BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 07/15/96 for the Period Ending 06/01/96

Address	7601 PENN AVE SOUTH RICHFIELD, MN 55423
Telephone	6122911000
CIK	0000764478
Symbol	BBY
SIC Code	5731 - Radio, Television, and Consumer Electronics Stores
Industry	Retail (Technology)
Sector	Services
Fiscal Year	02/03

BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 7/15/1996 For Period Ending 6/1/1996

Address	7601 PENN AVE SOUTH
	RICHFIELD, Minnesota 55423
Telephone	612-291-1000
CIK	0000764478
Industry	Retail (Technology)
Sector	Services
Fiscal Year	03/01

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
- --- ACT OF 1934 For the quarterly period ended June 1, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
- --- EXCHANGE ACT OF 1934 For the transition period from to

Commission File Number: 1-9595

BEST BUY CO., INC.

(Exact Name of Registrant as Specified in Charter)

Minnesota (State of Incorporation)	41-0907483 (IRS Employer Identification Number)
7075 Flying Cloud Drive Eden Prairie, Minnesota (Address of principal executive offices)	55344 (Zip Code)

Registrant's telephone number, including area code: 612/947-2000

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

At June 1, 1996, there were 43,123,795 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 1, 1996

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Part I - Financial Information

Item 1. Consolidated Financial Statements

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

($ in 000, except per share amounts)

	June 1, 1996 (Unaudited)	March 2, 1996	May 27, 1995 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 20,604	$ 86,445	$ 51,669
Receivables	104,732	121,438	100,005
Recoverable costs from developed properties	122,773	126,237	103,523
Merchandise inventories	1,368,959	1,201,142	1,002,391
Deferred income taxes	21,191	20,165	16,218
Prepaid expenses	15,070	5,116	5,439
Total current assets	1,653,329	1,560,543	1,279,245
PROPERTY AND EQUIPMENT, at cost:			
Land and buildings	16,559	16,423	15,414
Property under capital leases	29,421	29,421	28,146
Leasehold improvements	135,466	131,289	97,770
Furniture, fixtures, and equipment	278,083	266,582	208,708
	459,529	443,715	350,038
Less accumulated depreciation and amortization	149,449	132,676	100,785
Net property and equipment	310,080	311,039	249,253
OTHER ASSETS:			
Deferred income taxes	2,977	7,204	9,940
Other assets	12,183	12,046	19,604
Total other assets	15,160	19,250	29,544
TOTAL ASSETS	$ 1,978,569	$ 1,890,832	$ 1,558,042

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000, except per share amounts)

	June 1, 1996 (Unaudited)	March 2, 1996	May 27, 1995 (Unaudited)
CURRENT LIABILITIES:			
Note payable, bank	$ 185,000		$ 50,000
Obligations under financing arrangements	142,456	$ 93,951	41,367
Accounts payable	515,297	673,852	435,406
Accrued salaries and related expenses	28,183	26,890	24,127
Other accrued liabilities	140,709	125,582	77,953
Deferred service plan revenue and warranty reserve	29,469	30,845	26,759
Accrued income taxes			3,443
Current portion of long-term debt	23,362	23,568	13,664
Total current liabilities	1,064,476	974,688	672,719
Deferred Service Plan Revenue and Warranty Reserve, Long-Term	41,409	48,243	45,197
Long-Term Debt	207,855	206,287	224,723
Convertible Preferred Securities of Subsidiary	230,000	230,000	230,000
SHAREHOLDERS' EQUITY:			
Preferred stock, $1.00 par value; authorized 400,000 shares; none issued			
Common stock, $.10 par value; authorized 120,000,000 shares; issued and outstanding 43,124,000, 42,842,000, and 42,594,000 shares, respectively	4,312	4,284	4,259
Additional paid-in capital	239,170	236,392	233,553
Retained earnings	191,347	190,938	147,591
Total shareholders' equity	434,829	431,614	385,403
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,978,569	$ 1,890,832	$ 1,558,042

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended	
	June 1, 1996	May 27, 1995
Revenues	$1,637,184	$1,274,696
Cost of goods sold	1,404,534	1,092,408
Gross profit	232,650	182,288
Selling, general and administrative expenses	219,698	165,925
Operating income	12,952	16,363
Interest expense, net	12,281	8,616
Earnings before income taxes	671	7,747
Income taxes	262	3,075
Net earnings	$ 409	$ 4,672
Net earnings per share	$ .01	$ .11
Weighted average common shares outstanding (000)	43,564	43,423

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED JUNE 1, 1996

($ in 000)

(unaudited)

	Common stock	Additional paid-in capital	Retained earnings
Balance, March 2, 1996	$4,284	$236,392	$190,938
Stock options exercised	28	2,778	
Net earnings, three months ended June 1, 1996			409
Balance, June 1, 1996	$4,312	$239,170	$191,347

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(unaudited)

	Three Months Ended June 1, 1996	Three Months Ended May 27, 1995
OPERATING ACTIVITIES:		
Net earnings	$ 409	$ 4,672
Charges to earnings not affecting cash:		
Depreciation and amortization	17,042	12,763
	17,451	17,435
Changes in operating assets and liabilities:		
Receivables	16,706	(15,565)
Merchandise inventories	(167,817)	(94,714)
Prepaid income taxes and expenses	(5,191)	(4,746)
Accounts payable	(158,555)	28,724
Other current liabilities	16,420	3,999
Deferred service plan revenue and warranty reserve	(8,210)	4,876
Total cash used in operating activities	(289,196)	(59,991)
INVESTING ACTIVITIES:		
Additions to property and equipment	(16,083)	(23,489)
Recoverable costs from developed properties	3,464	(17,301)
(Increase)decrease in other assets	(137)	154
Total cash used in investing activities	(12,756)	(40,636)
FINANCING ACTIVITIES:		
Borrowings on revolving credit line, net	185,000	50,000
Increase(decrease) in obligations under financing arrangements	48,505	(40,388)
Long-term borrowings	5,000	
Payments on long-term debt	(3,638)	(3,628)
Common stock issued	1,244	1,612
Total cash provided by financing activities	236,111	7,596
DECREASE IN CASH AND CASH EQUIVALENTS	(65,841)	(93,031)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	86,445	144,700
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,604	$ 51,669

Amounts in this statement are presented on a cash basis and therefore may differ from those shown in other sections of this quarterly report.

	June 1, 1996	May 27, 1995
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 13,347	$ 11,105
Income taxes	$ 1,063	$ 13,273

See notes to consolidated financial statements.

BEST BUY CO., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The consolidated balance sheets as of June 1, 1996, and May 27, 1995, the related consolidated statements of earnings and cash flows for the three months ended June 1, 1996, and May 27, 1995, and the consolidated statement of changes in shareholders' equity for the three months ended June 1, 1996, are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included and were normal and recurring in nature. Interim results are not necessarily indicative of results for a full year. These interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 1996.

2. RECLASSIFICATION:

Certain prior year amounts have been reclassified to conform to current year presentation.

3. INCOME TAXES:

Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate.

4. EARNINGS PER SHARE:

Earnings per share relate to fully diluted earnings per share.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net earnings for the first quarter of fiscal 1997 were $409,000, or $.01 per share, compared to net earnings of $4,672,000, or $.11 per share, in the comparable period last year. Operating income compared to the prior year's first quarter was impacted, in part, by higher selling, general and administrative expenses. Higher interest expense during the period also applied pressure on earnings.

Revenues in the quarter increased 28% to $1.637 billion compared to $1.275 billion in the first quarter last year. The increase was due in part to the contribution from the 47 new stores and sixteen remodeled/relocated stores in fiscal 1996 and a comparable store sales increase of 4% during the period. The Company also opened eight new stores during the quarter, including five stores in the new market of Philadelphia, Pennsylvania, on May 3. Comparable store sales increases of appliances were strong in comparison to the prior year due to a significant expansion of product assortment in May. The Company introduced the Amana, General Electric, Hotpoint, GE Profile and Tappan lines of appliances, greatly enhancing that category's consumer appeal and the Company's competitive position. Total Company comparable store sales comparisons are expected to become more difficult beginning in August due to the high levels of promotional activity that began in August of last year and continued through much of the remainder of the year.

Retail store sales mix by major product category for the first quarter was as follows:

	Quarter Ended	
	June 1, 1996	May 27, 1995
Home Office	41%	40%
Consumer Electronics		
Audio	12%	13%
Video	17%	18%
Entertainment Software	15%	16%
Appliances	8%	7%
Other	7%	6%
Total	100%	100%

The Company currently plans to open approximately 14 additional new stores during the remainder of the fiscal year, including entry into the new market of Tampa, Florida, in the third quarter. Three of the remaining stores to be opened are expected to open in the second quarter and the remaining openings anticipated in the third quarter.

Gross profit margin was 14.2% of sales for the first quarter of this year, compared to 14.3% in the first quarter of last year and 13.0% in fiscal 1996. Gross profit margin was essentially flat with the first quarter of the prior year as an increased contribution from the sale of higher margin appliances and extended service plans helped offset weaker margins in the home office category. Sales of extended service plans increased to 1.5% of store sales compared to less than 1% in each of the last three fiscal years. These plans are now administered by a third party, resulting in recognition of revenue and profit on the sale of the plans at the time of sale. Prior to the fourth quarter of fiscal 1996, revenue and profit from extended service plans was recognized over the term of the contract. Management expects that price competition and promotional offers to stimulate spending will continue, particularly in personal computers. While competition and promotions may limit the Company's ability to increase margins, the Company believes that increased contributions from appliances and extended service plans provide an opportunity to increase overall margins in fiscal 1997. Additional employee training programs and other planned initiatives should result in a further increase in the contribution of extended service plans. In addition, management anticipates that the appliance category should continue to increase as a percentage of total Company sales, increasing to approximately 9% of sales for the fiscal year.

Selling, general and administrative (SG&A) expenses increased to 13.4% of sales compared to 13.0% in the first quarter of the prior year. This increase is mainly due to higher occupancy and fixed costs associated with the new and remodeled or relocated stores in fiscal 1996 and costs attributable to the rollout of the expanded appliance assortment. Costs associated with improving sales execution and supporting the expanded appliance assortment will further increase the Company's SG&A expense ratio in fiscal 1997. Also, as the Company's rate of sales growth slows in the current fiscal year, both in terms of the number of new stores opened and comparable store sales increases, management expects that the SG&A ratio for the year will be higher than fiscal 1996's ratio of 11.3%.

Net interest expense increased $3.7 million compared to the first quarter of fiscal 1996. The increase was due principally to a higher level of completed properties held for sale and borrowings to support higher working capital needs. Additionally, in the first quarter of fiscal 1996 the Company financed working capital with the proceeds from the $230 million November 1994 preferred securities offering.

FINANCIAL CONDITION

Working capital of $589 million at June 1, 1996 was unchanged from the prior fiscal year end as cash, bank borrowings and inventory financing arrangements were used to support higher inventories and reduce accounts payable. Inventories increased during the first quarter from a seasonally low point at the end of the prior fiscal year, due, in part, to the opening of eight new stores and the increased appliance assortment. Receivables at June 1, 1996 decreased $16.7 million from March 2, 1996 as a result of the change in the volume of business prior to each period end. Prepaid expenses increased from March 2, 1996 primarily due to an increase in refundable income taxes. Deferred service plan revenues are decreasing as revenues from plans sold prior to the fourth quarter of fiscal 1996 are recognized. Revenues from extended service plans sold in subsequent periods are recognized at the time of sale.

At June 1, 1996, the Company owned 12 retail locations and a distribution center that were available for sale and leaseback and included in recoverable costs from developed properties. Proceeds from the sale of developed properties were approximately $7 million in the first quarter. Subsequent to the end of the quarter, three properties, including the distribution center, were sold resulting in proceeds of approximately $34 million. The Company plans to sell and lease back the remaining properties, as well as four additional retail locations under development for fiscal 1997, during the current fiscal year. Conditions in the marketplace for retail real estate and the economy in general may affect the timing of sale/leaseback transactions.

During the first quarter the Company received $5 million in proceeds from a state government agency loan. In June, the Company repaid the $8.7 million contract for deed on the corporate headquarters facility. The Company plans to obtain a long-term mortgage on this facility. The Company currently expects that capital spending for the fiscal year, exclusive of property development costs anticipated to be recovered through long-term financing, will approximate $80 million.

Management expects that funds available through cash flow from operations, the Company's credit facility, inventory financing facilities and customary vendor terms, will be sufficient to meet the Company's working capital needs for the fiscal year.

SAFE HARBOR PROVISIONS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company filed a Current Report on Form 8-K on May 8, 1996, with the Securities and Exchange Commission. The Report contains cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward looking statements made by the Company herein.

BEST BUY CO., INC.

Part II - Other Information

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

a. Exhibits:

		Method of Filing
11.1	Computation of net earnings per common share	Filed herewith
27.1	Financial Data Schedule	Filed herewith

b. Reports on Form 8-K:

A Current Report on Form 8-K was filed with the Securities and Exchange Commission on May 8, 1996 in connection with the "Safe Harbor" of the Private Securities Litigation Reform Act of 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEST BUY CO., INC.
(Registrant)

Date: July 12, 1996

By: /s/ ALLEN U. LENZMEIER
Allen U. Lenzmeier, Executive Vice President & Chief Financial Officer (principal financial officer)

By: /s/ ROBERT C. FOX
Robert C. Fox, Senior Vice President-Finance & Treasurer (principal accounting officer)

EXHIBIT 11.1

BEST BUY CO., INC.

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Amounts in 000, except per share amounts)

(unaudited)

	Three Months Ended June 1, 1996	Three Months Ended May 27, 1995
Earnings:		
Net earnings available to common shares	$ 409	$ 4,672
Shares:		
Weighted average common shares outstanding	42,967	42,379
Adjustments:		
Assumed issuance of shares purchased under stock option plans	597	1,044
Total common equivalent shares	43,564	43,423
Net earnings per common share	$ .01	$ .11

Note: The computation of earnings per common share assuming full dilution results in anti-dilution.

ARTICLE 5

This schedule contains summary financial information extracted from the consolidated financial statements for the periods indicated and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	MAR 01 1997
PERIOD START	MAR 03 1996
PERIOD END	JUN 01 1996
CASH	20,604
SECURITIES	0
RECEIVABLES	104,732
ALLOWANCES	0
INVENTORY	1,368,959
CURRENT ASSETS	1,653,329
PP&E	459,529
DEPRECIATION	149,449
TOTAL ASSETS	1,978,569
CURRENT LIABILITIES	1,064,476
BONDS	207,855
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4,312
OTHER SE	430,517
TOTAL LIABILITY AND EQUITY	1,978,569
SALES	1,637,184
TOTAL REVENUES	1,637,184
CGS	1,404,534
TOTAL COSTS	1,404,534
OTHER EXPENSES	219,698
LOSS PROVISION	0
INTEREST EXPENSE	12,281
INCOME PRETAX	671
INCOME TAX	262
INCOME CONTINUING	409
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	409
EPS PRIMARY	.01
EPS DILUTED	.01

End of Filing