—	—
NET (LOSS) EARNINGS	\$ (8,281)	(0.1)	\$ 139,746	1.2	\$ 61,658	0.6

Weighted average common shares:

Basic	170,448	177,456	193,466
Diluted	170,448	180,653	196,227

(LOSS) EARNINGS PER SHARE:

Basic:

Continuing operations.....	\$ (0.06)	\$ 0.83	\$ 0.31
Discontinued operations.....	\$ —	\$ (0.03)	\$ 0.01
Cumulative effect of change in accounting principles	\$ 0.01	\$ (0.01)	\$ —
Basic (loss) earnings per share	\$ (0.05)	\$ 0.79	\$ 0.32

Diluted:

Continuing operations.....	\$ (0.06)	\$ 0.82	\$ 0.31
Discontinued operations.....	\$ —	\$ (0.03)	\$ 0.01
Cumulative effect of change in accounting principles	\$ 0.01	\$ (0.01)	\$ —
Diluted (loss) earnings per share	\$ (0.05)	\$ 0.77	\$ 0.31

Circuit City Stores, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

<i>(Amounts in thousands except per share data)</i>	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
BALANCE AT FEBRUARY 29, 2004	203,899	\$101,950	\$922,600	\$1,191,904	\$ -	\$2,216,454
Comprehensive income:						
Net earnings	-	-	-	61,658	-	61,658
Other comprehensive income, net of taxes:						
Foreign currency translation adjustment (net of deferred taxes of \$13,707).....	-	-	-	-	25,100	25,100
Comprehensive income						86,758
Repurchases of common stock	(19,163)	(9,582)	(250,250)	-	-	(259,832)
Compensation for stock awards.....	-	-	18,305	-	-	18,305
Exercise of common stock options.....	3,489	1,745	26,761	-	-	28,506
Shares issued under stock-based incentive plans, net of cancellations, and other	(75)	(38)	(1,312)	-	-	(1,350)
Tax effect from stock issued.....	-	-	(1,564)	-	-	(1,564)
Shares issued in acquisition of InterTAN, Inc.	-	-	6,498	-	-	6,498
Dividends – common stock (\$0.07 per share)	-	-	-	(13,848)	-	(13,848)
BALANCE AT FEBRUARY 28, 2005	188,150	94,075	721,038	1,239,714	25,100	2,079,927
Comprehensive income:						
Net earnings	-	-	-	139,746	-	139,746
Other comprehensive income (loss), net of taxes:						
Foreign currency translation adjustment (net of deferred taxes of \$11,316).....	-	-	-	-	19,500	19,500
Minimum pension liability adjustment (net of deferred taxes of \$182).....	-	-	-	-	(313)	(313)
Comprehensive income						158,933
Repurchases of common stock	(19,396)	(9,698)	(328,778)	-	-	(338,476)
Compensation for stock awards.....	-	-	24,386	-	-	24,386
Exercise of common stock options.....	3,830	1,915	36,752	-	-	38,667
Shares issued under stock-based incentive plans, net of cancellations, and other	2,205	1,103	(2,160)	-	-	(1,057)
Tax effect from stock issued.....	-	-	6,973	-	-	6,973
Redemption of preferred share purchase rights	-	-	-	(1,876)	-	(1,876)
Dividends – common stock (\$0.07 per share)	-	-	-	(12,844)	-	(12,844)
BALANCE AT FEBRUARY 28, 2006	174,789	87,395	458,211	1,364,740	44,287	1,954,633
Comprehensive loss:						
Net loss.....	-	-	-	(8,281)	-	(8,281)
Other comprehensive (loss) income, net of taxes:						
Foreign currency translation adjustment (net of deferred taxes of \$3,630).....	-	-	-	-	(7,793)	(7,793)
Unrealized gain on available-for-sale securities (net of deferred taxes of \$219)...	-	-	-	-	377	377
Minimum pension liability adjustment (net of deferred taxes of \$136).....	-	-	-	-	(229)	(229)
Comprehensive loss.....						(15,926)
Adjustment to initially apply SFAS No. 158 (net of deferred taxes of \$6,628).....	-	-	-	-	(11,204)	(11,204)
Repurchases of common stock	(10,032)	(5,016)	(232,187)	-	-	(237,203)
Compensation for stock awards.....	-	-	26,727	-	-	26,727
Adjustment to initially apply SFAS No. 123(R).....	-	-	(2,370)	-	-	(2,370)
Exercise of common stock options, net	5,767	2,883	86,228	-	-	89,111
Shares issued under stock-based incentive plans, net of cancellations, and other	165	83	(1,027)	-	-	(944)
Tax effect from stock issued.....	-	-	8,562	-	-	8,562
Dividends – common stock (\$0.115 per share).....	-	-	-	(20,142)	-	(20,142)
BALANCE AT FEBRUARY 28, 2007	170,689	\$85,345	\$344,144	\$1,336,317	\$25,438	\$1,791,244

Circuit City Stores, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Amounts in thousands)</i>	Years Ended February 28		
	2007	2006	2005 ^(a)
OPERATING ACTIVITIES:			
Net (loss) earnings	\$ (8,281)	\$ 139,746	\$ 61,658
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities of continuing operations:			
Net (earnings) loss from discontinued operations	(128)	5,350	(1,089)
Depreciation expense	177,828	160,608	151,597
Amortization expense	3,645	2,618	1,851
Impairment of goodwill	92,000	-	-
Stock-based compensation expense	26,727	24,386	18,305
(Gain) loss on dispositions of property and equipment	(1,439)	2,370	(206)
Provision for deferred income taxes	72,717	(14,252)	(116,300)
Cumulative effect of change in accounting principles	(1,773)	2,353	-
Other	1,689	(1,726)	-
Changes in operating assets and liabilities:			
Accounts receivable, net	(133,152)	16,552	(58,738)
Retained interests in securitized receivables	-	-	32,867
Merchandise inventory	49,352	(231,114)	160,037
Prepaid expenses and other current assets	(9,580)	(17,341)	7,207
Other assets	535	(3,061)	3,816
Merchandise payable	73,317	211,362	28,199
Expenses payable	55,722	40,921	(17,372)
Accrued expenses and other current liabilities, and accrued income taxes	(81,364)	43,202	54,021
Other long-term liabilities	(1,474)	(17,032)	63,494
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	316,341	364,942	389,347
INVESTING ACTIVITIES:			
Purchases of property and equipment	(285,725)	(254,451)	(261,461)
Proceeds from sales of property and equipment	38,620	55,421	106,369
Purchases of investment securities	(2,002,123)	(1,409,760)	(125,325)
Sales and maturities of investment securities	1,926,086	1,014,910	-
Other investing activities	(11,567)	-	-
Proceeds from the sale of the private-label finance operation	-	-	475,857
Acquisitions, net of cash acquired of \$30,615	-	-	(262,320)
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(334,709)	(593,880)	(66,880)
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	35,657	73,954	12,329
Principal payments on short-term borrowings	(56,912)	(53,893)	(13,458)
Proceeds from long-term debt	1,216	1,032	-
Principal payments on long-term debt	(6,724)	(1,829)	(28,008)
Changes in overdraft balances	19,347	(22,540)	36,329
Repurchases of common stock	(237,203)	(338,476)	(259,832)
Issuances of common stock	89,662	38,038	27,156
Dividends paid	(20,126)	(12,844)	(13,848)
Excess tax benefit from stock-based payments	15,729	-	-
Redemption of preferred share purchase rights	-	(1,876)	-
Other financing activities	(1,424)	-	-
NET CASH USED IN FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(160,778)	(318,434)	(239,332)
DISCONTINUED OPERATIONS:			
Operating cash flows	3,310	(9,884)	(7,193)
Investing cash flows	2,958	(8,089)	(6,615)
Financing cash flows	(592)	-	(724)
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	5,676	(17,973)	(14,532)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,359)	1,655	2,016
(Decrease) increase in cash and cash equivalents	(174,829)	(563,690)	70,619
Cash and cash equivalents at beginning of year	315,970	879,660	809,041
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 141,141	\$ 315,970	\$879,660

CONSOLIDATED BALANCE SHEETS
RadioShack Corporation and Subsidiaries

(In millions, except for share amounts)	December 31,	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 472.0	\$ 224.0
Accounts and notes receivable, net	247.9	309.4
Inventories	752.1	964.9
Other current assets	127.6	129.0
Total current assets	1,599.6	1,627.3
Property, plant and equipment, net	386.3	476.2
Other assets, net	84.1	101.6
Total assets	\$ 2,070.0	\$ 2,205.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt, including current maturities of long-term debt	\$ 194.9	\$ 40.9
Accounts payable	254.5	490.9
Accrued expenses and other current liabilities	442.2	379.5
Income taxes payable	92.6	75.0
Total current liabilities	984.2	986.3
Long-term debt, excluding current maturities	345.8	494.9
Other noncurrent liabilities	86.2	135.1
Total liabilities	1,416.2	1,616.3
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized:		
Series A junior participating, 300,000 shares designated and none issued	—	—
Common stock, \$1 par value, 650,000,000 shares authorized;		
191,033,000 shares issued	191.0	191.0
Additional paid-in capital	92.6	87.7
Retained earnings	1,780.9	1,741.4
Treasury stock, at cost; 55,196,000 and 56,071,000 shares, respectively	(1,409.1)	(1,431.6)
Accumulated other comprehensive (loss) income	(1.6)	0.3
Total stockholders' equity	653.8	588.8
Total liabilities and stockholders' equity	\$ 2,070.0	\$ 2,205.1

CONSOLIDATED STATEMENTS OF INCOME

RadioShack Corporation and Subsidiaries

(In millions, except per share amounts)	Year Ended December 31,					
	2006		2005		2004	
	Dollars	% of Revenues	Dollars	% of Revenues	Dollars	% of Revenues
Net sales and operating revenues	\$ 4,777.5	100.0%	\$ 5,081.7	100.0%	\$ 4,841.2	100.0%
Cost of products sold	2,544.4	53.3	2,706.3	53.3	2,406.7	49.7
Gross profit	<u>2,233.1</u>	<u>46.7</u>	<u>2,375.4</u>	<u>46.7</u>	<u>2,434.5</u>	<u>50.3</u>
Operating expenses:						
Selling, general and administrative	1,903.7	39.8	1,901.7	37.4	1,774.8	36.7
Depreciation and amortization	128.2	2.7	123.8	2.4	101.4	2.1
Impairment of long-lived assets and other charges	44.3	0.9	—	—	—	—
Total operating expenses	<u>2,076.2</u>	<u>43.4</u>	<u>2,025.5</u>	<u>39.8</u>	<u>1,876.2</u>	<u>38.8</u>
Operating income	156.9	3.3	349.9	6.9	558.3	11.5
Interest income	7.4	0.1	5.9	0.1	11.4	0.2
Interest expense	(44.3)	(0.9)	(44.5)	(0.8)	(29.6)	(0.5)
Other (loss) income	(8.6)	(0.2)	10.2	0.2	2.0	—
Income before income taxes	111.4	2.3	321.5	6.4	542.1	11.2
Income tax provision	38.0	0.8	51.6	1.0	204.9	4.2
Income before cumulative effect of change in accounting principle	73.4	1.5	269.9	5.4	337.2	7.0
Cumulative effect of change in accounting principle, net of \$1.8 million tax benefit in 2005	—	—	(2.9)	(0.1)	—	—
Net income	<u>\$ 73.4</u>	<u>1.5%</u>	<u>\$ 267.0</u>	<u>5.3%</u>	<u>\$ 337.2</u>	<u>7.0%</u>
Net income per share						
Basic:						
Income before cumulative effect of change in accounting principle	\$ 0.54		\$ 1.82		\$ 2.09	
Cumulative effect of change in accounting principle, net of taxes	—		(0.02)		—	
Basic income per share	<u>\$ 0.54</u>		<u>\$ 1.80</u>		<u>\$ 2.09</u>	
Assuming dilution:						
Income before cumulative effect of change in accounting principle	\$ 0.54		\$ 1.81		\$ 2.08	
Cumulative effect of change in accounting principle, net of taxes	—		(0.02)		—	
Diluted income per share	<u>\$ 0.54</u>		<u>\$ 1.79</u>		<u>\$ 2.08</u>	
Shares used in computing income per share:						
Basic	<u>136.2</u>		<u>148.1</u>		<u>161.0</u>	
Diluted	<u>136.2</u>		<u>148.8</u>		<u>162.5</u>	

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

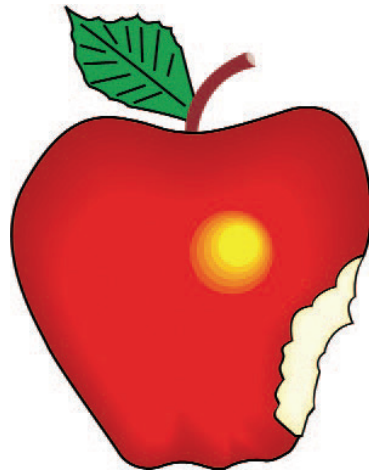
RadioShack Corporation and Subsidiaries

(In millions)	Shares at December 31,			Dollars at December 31,		
	2006	2005	2004	2006	2005	2004
Common stock						
Beginning and end of year	191.0	191.0	191.0	\$ 191.0	\$ 191.0	\$ 191.0
Treasury stock						
Beginning of year	(56.0)	(32.8)	(28.5)	\$ (1,431.6)	\$ (859.4)	\$ (707.2)
Purchase of treasury stock	—	(25.3)	(8.0)	—	(625.8)	(246.9)
Issuance of common stock	0.6	1.2	1.3	18.6	31.8	33.8
Exercise of stock options and grant of stock awards	0.2	0.9	2.4	3.9	21.8	60.9
End of year	(55.2)	(56.0)	(32.8)	\$ (1,409.1)	\$ (1,431.6)	\$ (859.4)
Additional paid-in capital						
Beginning of year				\$ 87.7	\$ 82.7	\$ 75.2
Issuance of common stock				(5.7)	3.5	5.7
Exercise of stock options and grant of stock awards				(1.7)	(5.0)	(9.5)
Stock option compensation				12.0	—	—
Stock option income tax benefits				0.3	6.5	11.3
End of year				\$ 92.6	\$ 87.7	\$ 82.7
Retained earnings						
Beginning of year				\$ 1,741.4	\$ 1,508.1	\$ 1,210.6
Net income				73.4	267.0	337.2
Common stock cash dividends declared				(33.9)	(33.7)	(39.7)
End of year				\$ 1,780.9	\$ 1,741.4	\$ 1,508.1
Accumulated other comprehensive (loss) income						
Beginning of year				\$ 0.3	\$ (0.3)	\$ (0.3)
Pension adjustments, net of tax				(1.0)	—	—
Other comprehensive (loss) income				(0.9)	0.6	—
End of year				\$ (1.6)	\$ 0.3	\$ (0.3)
Total stockholders' equity				\$ 653.8	\$ 588.8	\$ 922.1
Comprehensive income						
Net income				\$ 73.4	\$ 267.0	\$ 337.2
Other comprehensive income, net of tax:						
Foreign currency translation adjustments				0.3	(0.4)	0.1
Amortization of gain on cash flow hedge				(0.1)	(0.1)	(0.1)
Unrealized (loss) gain on securities				(1.1)	1.1	—
Other comprehensive (loss) income				(0.9)	0.6	—
Comprehensive income				\$ 72.5	\$ 267.6	\$ 337.2

CONSOLIDATED STATEMENTS OF CASH FLOWS
RadioShack Corporation and Subsidiaries

(In millions)	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 73.4	\$ 267.0	\$ 337.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	128.2	123.8	101.4
Cumulative effect of change in accounting principle	—	4.7	—
Impairment of long-lived assets and other charges	44.3	—	—
Stock option compensation	12.0	—	—
Deferred income taxes and other items	(27.6)	(76.9)	50.2
Provision for credit losses and bad debts	0.4	0.1	(0.3)
Changes in operating assets and liabilities, excluding acquisitions:			
Accounts and notes receivable	61.8	(68.2)	(53.0)
Inventories	212.8	38.8	(234.2)
Other current assets	2.5	28.5	(7.5)
Accounts payable, accrued expenses, income taxes payable and other	(193.0)	45.1	158.7
Net cash provided by operating activities	<u>314.8</u>	<u>362.9</u>	<u>352.5</u>
Cash flows from investing activities:			
Additions to property, plant and equipment	(91.0)	(170.7)	(229.4)
Proceeds from sale of property, plant and equipment	11.1	226.0	2.5
Purchase of kiosk business	—	—	(59.1)
Other investing activities	0.6	(16.0)	(4.2)
Net cash (used in) provided by investing activities	<u>(79.3)</u>	<u>39.3</u>	<u>(290.2)</u>
Cash flows from financing activities:			
Purchases of treasury stock	—	(625.8)	(251.1)
Sale of treasury stock to employee benefit plans	10.5	30.1	35.4
Proceeds from exercise of stock options	1.7	17.4	50.4
Payments of dividends	(33.9)	(33.7)	(39.7)
Changes in short-term borrowings and outstanding checks in excess of cash balances, net	42.2	(4.0)	(14.0)
Reductions of long-term borrowings	(8.0)	(0.1)	(40.1)
Net cash provided by (used in) financing activities	<u>12.5</u>	<u>(616.1)</u>	<u>(259.1)</u>
Net increase (decrease) in cash and cash equivalents	248.0	(213.9)	(196.8)
Cash and cash equivalents, beginning of period	224.0	437.9	634.7
Cash and cash equivalents, end of period	<u>\$ 472.0</u>	<u>\$ 224.0</u>	<u>\$ 437.9</u>
Supplemental cash flow information:			
Interest paid	\$ 44.0	\$ 43.4	\$ 29.3
Income taxes paid	52.9	158.5	182.7

Apple Financial Report



CONSOLIDATED BALANCE SHEETS**(In millions, except share amounts)**

	<u>September 30, 2006</u>	<u>September 24, 2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,392	\$ 3,491
Short-term investments	3,718	4,770
Accounts receivable, less allowances of \$52 and \$46, respectively ..	1,252	895
Inventories	270	165
Deferred tax assets	607	331
Other current assets	<u>2,270</u>	<u>648</u>
Total current assets	14,509	10,300
Property, plant, and equipment, net	1,281	817
Goodwill	38	69
Acquired intangible assets, net	139	27
Other assets	<u>1,238</u>	<u>303</u>
Total assets	<u>\$17,205</u>	<u>\$11,516</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,390	\$ 1,779
Accrued expenses	<u>3,081</u>	<u>1,708</u>
Total current liabilities	6,471	3,487
Noncurrent liabilities	<u>750</u>	<u>601</u>
Total liabilities	7,221	4,088
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000,000 shares authorized; 855,262,568 and 835,019,364 shares issued and outstanding, respectively	4,355	3,564
Deferred stock compensation	—	(61)
Retained earnings	5,607	3,925
Accumulated other comprehensive income	<u>22</u>	<u>—</u>
Total shareholders' equity	9,984	7,428
Total liabilities and shareholders' equity	<u>\$17,205</u>	<u>\$11,516</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except share and per share amounts)

<u>Three fiscal years ended September 30, 2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net sales.	\$ 19,315	\$ 13,931	\$ 8,279
Cost of sales.	13,717	9,889	6,022
Gross margin.	<u>5,598</u>	<u>4,042</u>	<u>2,257</u>
Operating expenses:			
Research and development.	712	535	491
Selling, general, and administrative.	2,433	1,864	1,430
Restructuring costs	—	—	23
Total operating expenses	<u>3,145</u>	<u>2,399</u>	<u>1,944</u>
Operating income.	2,453	1,643	313
Other income and expense	365	165	57
Income before provision for income taxes.	2,818	1,808	370
Provision for income taxes	829	480	104
Net income	<u>\$ 1,989</u>	<u>\$ 1,328</u>	<u>\$ 266</u>
Earnings per common share:			
Basic	\$ 2.36	\$ 1.64	\$ 0.36
Diluted.	\$ 2.27	\$ 1.55	\$ 0.34
Shares used in computing earnings per share (in thousands):			
Basic	844,058	808,439	743,180
Diluted.	877,526	856,878	774,776

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except share amounts which are in thousands)

	Common Stock		Deferred Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balances as of September 27, 2003 as previously reported	733,454	\$ 1,926	\$ (62)	\$ 2,394	\$(35)	\$ 4,223
Adjustments to opening shareholders' equity	—	85	(22)	(63)	—	—
Balance as of September 27, 2003 as restated	733,454	\$ 2,011	\$ (84)	\$ 2,331	\$(35)	\$ 4,223
Components of comprehensive income:						
Net income	—	—	—	266	—	266
Change in foreign currency translation	—	—	—	—	13	13
Change in unrealized gain on available-for-sale securities, net of tax	—	—	—	—	(5)	(5)
Change in unrealized loss on derivative investments, net of tax	—	—	—	—	12	12
Total comprehensive income	—	—	—	—	—	286
Issuance of stock-based compensation awards	—	63	(63)	—	—	—
Adjustment to common stock related to a prior year acquisition	(159)	(2)	—	—	—	(2)
Stock-based compensation	—	—	46	—	—	46
Common stock issued under stock plans	49,592	427	—	—	—	427
Tax benefit related to stock options	—	83	—	—	—	83
Balances as of September 25, 2004	782,887	\$ 2,582	\$ (101)	\$ 2,597	\$(15)	\$ 5,063
Components of comprehensive income:						
Net income	—	—	—	1,328	—	1,328
Change in foreign currency translation	—	—	—	—	7	7
Change in unrealized gain on derivative investments, net of tax	—	—	—	—	8	8
Total comprehensive income	—	—	—	—	—	1,343
Issuance of stock-based compensation awards	—	7	(7)	—	—	—
Stock-based compensation	—	—	47	—	—	47
Common stock issued under stock plans	52,132	547	—	—	—	547
Tax benefit related to stock options	—	428	—	—	—	428
Balances as of September 24, 2005	835,019	\$ 3,564	\$ (61)	\$ 3,925	\$ —	\$ 7,428
Components of comprehensive income:						
Net income	—	—	—	1,989	—	1,989
Change in foreign currency translation	—	—	—	—	19	19
Change in unrealized gain on available-for-sale securities, net of tax	—	—	—	—	4	4
Change in unrealized loss on derivative investments, net of tax	—	—	—	—	(1)	(1)
Total comprehensive income	—	—	—	—	—	2,011
Common stock repurchased	(4,574)	(48)	—	(307)	—	(355)
Stock-based compensation	—	163	—	—	—	163
Deferred compensation	—	(61)	61	—	—	—
Common stock issued under stock plans	24,818	318	—	—	—	318
Tax benefit related to stock-based compensation	—	419	—	—	—	419
Balances as of September 30, 2006	855,263	\$ 4,355	\$ —	\$ 5,607	\$ 22	\$ 9,984

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

Three fiscal years ended September 30, 2006	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents, beginning of the year	\$ 3,491	\$ 2,969	\$ 3,396
Operating Activities:			
Net income	1,989	1,328	266
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation, amortization and accretion	225	179	150
Stock-based compensation expense	163	49	46
Provision for deferred income taxes	53	50	19
Excess tax benefits from stock options	—	428	83
Gain on sale of PowerSchool net assets	(4)	—	—
Loss on disposition of property, plant, and equipment	15	9	7
Gains on sales of investments, net	—	—	(5)
Changes in operating assets and liabilities:			
Accounts receivable	(357)	(121)	(8)
Inventories	(105)	(64)	(45)
Other current assets	(1,626)	(150)	(176)
Other assets	(1,040)	(35)	(25)
Accounts payable	1,611	328	297
Other liabilities	<u>1,296</u>	<u>534</u>	<u>325</u>
Cash generated by operating activities	<u>2,220</u>	<u>2,535</u>	<u>934</u>
Investing Activities:			
Purchases of short-term investments	(7,255)	(11,470)	(3,270)
Proceeds from maturities of short-term investments	7,226	8,609	1,141
Proceeds from sales of investments	1,086	586	806
Purchases of long-term investments	(25)	—	—
Proceeds from sale of PowerSchool net assets	40	—	—
Purchases of property, plant, and equipment	(657)	(260)	(176)
Other	<u>(58)</u>	<u>(21)</u>	<u>11</u>
Cash generated by (used for) investing activities	<u>357</u>	<u>(2,556)</u>	<u>(1,488)</u>
Financing Activities:			
Payment of long-term debt	—	—	(300)
Proceeds from issuance of common stock	318	543	427
Excess tax benefits from stock-based compensation	361	—	—
Repurchases of common stock	<u>(355)</u>	<u>—</u>	<u>—</u>
Cash generated by financing activities	<u>324</u>	<u>543</u>	<u>127</u>
Increase (decrease) in cash and cash equivalents	<u>2,901</u>	<u>522</u>	<u>(427)</u>
Cash and cash equivalents, end of the year	<u>\$ 6,392</u>	<u>\$ 3,491</u>	<u>\$ 2,969</u>
Supplemental cash flow disclosures:			
Cash paid during the year for interest	\$ —	\$ —	\$ 10
Cash paid (received) for income taxes, net	\$ 194	\$ 17	\$ (7)