BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 10/11/96 for the Period Ending 08/31/96

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 10/11/1996 For Period Ending 8/31/1996

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 August 31, 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 August 31, 1996, there were 43,222,061 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED AUGUST 31, 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)

	August 31, 1996 (Unaudited)	March 2, 1996	August 26, 1995 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 30,670	$ 86,445	$ 43,693
Receivables	125,870	121,438	116,474
Recoverable costs from developed properties	96,935	126,237	147,182
Merchandise inventories	1,447,382	1,201,142	1,269,060
Deferred income taxes	21,143	20,165	18,009
Prepaid expenses	11,975	5,116	7,035
Total current assets	1,733,975	1,560,543	1,601,453
PROPERTY AND EQUIPMENT, at cost:			
Land and buildings	16,734	16,423	15,414
Property under capital leases	29,177	29,421	28,435
Leasehold improvements	137,335	131,289	107,177
Furniture, fixtures, and equipment	295,716	266,582	229,006
	478,962	443,715	380,032
Less accumulated depreciation and amortization	161,445	132,676	111,212
Net property and equipment	317,517	311,039	268,820
OTHER ASSETS:			
Deferred income taxes	-	7,204	11,058
Other assets	12,912	12,046	20,151
Total other assets	12,912	19,250	31,209
TOTAL ASSETS	$2,064,404	$1,890,832	$1,901,482

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000, except per share amounts)

	August 31, 1996 (Unaudited)	March 2, 1996	August 26, 1995 (Unaudited)
CURRENT LIABILITIES:			
Note payable, bank	$ 208,000	$ -	$ 150,000
Obligations under financing arrangements	105,716	93,951	22,851
Accounts payable	619,515	673,852	643,926
Accrued salaries and related expenses	29,043	26,890	28,801
Other accrued liabilities	143,300	125,582	117,471
Deferred service plan revenue and warranty reserve	27,504	30,845	28,645
Accrued income taxes	-	-	2,641
Current portion of long-term debt	16,035	23,568	23,124
Total current liabilities	1,149,113	974,688	1,017,459
Deferred Service Plan Revenue and Warranty Reserve, Long-Term	35,433	48,243	49,558
Long-Term Debt	209,927	206,287	212,143
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 43,222,000, 42,842,000, and 42,670,000 shares, respectively	4,322	4,284	4,267
Additional paid-in capital	240,474	236,392	234,750
Retained earnings	195,135	190,938	153,305
Total shareholders' equity	439,931	431,614	392,322
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,064,404	$1,890,832	$1,901,482

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	August 31, 1996	August 26, 1995	August 31, 1996	August 26, 1995
Revenues	$1,778,640	$1,437,911	$3,415,824	$2,712,607
Cost of goods sold	1,526,974	1,241,290	2,931,508	2,333,698
Gross profit	251,666	196,621	484,316	378,909
Selling, general and administrative expenses	231,982	177,418	451,680	343,343
Operating income	19,684	19,203	32,636	35,566
Interest expense, net	13,475	9,726	25,756	18,342
Earnings before income taxes	6,209	9,477	6,880	17,224
Income taxes	2,421	3,763	2,683	6,838
Net earnings	$ 3,788	$ 5,714	$ 4,197	$ 10,386
Net earnings per share	$ 0.09	$ 0.13	$ 0.10	$ 0.24
Weighted average common shares outstanding (000)	43,814	43,623	43,708	43,622

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED AUGUST 31, 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	38	4,082	
Net earnings, six months ended August 31, 1996			4,197
Balance, August 31, 1996	$ 4,322	$240,474	$195,135

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(unaudited)

	Six Months Ended	
	August 31, 1996	August 26, 1995
OPERATING ACTIVITIES:		
Net earnings	$ 4,197	$ 10,386
Charges to earnings not affecting cash:		
Depreciation and amortization	33,872	25,971
	38,069	36,357
Changes in operating assets and liabilities:		
Receivables	(4,432)	(32,034)
Merchandise inventories	(246,240)	(361,383)
Prepaid income taxes and expenses	1,318	(9,251)
Accounts payable	(54,337)	255,575
Other current liabilities	19,871	29,562
Deferred service plan revenue and warranty reserve	(16,151)	11,123
Total cash used in operating activities	(261,902)	(70,051)
INVESTING ACTIVITIES:		
Additions to property and equipment	(40,350)	(55,682)
Recoverable costs from developed properties	29,302	(60,960)
Increase in other assets	(866)	(393)
Total cash used in investing activities	(11,914)	(117,035)
FINANCING ACTIVITIES:		
Borrowings on revolving credit line, net	208,000	150,000
Increase(decrease) in obligations under financing arrangements	11,765	(58,904)
Long-term borrowings	13,000	-
Payments on long-term debt	(16,893)	(7,331)
Common stock issued	2,169	2,314
Total cash provided by financing activities	218,041	86,079
DECREASE IN CASH AND CASH EQUIVALENTS	(55,775)	(101,007)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	86,445	144,700
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 30,670	$ 43,693

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

Supplemental cash flow information:

Cash paid (received) during the period for:		
Interest	$ 25,424	$ 18,805
Income taxes	$ (4,110)	$ 20,165

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 August 31, 1996, and August 26, 1995, the related consolidated statements of earnings for the three and six months ended August 31, 1996 and August 26, 1995, the consolidated statements of cash flow for the six months ended August 31, 1996 and August 25, 1995 and the consolidated statement of changes in shareholders' equity for the six months ended August 31, 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 second quarter of fiscal 1997 were $3,788,000, or $.09 per share, compared to net earnings of $5,714,000, or $.13 per share, in the comparable period last year. For the first six months of the current fiscal year net earnings were $4,197,000, or $.10 per share compared to $10,386,000, or $.24 per share for the same period last year. An improvement in gross margins was offset by higher selling, general and administrative expenses resulting in reduced operating income as a percentage of sales in the current year periods. Higher interest expense during the current periods also applied pressure on earnings.

Revenues in the second quarter increased 24% to $1.779 billion compared to $1.438 billion in the second quarter last year. Revenues for the year to date period increased 26% to $3.416 billion. The increases were due mainly to the contribution from the 38 new stores opened in the past twelve months and a comparable store sales increase of 4% during both the quarter and year to date periods. The Company has opened eleven new stores during the current fiscal year, including five stores in the new market of Philadelphia, Pennsylvania, on May 3. The Company operated 262 stores at August 31, 1996 compared to 224 stores at August 26, 1995. Comparable store sales results in the quarter and year to date periods benefited from the increased assortment of major appliances which the Company introduced in May. The appliance category was significantly expanded in the current fiscal year with the addition of the Amana, General Electric, GE Profile, Hotpoint, and Tappan brand names. However, industry-wide softness in the consumer electronics category and a relatively mild summer, resulting in sluggish sales of air conditioners as compared to last year, put pressure on comparable store sales results. Total Company comparable store sales results in the second half of this fiscal year are expected to be lower than the first half reported results with some months likely to be negative. Last year the Company reported comparable store sales increases of 11% and 1% in the third and fourth quarters, respectively.

Retail store sales mix by major product category for the second quarter and six month period was as follows:

	Second Quarter Ended		Six Months Ended	
	8/31/96	8/26/95	8/31/96	8/26/95
Home Office	39%	40%	40%	40%
Consumer Electronics				
Audio	12%	13%	12%	13%
Video	17%	17%	17%	18%
Entertainment Software	14%	15%	14%	15%
Appliances	11%	10%	10%	9%
Other	7%	5%	7%	5%
Total	100%	100%	100%	100%

The Company plans to open ten additional new stores during the remainder of the current fiscal year, including entry into the new markets of Tucson, Arizona, Fresno, California, Tampa, Florida, and Memphis, Tennessee, in the third quarter.

Gross profit margin was 14.1% of sales in the second quarter of this year, and 14.2% for the first half compared to 13.7% and 14.0% in the comparable periods of last year. Gross profit margin improved in both periods compared to the prior year, as increased contributions from the sale of higher margin appliances and extended service plans helped offset margin lost from lower air conditioner sales. Sales of extended service plans increased to 1.8% and 1.6% of store sales in the second quarter and first half, respectively, compared to .9% in the comparable periods last year. Extended service plans sold in the current year periods are 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. Competition and promotional activity are expected to continue to apply pressure on margins; however, management believes that increased contributions from appliances and extended service plans provide an opportunity to increase overall margins in fiscal 1997 as compared to the prior year.

Selling, general and administrative (SG&A) expenses increased to 13% of sales compared to 12.3% in the second quarter of the prior year. For the six month period the ratios were 13.2% and 12.7%, in the current and prior years, respectively. The increase is mainly due to higher occupancy and fixed costs associated with the new stores located in generally more expensive markets, 15 remodeled/relocated stores and distribution capacity added in the past twelve months. Costs associated with improving sales execution and supporting the expanded appliance assortment also have impacted the Company's SG&A expense ratio in the first half of fiscal 1997. The Company's slower rate of sales growth in the current fiscal year, both in terms of the number of new stores opened and comparable store sales increases, will cause the SG&A ratio for the year to be higher than fiscal 1996's ratio of 11.3%.

Net interest expense increased $3.7 million in the second quarter and $7.4 million in the first six months compared to fiscal 1996. The increase was due principally to a higher level of completed properties held for sale and borrowings to support higher inventory levels. Additionally, in the first half of fiscal 1996 the Company financed a portion of its working capital with the proceeds from the $230 million November 1994 preferred securities offering.

FINANCIAL CONDITION

Working capital of $585 million at August 31, 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 14% compared to August 26, 1995 due to the addition of the new stores and the increased appliance assortment. In addition, cost of goods sold increased 26% compared to the first six months of the prior year. Deferred service plan revenues and the related deferred income taxes 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 August 31, 1996, the Company owned ten operating retail locations that were available for sale and leaseback and included in recoverable costs from developed properties. The Company also owns four retail locations under development for openings later in the current fiscal year, as well as two sites to be developed for fiscal 1998 store openings. Proceeds from the sale of developed properties were approximately $42 million in the first six months of the fiscal year and another $15 million subsequent to the end of the second quarter. For the first six months of fiscal 1997 the Company's net cash flow from developed properties was a positive $29 million compared to a net outflow of $61 million in the first half of the prior year. The Company expects to sell and lease back most of the remaining operating properties, as well as the retail locations under development for fiscal 1997 openings, prior to the current fiscal year end. Conditions in the marketplace for retail real estate and the economy in general may affect the timing of sale/leaseback transactions.

During the first six months of fiscal 1997 the Company obtained $13 million from intermediate term equipment financings. Subsequent to August 31, 1996, the Company completed an additional $8.5 million in 5-year equipment financing. In June, the Company repaid the $8.7 million contract for deed on its 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 $85 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 4. Submission of matters to a vote of Security Holders.

a) The Regular Meeting of the Shareholders of the Company was held June 19, 1996. The following individuals were elected at the meeting as Directors of the Company to serve until the 1998 Regular Meeting of Shareholders. Shares voted in favor of these directors and shares withheld were as follows:

Bradbury H. Anderson	
Shares For	39,962,878
Shares Withheld	178,782
Frank D. Trestman	
Shares For	39,961,588
Shares Withheld	180,072
David Stanley	
Shares For	39,963,227
Shares Withheld	178,433
James C. Wetherbe	
Shares For	39,963,653
Shares Withheld	178,007

The other matter voted on and the results of voting were as follows:

Shareholders ratified the appointment by the Board of Directors of Ernst & Young, LLP as the corporation's independent auditor for the fiscal year beginning March 3, 1996, with shares voted as follows:

Shares For	39,998,427
Shares Against	76,268
Shares Abstaining	66,965

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:

None

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: October 11, 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		Six Months Ended	
	August 31, 1996	August 26, 1995	August 31, 1996	August 26, 1995
Earnings:				
Net earnings available to Common shares	$ 3,788	$ 5,714	$ 4,197	$10,386
Shares:				
Weighted average common shares outstanding	43,179	42,639	43,074	42,509
Adjustments:				
Assumed issuance of shares purchased under stock option plans	635	984	634	1,113
Total common equivalent shares	43,814	43,623	43,708	43,622
Net earnings per common share	$ .09	$ .13	$ .10	$ .24

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	6 MOS
FISCAL YEAR END	MAR 01 1997
PERIOD START	MAR 03 1996
PERIOD END	AUG 31 1996
CASH	30,670
SECURITIES	0
RECEIVABLES	125,870
ALLOWANCES	0
INVENTORY	1,447,382
CURRENT ASSETS	1,733,975
PP&E	478,962
DEPRECIATION	161,445
TOTAL ASSETS	2,064,404
CURRENT LIABILITIES	1,149,113
BONDS	209,927
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4,322
OTHER SE	435,609
TOTAL LIABILITY AND EQUITY	2,064,404
SALES	3,415,824
TOTAL REVENUES	3,415,824
CGS	2,931,508
TOTAL COSTS	2,931,508
OTHER EXPENSES	451,680
LOSS PROVISION	0
INTEREST EXPENSE	25,756
INCOME PRETAX	6,880
INCOME TAX	2,683
INCOME CONTINUING	4,197
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,197
EPS PRIMARY	.10
EPS DILUTED	.10

End of Filing