BEST BUY CO INC

FORM 10-K
(Annual Report)

Filed 05/28/98 for the Period Ending 02/28/98

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

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FORM 10-K
(Annual Report)

Filed 5/28/1998 For Period Ending 2/28/1998

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-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE --- ACT OF 1934 FOR THE FISCAL YEAR ENDED FEBRUARY 28, 1998.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

--- EXCHANGE ACT OF 1934

Commission File Number: 1-9595

BEST BUY CO., INC.

(Exact Name of Registrant as Specified in Charter)

MINNESOTA (State of Incorporation)	41-0907483 (I.R.S. 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

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

Title of each class	Name of each exchange on which registered
COMMON STOCK, $.10 PAR VALUE	NEW YORK STOCK EXCHANGE
8-5/8% SENIOR SUBORDINATED NOTES, DUE 2000	NEW YORK STOCK EXCHANGE
6-1/2% CONVERTIBLE MONTHLY INCOME PREFERRED SECURITIES	NEW YORK STOCK EXCHANGE

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant on April 30, 1998, was approximately $1,897,607,472. On that date, there were 50,088,010 shares of Common Stock issued and outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's Annual Report to Shareholders for the year ended February 28, 1998 ("Annual Report") are incorporated by reference into Part II.

Portions of the Registrant's Proxy Statement dated May 22, 1998 for the regular meeting of shareholders to be held June 25, 1998 ("Proxy Statement") are incorporated by reference into Part III.

PART I

Item 1. BUSINESS

General

Best Buy Co., Inc. (the "Company" or "Best Buy"), is the nation's largest volume specialty retailer of name brand consumer electronics, home office equipment, entertainment software and appliances. The Company commenced business in 1966 as an audio component systems retailer, and in the early 1980s, with the introduction of the video cassette recorder, expanded into video products. In 1983, the Company changed its marketing strategy to use mass merchandising techniques for a wider variety of products, and began to operate its stores with a "superstore" format. In 1989, Best Buy dramatically changed its method of retailing by introducing its "Concept II" store format, a self-service, non-commissioned, discount style sales environment designed to give the customer more control over the purchasing process. The Company determined that an increasing number of customers had become knowledgeable enough to select products without the assistance of a commissioned salesperson and preferred to make purchases in a more convenient and customer friendly environment. With its innovative retail format, the Company has moved into a leading position nationally in all of its principal product categories except appliances.

In fiscal 1995, the Company developed a strategy to further enhance its store format. The strategy, known as "Concept III", features a larger, redesigned store format created to produce a more informative and exciting shopping experience for the customer. Through focus group interviews and other research, the Company determined that customers wanted more product information and a larger product selection. In order to meet these evolving consumer preferences, the Company developed an enhanced store format which features more hands-on demonstrations. The standard size for the Concept III stores is now 45,000 square feet and is designed to accommodate a product selection intended to be as good as or better than the selection offered by Best Buy's competitors in each of its principal product categories. Management continues to evaluate and refine the content and features of these Concept III stores to maximize the revenue and operating profit while providing customers with the most desirable shopping experience.

In the last two fiscal years the Company has increased its store count by 13%, with a net addition of 33 new stores and, as of February 28, 1998, was operating 284 stores from coast to coast. The rate of expansion in fiscal 1998 and 1997 was significantly slower than the previous three years when the Company opened a total of 140 stores. The slower growth was dictated by the need to focus on improving the Company's operations and financial performance. The Company anticipates opening approximately 25 new stores in fiscal 1999 and to be operating approximately 309 stores by the end of the fiscal year.

Business Strategy

The Company's business strategy is to offer consumers an enjoyable and convenient shopping experience while maximizing the Company's profitability. Best Buy believes it offers consumers meaningful advantages in store environment, product value, selection and service. An objective of this strategy has been to achieve a dominant share of the markets Best Buy serves. The Company currently holds a leading, and in some cases dominant, share in its mature markets. The Company's store format features interactive displays, and for certain product categories, a high level of customer assistance, all designed to enhance the customer's shopping experience. As part of its overall strategy, the Company:

- Generally offers a retail format similar to a self service discount store for many products that consumers are familiar with and provides a higher level of customer service and product explanation for more complex products.

- Provides a selection of brand name products comparable to retailers that specialize in the Company's principal product categories and seeks to ensure a high level of product availability for customers.

- Seeks to provide customers with the best product value available in the market area through active comparison shopping programs, daily price changes, lowest price guarantees and special promotions, including interest-free financing, performance service plans generally priced below competitors, and home delivery.

- Provides a variety of services not offered by certain competitors, including convenient financing programs, product delivery and installation, computer training and post-sale services including repair and warranty services and computer upgrades.

- Locates stores at sites that are easily accessible from major highways and thoroughfares and seeks to create sufficient concentrations of stores in major markets to maximize the leverage on fixed costs including advertising and operations management.

- Controls costs and enhances operating efficiency by centrally controlling all buying, merchandising and distribution, and vertically integrating certain support functions such as advertising.

Best Buy's store format is a key component of its business strategy. The Company believes that because customers are generally familiar with many of the products the Company sells and are accustomed to discount shopping formats, they increasingly resist efforts to direct their choice of product and appreciate controlling the purchase decision. For products that are relatively easy for consumers to understand and purchase, the Company employs a self-service, discount style store format, featuring easy to locate product groupings, emphasizing customer choice and product information. For certain new technology products such as digital cameras and phones and digital satellite systems, the Company provides dedicated and specially trained sales assistance. Sales staff in these product categories help customers understand the features and benefits of new technology and can assist customers in the purchase of accessories and registration for service with providers.

Best Buy continuously evaluates the retail environment and regularly uses focus groups and customer surveys to assess customer preferences. Through these processes, Best Buy concluded that customers want access to more product information in order to be more confident about their buying decisions. Most stores contain a demonstration area for television "surround sound" systems; a simulated, life-size car display; and audio speaker rooms. These demonstration areas allow customers to hear for themselves how different configurations of audio components enhance sound quality at home or in the car. The speaker rooms feature a wide variety of music allowing customers to compare speaker quality while listening to their choice of music. Best Buy believes that these features further differentiate it from competing retailers and should also provide an advantage for the Company relative to competitors such as catalog and on-line services and television shopping networks.

The Company's stores are in large, open buildings with high ceilings. Best Buy's stores average approximately 43,000 square feet. The Concept III stores feature specialty areas such as larger viewing rooms for large screen and projection televisions and larger speaker rooms. The Company expects that all of the new stores opened will be approximately 40,000 - 45,000 square feet to best leverage the cost of operations and maximize productivity.

Best Buy's merchandising strategy differs from many other retailers selling comparable merchandise. Best Buy's merchandise is displayed at eye level next to signs identifying the products' major features, with the boxed products available above or below the display model. The Company's product specialists, who are knowledgeable about the operation and features of the merchandise on display, are dedicated to a particular product area for customers who desire assistance. This convenient, self service format for many of the products the Company sells allows the customer to carry merchandise directly to the check-out lanes, pay for it and leave the store thus avoiding the time-consuming process used at traditional superstores and catalog showrooms.

The Company believes that its advertising strategy continues to contribute to its increasing market share and brand image. Best Buy spends over 3% of store sales on advertising, including the distribution of about 33 million newspaper inserts weekly. The Company has vertically integrated advertising and promotion capabilities and operates its own in-house advertising agency. This capability allows the Company to respond rapidly to competitors in a cost effective manner. In many of its markets, the Company is able to secure and deliver merchandise to its stores and to create, produce and run an advertisement all within a period of less than one week.

Print advertising generally consists of four-color weekly inserts, generally of 20 to 24 pages, that emphasize a variety of product categories and feature extensive name brand selection and price range. The Company also produces all of its television commercials, each with a specific marketing message. Television commercials account for approximately 29% of total advertising expenditures. The Company is reimbursed by vendors for a substantial portion of advertising expenditures through cooperative advertising arrangements. In fiscal 1998 the Company introduced a national brand image program that is expected to move Best Buy's image beyond that of a low price specialty retailer by promoting the customer's shopping experience and the Company's responsiveness to consumers' needs.

Product service and repair are important aspects of Best Buy's marketing strategy, providing the opportunity to differentiate itself from warehouse clubs and other discount stores which generally do not provide such services. Virtually all products sold by the Company, with the exception of entertainment software, carry manufacturers' warranties. The Company generally offers to service and repair all of the products it sells, except major appliances in certain markets, and has been designated by substantially all of its major suppliers as an authorized service center. In addition, the Company conducts computer software training classes at selected stores and makes its in-store technical support staff available to assist customers with the custom configuration of personal computers and peripheral products. The Company also delivers and installs major appliances and large electronics products and installs car stereos and security systems.

Product Selection and Merchandising

Best Buy provides a broad selection of name brand models within each product line in order to provide customers with greater choice. The Company currently offers approximately 5,600 products, exclusive of entertainment software titles and accessories, in its four principal product categories. In addition, the Company offers a selection of accessories supporting its principal product categories, which typically yield a higher margin than most of the Company's other products. The Company believes that this assortment of accessories builds customer traffic for its other products.

The home office category, Best Buy's largest product category, includes personal computers and related peripheral equipment, telephones, cellular phones, answering machines, fax machines, copiers and calculators. The Company was among the first consumer electronics retailers to carry an extensive assortment of personal computer products and related software. Sales in this category are largely comprised of the sale of personal computers. The retail market for personal computers continues to be promotional and competitive. The Company's operating results can be affected by significant changes in promotional activity as well as product demand for and availability of personal computers and the timing of computer model transitions by manufacturers. The timing of significant new software releases can also impact sales of personal computers. The Company believes that it is well positioned to withstand increased competition in the retail market for personal computer products, traditionally low margin items, due to its experience in the market and its significantly improved ability to manage inventories in this category. The Company also believes that its broad product lines, including those that generate higher profit margins, and its relatively low cost structure contribute to its ability to compete in this category. In addition, the Company believes that the related services it offers, such as computer training, configuration, maintenance and upgrade, are distinct advantages compared to other discount and mail order computer retailers. Changing technology and hardware requirements necessary to support new software, including on-line services, are expected to continue to be a primary factor in the growth in sales of personal computers and related products in the future. The Company's home office products category includes brand names such as Acer, AT&T, Canon, Compaq, CTX, Epson, Hewlett Packard, IBM, Motorola, Packard Bell, Panasonic, Sharp and Toshiba.

Best Buy's second largest product category is consumer electronics, consisting of video and audio equipment. Video products include televisions, video cassette recorders, camcorders and satellite dishes that receive direct broadcast satellite television. Audio products include audio components, audio systems, portable audio equipment, car stereos and security systems. The Company continues to expand its product selection in consumer electronics by offering higher end products and components that have greater appeal to audio and video enthusiasts. The introduction of digital satellite systems (DSS) in fiscal 1997 and Digital Versatile Disc (DVD) and MiniDisc in fiscal 1998 marked the initial stages of the transition of the consumer electronics category into digital technology. While sales of analog technology in both audio and video products remain soft, sales of digital technology continue to accelerate. The replacement of existing analog technology with digital products in the future represents a significant opportunity for the Company, although the transition could impact sales of current products. Manufacturers have introduced High Definition Television (HDTV), and broadcast transmission of digital signals is planned in 10 major markets beginning in November 1998. Similar to recent technology introductions in consumer electronics, introductory price points are expected to be high, resulting in a lag time between product introduction and significant sales volumes. The Company sells consumer electronics with brand names such as Aiwa, Bose, Cambridge Soundworks, Eosone, General Electric, Infinity, JBL, JVC, Magnavox, Nakamichi, Panasonic, Pioneer, RCA, Sanyo, Samsung, Sharp, Sony, Technics, Toshiba and Yamaha.

Best Buy's entertainment software category includes compact discs, pre-recorded audio and video cassettes, computer software and video game hardware and software. The Company is one of the few large consumer electronics retailers that sells a broad selection of entertainment software in all of its stores. The Company offers from 7,000 to approximately 40,000 titles in its largest Concept III stores. Due to the slow rate of inventory turn of some of the deep catalogue recorded music titles, the Company narrowed its assortment of recorded music in fiscal 1998 to improve inventory productivity. This reduction in titles occurred primarily in the 45,000 and 58,000 square foot stores. Best Buy will continue to customize a portion of the music software assortment for particular stores. The increase in sales of DVD players in fiscal 1998 and significant expansion of the number of movie titles available in DVD format led to growth in the entertainment software category. Further growth is anticipated in fiscal 1999 as the number of movie titles is expected to increase to 1,500 by the end of calendar 1998. The Company will be allocating additional space in the stores to accommodate the wider selection. The video game hardware and software products include popular games by manufacturers such as Sony and Nintendo. Activity in this category is impacted by changes in technology such as, for example, the introduction of the Sony Playstation and Nintendo 64 formats in the second half of fiscal 1997.

The major appliance category includes microwave ovens, washing machines, dryers, air conditioners, dishwashers, refrigerators, freezers, ranges and vacuum cleaners. During fiscal 1998 this category included brand names such as Amana, Eureka, Frigidaire, General Electric, GE Profile, Hoover, Hotpoint, Maytag, Panasonic, Roper, Sanyo, Sharp, Tappan and White-Westinghouse. The addition of the Whirlpool line of appliances in fiscal 1999 is expected to complete the Company's product assortment and increase the Company's market share in the appliance retailing industry.

The Company also sells cameras and other photographic equipment and ready to assemble furniture designed for use with computer and audio/video equipment. In fiscal 1998, the Company utilized a portion of the space created by the reduction in recorded music to introduce books, magazines and fitness equipment to its product assortment.

The Company intends to continue test marketing and evaluating new products in its larger stores during fiscal 1999. While some of the products to be tested may not fit in the Company's four major product categories, they will be items that appeal to the demographics of the Company's existing customer base.

The following table sets forth the approximate percentages of store sales from each of Best Buy's principal product lines.

	Fiscal Years Ended		
	March 2, 1996	March 1, 1997	February 28 1998
Home Office	41%	39%	38%
Consumer Electronics:			
Video	18	17	15
Audio	13	12	11
Entertainment Software	17	18	20
Major Appliances	7	9	9
Other (1)	4	5	7
Total	100%	100%	100%

(1) Includes, among other things, photographic equipment, blank audio and video tapes, furniture and accessories and performance service plans.

Store Locations and Expansion

The Company's expansion strategy generally has been to enter major metropolitan areas with the simultaneous opening of several stores and then to expand into contiguous non-metropolitan markets. Currently, approximately one-third of the Company's stores are in non-metropolitan markets. The entry into a new market is preceded by a detailed market analysis which includes a review of competitors, demographics and economic data. Best Buy's store location strategy enables it to increase the effectiveness of advertising expenditures and to create a high level of consumer awareness. In addition, the clustering of stores allows the Company to maintain more effective management control, enhance asset utilization, and utilize its distribution facilities more efficiently.

When entering a major metropolitan market, the Company establishes a district office, service center and major appliance warehouse. Each new store requires approximately $3 million of working capital, depending on the size of the store, for merchandise inventory (net of vendor financing), leasehold improvements, fixtures and equipment. Pre-opening costs of approximately $300,000 per store are incurred in hiring and training new employees and in advertising, and have been expensed in the year the store is opened.

During fiscal 1998, the Company opened 13 stores, and expanded or relocated five stores to larger facilities. Based on the Company's improved financial performance in fiscal 1998 Best Buy is increasing its store expansion program in fiscal 1999. The Company expects to open 25 new stores in fiscal 1999, which includes entry into markets of Nashville and Knoxville, Tennessee; Wausau, Wisconsin; Charleston, South Carolina; Reno, Nevada; and the New England states. The remainder of the new stores will be opened in existing markets. The Company also plans to expand or relocate another five stores in fiscal 1999. With the planned opening of the Dinuba, California distribution center, the Company believes it has the necessary distribution capacity and management information systems as well as management experience and depth to support its fiscal 1999 expansion plans.

The following table presents the number and location of stores operated by the Company at the end of each of the last three fiscal years and anticipated stores at fiscal 1999 year end.

	Number of Stores at Fiscal Year End			Planned For Fiscal	Anticipated at Fiscal 1999
	1996	1997	1998	1999	Year End
Texas	34	34	35	1	36
Illinois	32	32	32	--	32
California	19	22	24	4	28
Florida	12	17	19	2	21
Ohio	18	18	19	--	19
Michigan	16	16	17	--	17
Minnesota	15	15	14	--	14
Wisconsin	11	11	11	1	12
Georgia	10	10	10	--	10
Maryland	8	9	9	1	10
Missouri	10	10	10	--	10
Pennsylvania	--	4	9	1	10
Arizona	7	8	8	--	8
Colorado	7	8	8	--	8
Indiana	8	8	8	--	8
North Carolina	7	7	7	1	8
Virginia	6	7	7	--	7
Tennessee	--	1	1	5	6
Iowa	5	5	5	--	5
Kansas	5	5	5	--	5
South Carolina	4	4	4	1	5
New Jersey	--	3	4	--	4
Arkansas	3	3	3	--	3
Massachusetts	--	--	--	3	3
Nebraska	3	3	3	--	3
Nevada	1	2	2	1	3
New Hampshire	--	--	--	3	3
Oklahoma	3	3	3	--	3
Kentucky	2	2	2	--	2
Alabama	1	1	1	--	1
Delaware	1	1	1	--	1
Maine	--	--	--	1	1
New Mexico	1	1	1	--	1
North Dakota	1	1	1	--	1
South Dakota	1	1	1	--	1
Total	251	272	284	25	309

Suppliers, Purchasing and Distribution

The Company's marketing strategy depends, in part, upon its ability to offer a meaningful selection of name brand products to its customers and is, therefore, dependent upon satisfactory and stable supplier relationships. In fiscal 1998, Best Buy's 20 largest suppliers accounted for approximately 55% of the merchandise purchased by the Company, with five suppliers, Compaq, Hewlett-Packard, Packard Bell, Panasonic, and Sony representing approximately 28% of the Company's total purchases. The loss of or disruption of supply, including disruptions in supply due to manufacturers' product quality issues, from any one of these major suppliers could have a material adverse effect on the Company's sales. Certain suppliers have, at times, limited or discontinued their supply of products to the Company. Best Buy generally does not have long-term written contracts with its major suppliers and does not currently have any indication that any current suppliers will discontinue selling merchandise to the Company. The Company has not experienced difficulty in maintaining satisfactory sources of supply, and management expects that adequate sources of supply will continue to exist for the types of merchandise sold in its stores.

Best Buy's centralized buying staff purchases substantially all of the Company's merchandise. The buying staff within the Company's Marketing Department is responsible for product acquisition, promotion planning and product pricing. An inventory management staff in the Marketing Department is responsible for overall inventory management including allocations of inventory and replenishment of store inventory. Generally, with the exception of certain entertainment software, there are no agreements with suppliers for the return of unsold inventory. Merchandise remaining at the time of new product introduction is generally sold on a close-out basis and may be subject to a reduction in selling price to levels at or below the Company's cost. Revenues from the sale of close-out merchandise have been insignificant.

The Company has made product availability a high priority and continues to make investments in facilities, personnel and systems to assure that its in-stock position will be among the highest in the industry. The Company utilizes an automatic replenishment system for restocking its stores and is able to deliver products to its stores as required. Replenishment of store inventories is based on inventory levels, historical and projected sales trends, promotions and seasonality. The Company utilizes an extensive merchandise planning and daily inventory monitoring system to manage inventory turns. The Company engaged Andersen Consulting LLP in fiscal 1998 to assist in the design and implementation of systems and practices to improve the Company's assortment planning, inventory management, product sourcing and advertising effectiveness.

The majority of the Company's merchandise, except for major appliances, is shipped directly from manufacturers to the Company's distribution centers in California, Ohio, Minnesota, Oklahoma and Virginia. In addition, the Company operates a dedicated distribution center for entertainment software in Minnesota. Major appliances are shipped to satellite warehouses in each of the Company's major markets. In order to meet release dates for selected computer products and entertainment software titles, certain merchandise is shipped directly to the stores from manufacturers and distributors. The Company is, however, dependent upon the distribution centers for inventory storage and shipment of most merchandise to stores. The Company primarily uses contract carriers to ship merchandise from its distribution centers to its stores. During fiscal 1999, the Company is constructing a 650,000 square foot distribution center in Dinuba, California replacing an existing leased facility in Ontario, California. The Company expects to obtain long term financing on the facility after its anticipated opening in Spring 1999. The Company believes that its distribution centers can most effectively service stores within a 600 to 700 mile radius and that its current distribution centers will accommodate the Company's expansion plans for the next year. The Company plans to continue investing in new systems and purchasing material handling equipment to reduce labor costs, improve accuracy in filling orders and enhance space utilization.

Management Information Systems

Best Buy has developed proprietary software that provides daily information on sales, gross margins and inventory levels by store and by stockkeeping unit. These systems allow the Company to compare current performance against historical performance and the current year's budget. Best Buy uses point-of-sale bar code scanning from which sales information is polled at the end of each day. The Company uses EDI (Electronic Data Interchange) with selected suppliers for the more efficient transmittal of purchase orders, shipping notices and invoices. The Company believes that the systems it has developed have the ability to continue to improve customer service, operational efficiency, and management's ability to monitor critical performance factors. Best Buy is continuing to make investments in designing new systems, modifying existing systems and increasing processing capacity, particularly with respect to inventory management.

The Company has identified critical operational and financial systems as part of a comprehensive plan to address Year 2000 computer systems issues and make the required changes to existing systems or replace non-compliant systems, as appropriate. The Company is also working with its business partners to mitigate the impact of Year 2000 issues. The Company expects to complete most of the effort to address these issues in fiscal 1999 at a cost of approximately $10 million. The Company is also replacing its point of sale system with Year 2000 compliant equipment. The Company does not expect to incur material costs beyond this estimate; however, the magnitude of the effort is difficult to accurately predict and there can be no assurance that the Company or its business partners will be completely Year 2000 compliant on a timely basis.

Store Operations

Best Buy has developed a standardized and detailed system for operating its stores. The system includes procedures for inventory management, transaction processing, customer relations, store administration and merchandise display. The Company's store operations are organized into divisions. Each division is divided into regions and is under the supervision of a senior vice president who oversees store performance through several regional managers, each of whom has responsibility for a number of districts within the region. District managers monitor store operations closely and meet regularly with store managers to discuss merchandising and new product introductions, sales promotions, customer feedback and requests and store operating performance. Similar meetings are conducted at the corporate level with divisional and regional management. A senior vice president of retail operations has overall responsibility for retail store processing and operations. Each district also has a loss prevention manager, with product security controllers employed at each store to control inventory shrinkage. Advertising, pricing and inventory policies are controlled at corporate headquarters. The Company's training, consumer affairs, human resources and store merchandising functions are also centralized at corporate headquarters.

The Company's stores are open seven days and six evenings a week. A store is typically staffed by one manager, four assistant managers, and an average staff ranging from 70 to 140 persons depending on store size. Approximately 60% of a store's staff, which includes product specialists and a support staff of cashiers and customer service and stock handling employees, is employed on a part-time basis. Store managers are paid a salary and have the opportunity to earn bonuses if their stores exceed sales and gross margin quotas, meet certain budget criteria in controlling expenses, and achieve certain administrative goals.

The Company has an employee development department which provides managers with a variety of tools to teach employees the core skills they need to meet their performance objectives. In the stores, Sales, Inventory, Operations and Merchandising managers undergo comprehensive training in their specialty areas, which include store operations, selling, managerial, training and communications skills. The retail selling and sales support teams receive a thorough orientation to the Company's industry and its business objectives. Sales personnel are trained to ask specific questions of customers to determine their needs and to present products, accessories and services that meet those expressed needs. Stores hold monthly "team meetings" to review store performance, Company focus and changes and modifications in operating procedures. Specialized product training is also conducted at these monthly meetings. The Company's policy is to staff store management positions with personnel promoted from within each store and to staff new stores from its pool of trained managers. However, as Best Buy expands into new markets, it also recruits local management personnel who have valuable knowledge about the new market.

Credit Policy

Approximately 35% of store revenues are paid for in cash, with the remainder paid for by either major credit cards or the Best Buy private label credit card. In recent years, the Company has utilized special financing offers to stimulate sales. Generally, these financing offers allow customers to purchase certain products with repayment terms ranging from 90 days to one year without a finance charge. The longer financing offers, generally those beyond six months, typically require minimum monthly payments to avoid the finance charge. The special financing offers are only provided to customers who qualify for Best Buy's private label credit card. The private label credit card allows these customers to obtain financing on purchases of merchandise at Best Buy stores through arrangements between the Company and independent banks and consumer credit programs. The Company is generally able to qualify a new customer for credit on the spot, typically in less than five minutes. Receivables from private label credit card sales are sold, without recourse to the Company, to unaffiliated third party institutions. The Company receives payment from these institutions within 2 to 3 days following the sale.

Competition

Retailing in each of the Company's product categories is highly competitive. The overall growth in the consumer electronics business has slowed in recent years and the concentration of sales among the top retailers in the industry has increased. The industry's consolidation has been evidenced in recent years by the liquidation and consolidation of a number of competitors, including the closing of Tandy Corp.'s Incredible Universe stores and selected Computer City stores, stores operated by Musicland and Montgomery Ward and store closures by other national and regional chains in fiscal 1998. The flat industry sales are due to market saturation for many consumer electronics products and the general absence, until recently, of new products in that market. The dollar volume growth of sales nationally in the home office product category has slowed as average selling prices decline and household penetration increases. The Company competes with an increasing number of retailers and alternative channels of distribution such as mail order and internet shopping services. The Company is currently testing a "configure to order" sales process to compete for the business of the most knowledgeable home office computer buyers. In addition, the Company believes that consumers continue to become more knowledgeable and value conscious, thereby putting pressure on profit margins. Management believes that its store format distinguishes the Company from most of its competitors by offering customers a friendlier and less pressured shopping experience. In addition, the Company competes by aggressively advertising and emphasizing a meaningful product selection, low prices, financing alternatives and service.

Best Buy competes in most of its markets against Circuit City, Sears and Montgomery Ward and in selected markets against computer superstores such as Computer City and CompUSA and entertainment software superstores operated by Musicland and Tower Records. Certain of these competitors have significantly greater financial resources than the Company. The Company also competes against independent dealers, discount stores, wholesale clubs, office products superstores and mass merchandisers.

Employees

As of February 28, 1998, the Company employed approximately 39,000 persons, of whom approximately 19,500 were part-time or seasonal employees. The Company has never experienced a strike or work stoppage, and management believes that its employee relations are good. There are currently no collective bargaining agreements covering any of the Company's employees.

Item 2. PROPERTIES

The Company's stores, most of which are leased, include sales space, inventory storage, management offices and employee areas. All of the leases provide for a fixed minimum rent with scheduled escalation dates and amounts. Leases for six of the stores have a percentage rent provision equal to from .75% to 4% of gross sales at each location in excess of certain specified sales amounts. The initial terms of the leases range from 5 to 20 years and generally allow the Company to renew for up to three additional five-year terms. The terms of a majority of the leases, including renewal options, extend beyond the year 2020. At February 28, 1998, the Company owned one of its operating retail store locations. Management expects to sell and lease back this property in fiscal 1999.

The Company leases over 3 million square feet of distribution facilities including brown goods centers in Bloomington, Minnesota; Ardmore, Oklahoma; Staunton, Virginia; Ontario, California; and Findlay, Ohio, and a software distribution center in Edina, Minnesota. The Company also operates leased satellite warehouses for major appliances in its major markets. The Company's corporate offices are located in a 290,000 square foot facility it owns in Eden Prairie, Minnesota.

Item 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings arising during the normal course of conducting business. The resolution of those proceedings is not expected to have a material impact on the Company's financial condition.

THE EXECUTIVE OFFICERS OF THE REGISTRANT ARE AS FOLLOWS:

NAME	AGE	POSITION WITH COMPANY	YEARS WITH THE COMPANY
Richard M. Schulze	57	Chairman, Chief Executive Officer and Director	31
Bradbury H. Anderson	48	President, Chief Operating Officer and Director	24
Allen U. Lenzmeier	54	Executive Vice President and Chief Financial Officer	13
Wade R. Fenn	39	Executive Vice President - Marketing	17
Julie M. Engel	37	Senior Vice President - Advertising	16
Robert C. Fox	47	Senior Vice President - Finance and Treasurer	12
Kevin P. Freeland	40	Senior Vice President - Inventory Management	2
Marc D. Gordon	37	Senior Vice President - MIS & Chief Information Officer	-
Wayne R. Inouye	45	Senior Vice President - Marketing, Computers and Home Office	2
Michael P. Keskey	43	Senior Vice President - Sales	10
Richard L. Lewis	58	Senior Vice President - Human Resources	-
George Z. Lopuch	48	Senior Vice President - Strategic Planning & Development	-
Joseph T. Pelano	50	Senior Vice President - Retail Store Operations	9
Lowell W. Peters	57	Senior Vice President - Services	-
Philip J. Schoonover	38	Senior Vice President - Marketing, Consumer Electronics	3
Kenneth R. Weller	49	Senior Vice President - Sales	4

RICHARD M. SCHULZE is a founder of the Company. He has served as an officer and director of the Company from its inception in 1966 and currently serves as its Chairman and Chief Executive Officer.

BRADBURY H. ANDERSON has been the Company's President and Chief Operating Officer since April 1991. He has been employed in various other capacities with the Company since 1973, including retail salesperson, store manager and sales manager. Mr. Anderson has been a Director of the Company since 1986.

ALLEN U. LENZMEIER was promoted to his present position in April 1991 after having served as Senior Vice President - Finance and Operations and Treasurer of the Company from 1986. Mr. Lenzmeier joined the Company in 1984 and has also served as Vice President - Finance and Operations and Treasurer.

WADE R. FENN was promoted to his present position in August 1995, having served as a Sr. Vice President - Sales since 1991 and a Regional Vice President of the Company from 1987. Mr. Fenn joined the Company in 1980 as a salesperson and has also been employed by the Company as a store and district manager.

JULIE M. ENGEL was promoted to her present position in April 1995. Ms. Engel joined the Company in July 1981 as Advertising Manager, was promoted to Advertising Director in 1984 and became Vice-President - Advertising in April 1987.

ROBERT C. FOX was promoted to his present position in April 1994, after having served as Vice President - Accounting since 1987 and Treasurer since 1993. Mr. Fox joined the Company in 1985 as Controller.

KEVIN R. FREELAND was promoted to his present position in April 1997, after having served as Vice President - Inventory Management since 1995. Prior to joining Best Buy, Mr. Freeland spent more than eight years with Payless Shoe Source, where he held various positions in merchandise management, most recently as Vice President of Merchandise Distribution.

MARC D. GORDON joined the Company in April 1998 as Senior Vice President - MIS & Chief Information Officer. Mr. Gordon brings 13 years experience in the retail information systems area most recently as CIO for West Marine Products, a West Coast-based specialty retailer/wholesaler of marine products. Other positions have included senior manager with Andersen Consulting, principal with a Boston IS consulting firm and Vice President of Information Systems with the Timberland Company.

WAYNE R. INOUYE joined the Company in September 1995 as Senior Vice President - Marketing for Computers and Home Office. Prior to joining the Company, Mr. Inouye was with The Good Guys! for 10 years, most recently as Vice President of Merchandising.

MICHAEL P. KESKEY was promoted to his present position in April 1997, having served as Vice President - Sales since 1996. Mr. Keskey joined the Company in 1988 and has held positions as a Store Manager, District Manager and Regional Manager.

RICHARD L. LEWIS joined the Company in July 1997 as Senior Vice President - Human Resources. Mr. Lewis' career history includes 12 years with Limited Express where he held various positions, most recently as Executive Vice President of Human Resources. Lewis also served as Vice President of Human Resources for the car rental divisions of Republic Industries.

GEORGE Z. LOPUCH joined the Company in March 1998 as Senior Vice President
- Strategic Planning & Development. Mr. Lopuch brings to Best Buy more than 18 years of retail industry

experience. Most recently he served as Senior Vice President of Corporate Strategic Planning and Research at SuperValu.

JOSEPH T. PELANO was promoted to his present position in April 1997, having served as Vice President - Retail Store Operations since 1996. Mr. Pelano joined the Company in 1989 as Regional Operations Manager.

LOWELL W. PETERS joined the Company in September 1997 as Senior Vice President - Service. Mr. Peters' career spans 34 years with Sears, where he held various positions in their service organization, most recently as Vice President Parts, Product Services.

PHILIP J. SCHOONOVER joined Best Buy in May 1995 and was promoted to Senior Vice President - Marketing for Consumer Electronics and Appliances. Mr. Schoonover's background includes more than eight years as Vice President of Sales for the eastern region of Sony Corp. of America. Prior to joining the Company, he was Executive Vice President for TOPS Appliance City for five years.

KENNETH R. WELLER joined the Company in May 1993. Since 1986, he was Vice President of Sales with The Good Guys!, a San Francisco-based consumer electronics retailer where he had worked since 1982.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption "Common Stock Prices" on page 22 of the Annual Report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Selected Consolidated Financial and Operating Data" on page 17 of the Annual Report is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 18 through 22 of the Annual Report is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item, listed below, are contained in the Annual Report on the pages thereof indicated, and are expressly incorporated herein by this reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Nominees and Directors" on pages 4 through 8 of the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" on pages 9 through 16 of the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 4 through 6 of the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the captions "Nominees and Directors" and "Certain Transactions" on pages 6 through 8 of the Proxy Statement is incorporated herein by reference.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements:

All financial statements of the Registrant as set forth under Item 8 of this Report.

2. Financial Statement Schedules:

No schedules have been included since they are either not applicable or the information is included elsewhere herein.

3. Exhibits:

Number	Description	Method of filing
3.1	Amended and Restated Articles of Incorporation, as amended	(3)
3.2	Certificate of Designation with respect to Best Buy Series A Cumulative Convertible Preferred Stock, filed November 1, 1994	(2)
3.3	Amended and Restated By-Laws, as amended	(2,4,5,9)
4.1	Note Purchase Agreement with Principal Mutual Life Insurance Company, dated as of July 30, 1992	(6)
4.2	Amended and Restated Credit Agreement with First Bank National Association dated May 13, 1997	(12)
4.3	Indenture between Best Buy Co., Inc. and Mercantile Bank of St. Louis N.A. relating to $150,000,000 8-5/8% Senior Subordinated Notes due 2000, dated as of October 12, 1993	(3)
4.4	Amended and Restated Agreement of Limited Partnership of Best Buy Capital, L.P., dated as of November 3, 1994	(2)
4.5	Indenture between Best Buy, Best Buy Capital, L.P., and Harris Trust and Savings Bank relating to $288,227,848 6-1/2% Convertible Subordinated Debentures due 2024, dated as of November 3, 1994	(2)
4.6	Guarantee Agreement related to 6-1/2% Convertible Monthly Income Preferred Securities of Best Buy Capital, L.P., dated November 3, 1994	(2)
4.7	Deposit Agreement with respect to Best Buy Series A Cumulative Convertible Preferred Stock, dated November 3, 1994	(2)
10.1	1987 Employee Non-Qualified Stock Option Plan, as amended	(7)

10.2	1987 Directors' Non-Qualified Stock Option Plan, as amended	(2)
10.3	Best Buy Co., Inc. Deferred Compensation Plan	(11)
10.4	Resolutions of the Board of Directors dated April 24, 1998 amending the bonus program for senior officers	(10)
10.5	1997 Employee Non-Qualified Stock Option Plan, as amended	(10)
10.6	1997 Directors' Non-Qualified Stock Option Plan	(8)
10.7	Amended and Restated 1994 Full-Time Employee Non-Qualified Stock Option Plan	(8)
13.1	1998 Annual Report to Shareholders	(1)
21.1	Subsidiaries of the Registrant	(1)
23.1	Consent of Ernst & Young LLP	(1)
27.1	1998 Fiscal Year End Financial Data Schedule	(1)
27.2	1998 Fiscal Quarters 1, 2 and 3 Financial Data Schedules	(1)
27.3	1997 Fiscal Year End and Fiscal Quarters 1, 2, and 3 Financial Data Schedules	(1)
27.4	1996 Fiscal Year End Financial Data Schedule	(1)

(1) Document is filed herewith.

(2) Exhibits so marked were filed with the Securities and Exchange Commission on May 23, 1995, as exhibits to the Form 10-K of Best Buy Co., Inc. and are incorporated herein by reference and made a part hereof.

(3) Exhibits so marked were filed with the Securities and Exchange Commission on May 20, 1994, as exhibits to the Form 10-K of Best Buy Co., Inc. and are incorporated herein by reference and made a part hereof.

(4) Exhibit so marked was filed with the Securities and Exchange Commission on November 12, 1991, as an exhibit to the Registration Statement on Form S-3 (Registration No. 33-43065) of Best Buy Co., Inc., and is incorporated herein by reference and made a part of hereof.

(5) Exhibit so marked was filed with the Securities and Exchange Commission on January 13, 1992, as an exhibit to Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(6) Exhibits so marked were filed with the Securities and Exchange Commission on October 12, 1992, as exhibits to Form 10-Q of Best Buy Co., Inc., and are incorporated herein by reference and made a part hereof.

(7) Exhibits so marked were filed with the Securities and Exchange Commission on May 29, 1996, as exhibits to the Form 10-K of Best Buy Co., Inc., and are incorporated herein by reference and made a part hereof.

(8) Exhibits so marked were filed with the Securities and Exchange Commission on May 12, 1997, as exhibits to the definitive Proxy Statement of Best Buy Co., Inc., and are incorporated herein by reference and made a part hereof.

(9) Exhibits so marked were filed with the Securities and Exchange Commission on May 28, 1997, as exhibits to the Form 10-K of Best Buy Co., Inc., and are incorporated herein by reference and made a part hereof.

(10) Exhibits so marked were filed with the Securities and Exchange Commission on April 30, 1998, as exhibits to the preliminary Proxy Statement of Best Buy Co., Inc., and are incorporated herein by reference and made a part hereof.

(11) Exhibit so marked was filed on April 3, 1998, as an exhibit to the Registration Statement on Form S-8 (Registration No. 333-49371) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(12) Exhibit so marked was filed with the Securities and Exchange Commission on July 11, 1997, as an exhibit to Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K under the Securities Act of 1933, the Registrant has not filed as exhibits to the Form 10-K certain instruments with respect to long-term debt under which the amount of securities authorized does not exceed 10 percent of the total assets of the Registrant. The Registrant hereby agrees to furnish copies of all such instruments to the Commission upon request.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ Richard M. Schulze
Chief Executive Officer

Dated: May 27, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on May 27, 1998.

/s/ Richard M. Schulze *Richard M. Schulze*	*Chairman, Chief Executive Officer and Director (principal executive officer)*
/s/ Bradbury H. Anderson *Bradbury H. Anderson*	*President, Chief Operating Officer and Director*
/s/ Allen U. Lenzmeier *Allen U. Lenzmeier*	*Executive Vice President and Chief Financial Officer (principal financial officer)*
/s/ Robert C. Fox *Robert C. Fox*	*Sr. Vice President - Finance and Treasurer (principal accounting officer)*
Culver Davis, Jr.	Director
Yvonne R. Jackson	Director
/s/ Elliot S. Kaplan Elliot S. Kaplan	Director
/s/ David Stanley David Stanley	Director
/s/ Frank D. Trestman Frank D. Trestman	Director
Hatim A. Tyabji	Director
James C. Wetherbe	Director

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA
$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

FISCAL PERIOD(1)	1998	1997	1996	1995	1994(2)
Statement of Earnings Data					
Revenues	$ 8,358,212	$ 7,770,683	$ 7,217,448	$ 5,079,557	$ 3,006,534
Gross profit	1,332,138	1,058,881	936,571	690,393	456,925
Selling, general and administrative expenses	1,145,280	1,005,675	813,988	568,466	379,747
Operating income	186,858	53,206	122,583	121,927	77,178
Earnings before cumulative effect of accounting change	94,453	1,748	48,019	57,651	41,710
Net earnings	94,453	1,748	48,019	57,651	41,285
Per Share Data(3)					
Earnings before cumulative effect of accounting change - Diluted	$ 1.04	$ .02	$ .55	$ .64	$ .51
Net earnings - Diluted	1.04	.02	.55	.64	.50
Common stock price: High	30 19/32	13 1/8	14 13/16	22 5/8	15 23/32
Low	4 5/16	3 15/16	6 3/8	11 1/16	5 27/64
Operating and Other Data					
Comparable store sales change(4)	2%	(5%)	6%	20%	27%
Number of stores (end of period)	284	272	251	204	151
Average revenues per store(5)	$ 29,700	$ 29,300	$ 31,100	$ 28,400	$ 22,600
Gross profit percentage	15.9%	13.6%	13.0%	13.6%	15.2%
Selling, general and administrative expense percentage	13.7%	12.9%	11.3%	11.2%	12.6%
Operating income percentage	2.2%	.7%	1.7%	2.4%	2.6%
Inventory turns(6)	5.6x	4.6x	4.8x	4.7x	5.0x
Balance Sheet Data (at period end)					
Working capital	$ 676,601	$ 567,456	$ 586,841	$ 609,049	$ 362,582
Total assets	2,056,346	1,734,307	1,890,832	1,507,125	952,494
Long-term debt, including current portion	225,322	238,016	229,855	240,965	219,710
Convertible preferred securities	229,854	230,000	230,000	230,000	
Shareholders' equity	557,746	438,315	431,614	376,122	311,444

THIS TABLE SHOULD BE READ IN CONJUNCTION WITH MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AND THE CONSOLIDATED

FINANCIAL STATEMENTS AND NOTES THERETO.

(1) FISCAL 1996 CONTAINED 53 WEEKS. ALL OTHER PERIODS PRESENTED CONTAINED 52 WEEKS.
(2) DURING FISCAL 1994, THE COMPANY ADOPTED SFAS 109, RESULTING IN A CUMULATIVE EFFECT ADJUSTMENT OF ($425) OR ($.01) PER SHARE.
(3) PER SHARE DATA REFLECTS THE REQUIREMENTS OF SFAS 128 AND IS RESTATED FOR A TWO-FOR-ONE STOCK SPLIT IN MAY 1998.
(4) COMPARABLE STORES ARE STORES OPEN AT LEAST 14 FULL MONTHS.
(5) AVERAGE REVENUES PER STORE ARE BASED UPON TOTAL REVENUES FOR THE PERIOD DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF STORES OPEN DURING SUCH PERIOD.
(6) INVENTORY TURNS ARE CALCULATED BASED UPON A MONTHLY AVERAGE OF INVENTORY BALANCES.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Fiscal 1998 was a pivotal year for the Company, as initiatives to improve inventory management and streamline processes at its retail stores resulted in a 251% increase in operating income, compared to fiscal 1997. A significant improvement in the gross profit margin was the main reason for the improved overall financial performance. Sales were 8% higher than the previous year, and selling, general and administrative expenses increased as a percentage of sales. Interest expense, which was lower as a result of faster-turning inventory, also contributed to the Company's overall improvement in results for the year. Earnings in fiscal 1998 were $94.5 million, compared to $1.7 million in fiscal 1997 and $48.0 million in fiscal 1996. Earnings per share on a diluted basis were $1.04 in fiscal 1998, $.02 in fiscal 1997 and $.55 in fiscal 1996 and have been adjusted to reflect a two-for-one stock split in May 1998.

REVENUES

The following table presents selected revenue data for each of the last three fiscal years ($ in thousands).

	1998	1997	1996
Revenues	$ 8,358,212	$ 7,770,683	$7,217,448
Percentage increase in revenues	8%	8%	42%
Comparable store sales change	2%	(5%)	6%
Average revenues per store	$ 29,700	$ 29,300	$ 31,100

Sales in fiscal 1998 were $8.358 billion compared to $7.771 billion in fiscal 1997, as comparable store sales increased 2% and results for the year included 13 new stores and a full year of operations at the 21 stores opened in fiscal 1997. The comparable store sales increase, which followed a 5% decrease in comparable store sales in fiscal 1997, was driven by several factors. Consumer demand, particularly in the second half of the year, as well as improved selling strategies at retail, contributed to improving comparable store sales performance throughout the year. Increased sales of entertainment software due to new technology in video games and consumer demand for new titles in both recorded music and computer software also led to the comparable store sales increase for the year. Increased emphasis on the sale of Performance Service Plans (PSPs), accessories and an expanded "ready-to-assemble" furniture assortment also contributed to the comparable store sales increase. Comparable store sales were adversely impacted by the continued decline in the average selling prices of personal computers and general softness in the consumer electronics category as it approaches the transition to digital technology. Competition also eased somewhat as consolidation of specialty retailers in the Company's product lines continued, although competition from mass merchants and alternative methods of retailing such as mail order and Internet increased. New stores opened in fiscal 1998 included entry into the new market of Pittsburgh, Pennsylvania, with four stores. The remaining stores opened in existing markets. In fiscal 1998 the Company closed one of its 28,000-square-foot stores where the lease had expired.

In the second half of fiscal 1998 the Company introduced a new sales strategy which provides customers with additional sales assistance to help them understand the newer digital technology products. The Company refers to this area of the store as the "high touch" area. In addition to providing enhanced product explanation, the specially trained sales staff dedicated to this area of the store assists customers with service activation and selection of appropriate accessories. Products sold in this area of the store include digital cameras, cellular and digital phones, digital satellite systems and personal digital assistants. As a result of this additional focus on sales assistance, comparable store sales for the products in this area more than doubled in the fourth quarter. Management believes that there is potential future application for this strategy as the consumer electronics category moves toward digital technology.

Fiscal 1997 sales were 8% higher than the $7.217 billion reported in fiscal 1996. Sales from the 21 new stores opened in fiscal 1997 and a full year of operations at the 47 stores opened in fiscal 1996 offset a 5% decline in comparable store sales. The comparable store sales decline in fiscal 1997 was primarily due to the same industry factors in personal computers and consumer electronics that negatively impacted comparable store sales in most of fiscal 1998.

The following table sets forth the Company's retail store sales mix by major product category for each of the past three fiscal years.

	1998	1997	1996
Home Office	38%	39%	41%
Consumer Electronics - Video	15%	17%	18%
Consumer Electronics - Audio	11%	12%	13%
Entertainment Software	20%	18%	17%
Appliances	9%	9%	7%
Other	7%	5%	4%
Total	100%	100%	100%

Sales in the home office category in fiscal 1998 continued to be impacted by lower average selling prices of personal computers. Unit sales of personal computers increased in fiscal 1998 as lower prices brought more consumers into the marketplace, although the increase in units did not offset the 15-20% price declines until the fourth quarter. The percentage of products offered at price points below $1,000 continued to increase through the last half of the year. Improved in-stock positions resulting from better inventory management also helped increase unit volume sales during the year. The Company believes that the higher unit sales volumes of personal computers contributes to the sales of additional products and services such as accessories, PSPs and computer software. Management believes that the downward trend in selling prices of personal computers will continue, although the rate of decline should moderate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The introduction of digital satellite systems (DSS) in fiscal 1997 and Digital Versatile Disc (DVD) and MiniDisc in fiscal 1998 marked the initial stages of the transition of the consumer electronics category into digital technology. While sales of analog technology in both audio and video products remains soft, sales of digital technology continues to accelerate. The growth in sales of digital products has been driven by falling price points and, in the case of DVD, an increasing number of software titles. The number of DVD titles grew from an introductory 23 to more than 500 during fiscal 1998 and is expected to grow to 1,500 by the end of calendar 1998. Sales of DSS benefited from increased emphasis on sales presentation in the new "high touch" area in the store. The replacement of existing analog technology with digital products in the future represents a significant opportunity for the Company, although the transition could impact sales of current products. Manufacturers have introduced High Definition Television (HDTV), and broadcast transmission of digital signals is planned in 10 major markets for November 1998. Similar to recent technology introductions in consumer electronics, introductory price points are expected to be high, resulting in a lag time between product introduction and significant sales volumes.

Sales of entertainment software, which includes recorded music and movies, computer software and video games, increased significantly in fiscal 1998. The increase was principally due to strong demand for video games following the release of new technology in late fiscal 1997 when the Nintendo 64 and Sony Playstation formats were introduced. Increased sales of computer software due to new titles released and a larger installed base of personal computers also contributed to the gains in the entertainment software category. Recorded music releases with higher levels of consumer acceptance also led to sales gains in this category, particularly late in the year.

Sales of major appliances remained relatively flat in fiscal 1998 as competitive pressure during most of the year resulted in falling price points and limited comparable store sales growth. The Company experienced significant comparable store sales growth in fiscal 1997 when the Company greatly expanded its product assortment with the addition of the Amana, General Electric, Hotpoint, Maytag and Tappan lines of appliances. In April 1998, the Company announced that it would begin carrying a full line of Whirlpool home appliances beginning in the second quarter of fiscal 1999.

The "Other" category of product sales includes sales of PSPs, which grew from 1.9% of sales in fiscal 1997 to 3.0% in fiscal 1998. An increased focus on the presentation of plans to customers and the higher sales volumes of personal computers led to the significant increase in PSP sales. Also included in this category is photographic equipment, an expanded assortment of ready-to-assemble furniture, as well as books and magazines and exercise equipment, which were introduced in the stores in the space created by the reduction in the Company's assortment of recorded music in fiscal 1998.

In fiscal 1999 the Company expects that it can continue to capitalize on the operational execution improvements made in the past two years with respect to inventory management and productivity in the retail stores to further improve the Company's sales performance. A continued healthy economy is expected to result in a comparable store sales increase for the year. Comparable store sales gains are expected to be strongest in the early part of the year and moderate in the second half as the comparisons become more difficult. The Company has announced plans to open approximately 25 new stores during the year, the most significant of which is the entry into the New England area with six new stores. The Company has also announced plans to enter Reno, Nevada; Charleston, South Carolina; Wausau, Wisconsin and Nashville and Knoxville, Tennessee. The remaining new stores will be opened in existing markets.

COMPONENTS OF OPERATING INCOME

The following table sets forth selected operating ratios as a percentage of sales for the last three fiscal years.

	1998	1997	1996
Gross profit margin	15.9%	13.6%	13.0%
Selling, general and administrative expenses	13.7%	12.9%	11.3%
Operating income	2.2%	.7%	1.7%

Gross profit margin for fiscal 1998 improved to 15.9% compared to 13.6% in fiscal 1997, a gain that was driven by greatly improved inventory management. Faster inventory turns and a more profitable product assortment were the major contributors to the improvement. Through more rapid replenishment of products, the Company increased inventory turns from 4.6 to 5.6 times and reduced exposure to margin pressure due to product model transition. This improvement was most evident in personal computers, where inventory turns increased to 11.5 times compared to 8.5 times in fiscal 1997, moving this significant product category from a profit drain to a significant profit contributor. By employing better product lifecycle management and rapid replenishment, the Company was able to quickly react to changing consumer demand and timing of model transitions. The inability to quickly react to changing market conditions resulted in a $15 million inventory write-down related to personal computers that severely impacted fiscal 1997's operating results. A narrower and more profitable assortment in consumer electronics also led to more current inventory and higher overall rates of gross profit margin in that category. The increased contribution in the Company's sales mix from PSPs also was a significant factor in the improved gross profit margin for the year. A less promotionally driven sales environment benefited the Company, as consumer financing promotions were more selectively used, reducing the costs associated with these offers. A continuing of the trend of improvement in inventory shrink also added to fiscal 1998 gross profit margin gains.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Gross profit margins of 13.6% in fiscal 1997 improved from 13.0% in fiscal 1996 as increased contributions from higher margin PSPs and appliances in the sales mix offset the impact of $25 million in inventory write-downs and a highly promotional environment. The write-downs were primarily due to a rapid decline in the selling prices of personal computers in the third quarter of 1997 and a decision to reduce the Company's assortment of recorded music in the fourth quarter.

Management believes that further refinement in the Company's product assortment, product lifecycle management and replenishment of products will result in additional improvement in gross profit margins. Improvement is also anticipated as a result of an increasing contribution from sales of PSPs. The impact of these gains is expected to be less significant than was experienced the past year.

Selling, general and administrative expenses (SG&A) increased to 13.7% of sales in fiscal 1998 compared to 12.9% in fiscal 1997, primarily as a result of higher levels of service and compensation. In addition to driving higher sales volumes, the strength of the economy has created a tight labor market, placing upward pressure on wages. The addition of the dedicated staff in the "high touch" area of the stores also added to the Company's overall payroll costs in fiscal 1998. Also, compensation costs in fiscal 1998 increased over fiscal 1997 as a result of a higher level of compensation tied to the Company's improved financial performance. Professional services associated with the strategic initiatives to improve inventory management and retail operations also contributed to the increased spending in fiscal 1998. Costs associated with information systems enhancements, including addressing Year 2000 issues and initial development of the Company's Internet shopping site, also impacted spending during the year. As a result of the sale and leaseback of 23 owned properties in the past two years, rent expense has also increased, although the sale of these properties reduced interest expense.

The increase in the SG&A expense ratio in fiscal 1997 compared to fiscal 1996 was driven by the loss of leverage on fixed expenses resulting from the comparable store sales decline. Higher costs associated with new markets entered in recent years and higher advertising costs due to a more promotional environment also contributed to the increase.

The strong economy is expected to result in continued pressure on wages, and the Company anticipates that selling, general and administrative expenses will continue to increase as a percent of sales. The annualization of the current year increases in compensation due both to general wage increases and the addition of the dedicated staffing in the "high touch" area in the second half of fiscal 1998 will also increase these expenses. Professional fees associated with the continuation of the Company's strategic initiatives and ongoing information systems enhancements are also expected to increase.

The Company has identified critical operational and financial systems as part of a comprehensive plan to address Year 2000 computer systems issues and make the required changes to existing systems or replace non-compliant systems, as appropriate. The Company is also working with its business partners to mitigate the impact of Year 2000 issues. The Company expects to complete most of the effort to address these issues in fiscal 1999 at a cost of approximately $10 million. The Company is also replacing its point of sale system with Year 2000 compliant equipment. The Company does not expect to incur material costs beyond this estimate; however, the magnitude of the effort is difficult to accurately predict and there can be no assurance that the Company or its business partners will be completely Year 2000 compliant on a timely basis.

Interest expense in fiscal 1998 was $33.0 million, a $17.3 million reduction as compared to fiscal 1997. Faster inventory turns, cash generated from earnings and lower levels of owned real estate resulted in essentially no borrowings during the year under the Company's revolving credit facility. The expected conversion of the Company's convertible preferred securities in the first quarter of fiscal 1999 will reduce interest expense by approximately $15 million annually.

The Company's income tax rate in fiscal 1998 was 38.6%, compared to 39.0% in fiscal 1997 and 39.2% in fiscal 1996, as tax exempt interest income and slightly lower state income taxes have reduced the Company's overall tax rate.

LIQUIDITY AND CAPITAL RESOURCES

In addition to the positive impact on gross profit margin, the Company's progress in inventory management led to a significant improvement in the Company's financial position and liquidity. The Company's cash and cash equivalents increased by $430 million over the prior year. Cash flow from operating activities of $542 million and a $45 million reduction in owned property held for sale resulted in the increased liquidity. At the end of fiscal 1998, the Company had $520 million in cash and short-term investments, compared to $90 million at the end of fiscal 1997.

The following table indicates the number of stores, by prototype, operated by the Company at the end of the last three fiscal years.

STORE PROTOTYPE	1998	1997	1996
28,000 square feet	48	54	61
36,000 square feet	34	34	36
45,000 square feet	150	132	112
58,000 square feet	52	52	42
Total number of stores at year end	284	272	251
Average store size (in square feet)	43,200	42,800	41,400

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Inventories at the end of fiscal 1998 were $1.06 billion, a decline of $71 million as compared to the end of fiscal 1997 and $140 million below fiscal 1996 year end. The lower levels of inventory, which includes the addition of 33 stores in the past two years, is the result of a faster turning assortment of products.

Trade receivables at the end of fiscal 1998 were $95.7 million, an increase of $16.1 million compared to the prior year end, principally due to the significant increase in volume in the fourth quarter of fiscal 1998, as comparable store sales increased 17% in that period. Trade receivables include primarily credit card and vendor-related receivables. Receivables from sales on the Company's private label credit card are sold to third parties, without recourse, and the Company does not bear any risk of loss with respect to these receivables. Refundable and deferred income taxes decreased as a result of the increase in the Company's taxable income in fiscal 1998. Trade payables, including those classified as financing obligations, increased as compared to the prior fiscal year end due to the higher volume of purchases supporting the fiscal 1998 fourth-quarter sales levels and the improved inventory turns. Accrued liabilities increased compared to the prior year end as a result of expenses associated with various strategic initiatives, compensation related to the improved financial performance of the Company and the higher levels of business activity.

Deferred revenues related to extended service contracts recognized in fiscal 1998 were $24.6 million compared to $30.8 million in fiscal 1997, as the deferral continues to decline following the Company's decision to insure these obligations, beginning in the fourth quarter of fiscal 1996. Revenues from that time forward are recognized at the time of sale, rather than over the life of the contract. Other long-term liabilities primarily include real estate-related expenses for the difference between the recognition of rent expense for accounting purposes and the terms of the leases.

Capital spending in fiscal 1998 was $72 million compared to $88 million in fiscal 1997 and $126 million in fiscal 1996. The slower rate of store expansion in fiscal 1998 resulted in a lower level of capital spending as compared to the preceding years. In addition to the 13 new stores and five remodeled or relocated stores in fiscal 1998, the Company completed a number of merchandising projects, including the reduction in square footage allocated to the assortment of recorded music and the addition of the new "high touch" area in the stores. In fiscal 1998, the Company also purchased approximately $10 million in equipment that had been leased through the Company's master lease facility. The purchase of these assets was financed through a $10 million intermediate-term loan. In fiscal 1997 the Company obtained intermediate-term equipment financing totaling $21 million and refinanced its corporate headquarters facility with a $12 million, 15-year mortgage loan.

Recoverable costs from developed properties declined $45 million in fiscal 1998 as store development slowed and improved conditions for the sale of the Company's real estate resulted in the sale and leaseback of essentially all owned operating locations. In the past two years the Company has sold and leased back 22 retail locations and one distribution center which it had developed. In addition to the sale of owned property, in fiscal 1998 the Company secured long-term lease financing of all of the properties in its master lease facility. This facility, which was used to support the development of approximately $125 million of store and distribution center expansion in fiscal 1995 and 1996, had an underlying bank credit facility which was scheduled to mature in September 1998.

In May 1997, the Company reduced the capacity of its revolving credit facility from $550 million to $365 million, based upon lower anticipated usage. The rapid improvement in inventory turns and higher-than-anticipated sales volumes resulted in essentially no borrowings under the facility in fiscal 1998. This facility matures in June 1998. Management intends to have a new $200 to $250 million, 2 year facility in place by the expiration date of the existing facility.

On March 10, 1998, the Company announced that it was exercising its right to cause the conversion rights of the Company's $230 million of preferred securities to expire. These securities pay monthly distributions at an annual rate of 6.5%. Until April 24, 1998, these securities were convertible into the equivalent of approximately 10.2 million shares of the Company's common stock, as adjusted for the two-for-one stock split in May 1998. Through that date, 99% of the securities had been converted resulting in issuance of 10.1 million post-split common shares. The Company has the right to redeem the remaining outstanding preferred securities for $50 in cash per security. As a result of the conversion, shareholders' equity was increased to nearly $780 million.

The acceleration in store growth to 25 stores, a significant investment in information systems and construction of a new distribution facility is expected to increase capital spending in fiscal 1999 to approximately $140 million, exclusive of amounts expected to be recovered through subsequent sales and leasebacks. The new distribution center in Dinuba, California replaces a leased facility. This facility, which will be approximately 650,000 square feet, is expected to open in March 1999. The Company expects that this level of capital growth will be funded through earnings and depreciation. Management also believes that the working capital requirements to support the inventories for the new stores can be funded through the anticipated further improvement in inventory turns.

Management believes that the cash generated by expected results of operations and cash and short-term investments on hand will be sufficient to meet the Company's anticipated needs for the coming year. The expected new revolving credit facility would be available for additional working capital needs or opportunities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

QUARTERLY RESULTS AND SEASONALITY

Similar to most retailers, the Company's business is seasonal. Revenues and earnings are lower during the first half of each fiscal year and are greater during the second half, which includes the holiday selling season. The timing of new store openings and general economic conditions may affect future quarterly results of the Company.

The following table sets forth the Company's unaudited quarterly operating results for each quarter of fiscal 1998 and 1997. Results for the quarter ended Nov. 30, 1996, include a $15 million pre-tax charge related to the write-down of certain inventories, primarily personal computers, to expected net realizable values. Results for the quarter ended March 1, 1997, include a $10 million pre-tax charge mainly as a result of the Company's decision to reduce its assortment of recorded music. Per share amounts are on a diluted basis, and have been restated to reflect SFAS 128.

($ in thousands, except per share amounts)

FISCAL 1998	MAY 31 1997	AUG. 30 1997	NOV. 29 1997	FEB. 28 1998
Revenues	$ 1,606,551	$ 1,793,204	$ 2,106,361	$ 2,852,096
Gross profit	247,883	288,908	337,890	457,457
Operating income	5,216	19,926	52,919	108,797
Net earnings (loss)	(2,639)	6,648	26,418	64,026
Net earnings (loss) per share	(.03)	.07	.29	.65

FISCAL 1997	JUNE 1 1996	AUG. 31 1996	NOV. 30 1996	MARCH 1 1997
Revenues	$ 1,637,184	$ 1,778,640	$ 2,007,324	$ 2,347,535
Gross profit	232,650	251,666	248,768	325,797
Operating income (loss)	12,952	19,684	(3,110)	23,680
Net earnings (loss)	409	3,788	(10,973)	8,524
Net earnings (loss) per share	.01	.04	(.13)	.10

COMMON STOCK PRICES

QUARTER	1ST	2ND	3RD	4TH
FISCAL 1998				
High	$ 7 3/16	$ 8 3/4	$ 15 1/8	$ 30 19/32
Low	4 5/16	5 5/8	8 7/16	14 9/16
FISCAL 1997				
High	$ 11 1/2	$ 13 1/8	$ 11 7/8	$ 7 3/16
Low	8 3/16	8 11/16	6 1/16	3 15/16

Best Buy's common stock is traded on the New York Stock Exchange, symbol BBY. As of March 31, 1998, there were 1,508 holders of record of Best Buy common stock. The Company has not historically paid cash dividends on its common stock.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in the Annual Report are forward-looking statements that involve risks and uncertainties. Such risks and uncertainties include, among other things, the Company's expectations regarding the economy, future sales volumes, profit margins, the impact of labor markets and new product introductions on the Company's overall profitability. Reference is made to the Company's Current Report on Form 8-K, wherein the Company has identified additional important factors that could cause actual results to differ materially from those contemplated by the statements made herein.

PER SHARE AMOUNTS IN THE ABOVE TABLES HAVE BEEN ADJUSTED FOR A TWO-FOR-ONE STOCK SPLIT IN MAY 1998.

CONSOLIDATED BALANCE SHEETS
$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

ASSETS	FEB. 28 1998	MARCH 1 1997
Current Assets		
Cash and cash equivalents	$ 520,127	$ 89,808
Receivables	95,702	79,581
Recoverable costs from developed properties	8,215	53,485
Merchandise inventories	1,060,788	1,132,059
Refundable and deferred income taxes	16,650	25,560
Prepaid expenses	8,795	4,542
Total current assets	1,710,277	1,385,035
Property and Equipment		
Land and buildings	19,977	18,000
Leasehold improvements	160,202	148,168
Furniture, fixtures and equipment	372,314	324,333
Property under capital leases	29,079	29,326
	581,572	519,827
Less accumulated depreciation and amortization	248,648	188,194
Net property and equipment	332,924	331,633
Other Assets	13,145	17,639
Total Assets	$2,056,346	$1,734,307

LIABILITIES AND SHAREHOLDERS' EQUITY	FEB. 28 1998	MARCH 1 1997
Current Liabilities		
Accounts payable	$ 727,087	$ 487,802
Obligations under financing arrangements	35,565	127,510
Accrued salaries and related expenses	48,772	33,663
Accrued liabilities	163,744	122,611
Income taxes payable	24,608	
Deferred service plan revenue	18,975	24,602
Current portion of long-term debt	14,925	21,391
Total current liabilities	1,033,676	817,579
Deferred Income Taxes	7,095	3,578
Deferred Revenue and Other Liabilities	17,578	28,210
Long-Term Debt	210,397	216,625
Convertible Preferred Securities of Subsidiary	229,854	230,000
Shareholders' Equity		

Preferred stock, $1.00 par value:		
Authorized - 400,000 shares;		
Issued and outstanding - none		
Common stock, $.10 par value:		
Authorized - 120,000,000 shares;		
Issued and outstanding 89,252,000		
and 86,574,000 shares, respectively	4,463	4,329
Additional paid-in capital	266,144	241,300
Retained earnings	287,139	192,686
Total shareholders' equity	557,746	438,315
Total Liabilities and Shareholders' Equity	$2,056,346	$1,734,307

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF EARNINGS
$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

FOR THE FISCAL YEARS ENDED	FEB. 28 1998	MARCH 1 1997	MARCH 2 1996
Revenues	$8,358,212	$7,770,683	$7,217,448
Cost of goods sold	7,026,074	6,711,802	6,280,877
Gross profit	1,332,138	1,058,881	936,571
Selling, general and administrative expenses	1,145,280	1,005,675	813,988
Operating income	186,858	53,206	122,583
Interest expense, net	33,005	50,338	43,594
Earnings before income taxes	153,853	2,868	78,989
Income taxes	59,400	1,120	30,970
Net Earnings	$ 94,453	$ 1,748	$ 48,019
Basic Earnings Per Share	$ 1.08	$ .02	$ .56
Diluted Earnings Per Share	$ 1.04	$ .02	$ .55
Basic Weighted Average Common Shares Outstanding (000's)	87,708	86,344	85,240
Diluted Weighted Average Common Shares Outstanding (000's)	100,126	87,246	86,966

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
$ IN THOUSANDS

FOR THE FISCAL YEARS ENDED	FEB. 28 1998	MARCH 1 1997	MARCH 2 1996
Operating Activities			
Net earnings	$ 94,453	$ 1,748	$ 48,019
Charges to earnings not affecting cash:			
Depreciation and amortization	68,330	66,844	54,862
Other	3,254	468	1,267
	166,037	69,060	104,148
Changes in operating assets and liabilities:			
Receivables	(16,121)	41,857	(36,998)
Merchandise inventories	71,271	69,083	(293,465)
Prepaid taxes and expenses	4,657	8,174	(16,273)
Accounts payable	239,285	(186,050)	278,515
Other liabilities	68,103	4,792	63,589
Income taxes	33,759	3,579	(12,004)
Deferred revenue	(24,603)	(30,845)	12,008
Total cash provided by (used in) operating activities	542,388	(20,350)	99,520
Investing Activities			
Additions to property and equipment	(72,063)	(87,593)	(126,201)
Decrease (increase) in recoverable costs from developed properties	45,270	72,752	(40,015)
Decrease (increase) in other assets	4,494	(5,593)	7,712
Total cash used in investing activities	(22,299)	(20,434)	(158,504)
Financing Activities			
(Decrease) increase in obligations under financing arrangements	(91,945)	33,559	12,196
Long-term debt borrowings	10,000	33,542	
Long-term debt payments	(22,694)	(25,694)	(14,600)
Common stock issued	14,869	2,740	3,133
Total cash (used in) provided by financing activities	(89,770)	44,147	729
Increase (Decrease) in Cash and Cash Equivalents	430,319	3,363	(58,255)
Cash and Cash Equivalents at Beginning of Period	89,808	86,445	144,700
Cash and Cash Equivalents at End of Period	$ 520,127	$ 89,808	$ 86,445

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND INDEPENDENT AUDITOR'S REPORT $ IN THOUSANDS

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
Balances at Feb. 25, 1995	$4,221	$228,982	$142,919
Stock options exercised	63	3,070	
Tax benefit from stock options exercised		4,340	
Net earnings			48,019
Balances at March 2, 1996	4,284	236,392	190,938
Stock options exercised	45	2,695	
Tax benefit from stock options exercised		2,213	
Net earnings			1,748
Balances at March 1, 1997	4,329	241,300	192,686
Stock options exercised	134	14,056	
Tax benefit from stock options exercised		10,642	
Conversion of preferred securities		146	
Net earnings			94,453
Balances at Feb. 28, 1998	$4,463	$266,144	$287,139

INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors
Best Buy Co., Inc.

We have audited the accompanying consolidated balance sheets of Best Buy Co., Inc. as of February 28, 1998, and March 1, 1997, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Best Buy Co., Inc. at February 28, 1998, and March 1, 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 1998, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 31, 1998

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES DESCRIPTION OF BUSINESS:
The Company operates in a single business segment, selling personal computers and other home office products, consumer electronics, entertainment software, major appliances and related accessories through its retail stores.

BASIS OF PRESENTATION:
The consolidated financial statements include the accounts of Best Buy Co., Inc. and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS:
The Company considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

RECOVERABLE COSTS FROM DEVELOPED PROPERTIES:
The costs of acquisition and development of properties which the Company intends to sell and lease back or recover from landlords within one year are included in current assets.

MERCHANDISE INVENTORIES:
Merchandise inventories are recorded at the lower of average cost or market.

PROPERTY AND EQUIPMENT:
Property and equipment are recorded at cost. Depreciation, including amortization of property under capital leases, is computed on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the shorter of the estimated useful lives or lease terms. The Company evaluates potential losses on impairment of long-lived assets used in operations on a location by location basis when indicators of impairment are present. A loss is recorded when an asset's carrying value exceeds the undiscounted cash flows from the asset.

PRE-OPENING COSTS:
Costs incurred in connection with the opening of new stores are expensed in the year the store is opened. Pre-opening costs were $3,500, $5,800 and $10,700 in fiscal 1998, 1997 and 1996, respectively.

ADVERTISING COSTS:
Advertising costs, included in selling, general and administrative expenses, are expensed as incurred.

DEFERRED SERVICE PLAN REVENUE:
Beginning in the fourth quarter of fiscal 1996, the Company began selling Performance Service Plans on behalf of an unrelated third party. The Company recognizes commission revenue on the sale of the plans at the time of sale. Revenue from the sale of the plans sold prior to November 26, 1995, net of direct selling expenses, is recognized straight-line over the life of the plan. Costs related to servicing these plans are expensed as incurred.

EARNINGS PER SHARE:
The Company has adopted and retroactively applied the requirements of Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" to all periods presented. This change did not have a material impact on the computation of the earnings per share data.

Basic earnings per share is computed based on the weighted average number of common shares outstanding during each period. Diluted earnings per share includes the incremental shares assumed issued on the exercise of stock options and assumes that the convertible preferred securities are converted into common stock and the interest expense thereon, net of related taxes, is added back to net earnings when such conversion results in dilution All common share and per share information has been adjusted to reflect a two-for-one stock split in May 1998.

STOCK OPTIONS:
The Company applies APB 25, "Accounting for Stock Issued to Employees" in accounting for stock options and presents in Note 5 pro forma net earnings as if the accounting prescribed by SFAS123 "Accounting for Stock-Based Compensation" had been applied.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS:
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the balance sheet and statement of earnings, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates.

FISCAL YEAR:
The Company's fiscal year ends on the Saturday nearest the end of February. Fiscal 1998 and 1997 contained 52 weeks, and fiscal 1996 contained 53 weeks.

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

2. OBLIGATIONS UNDER FINANCING ARRANGEMENTS The Company has a $200,000 inventory financing credit line, which increases to $325,000 on a seasonal basis. Borrowings are collateralized by a security interest in certain merchandise inventories approximating the outstanding borrowings. The terms of this arrangement allow the Company to extend the due dates of invoices beyond their normal terms. Amounts extended generally bear interest at a rate approximating the prime rate. The line has provisions that give the financing source a portion of the cash discounts provided by the manufacturers.

$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

3. Borrowings

	FEB. 28 1998	MARCH 1 1997
Senior subordinated notes	$ 150,000	$ 150,000
Subordinated notes	18,000	21,904
Equipment financing loans	35,578	39,649
Corporate headquarters financing	11,619	12,000
Obligations under capital leases	10,125	14,463
	225,322	238,016
Current portion of long-term debt	14,925	21,391
	$ 210,397	$ 216,625

CREDIT AGREEMENT:
The Company has a credit agreement (the "Agreement") that contains a bank revolving credit facility under which the Company can borrow up to $365,000. The Agreement provides that up to $250,000 of the facility is available at all times, and an additional $115,000 is available from July 1 to December 31. The Agreement expires in June 1998.

Borrowings under the facility are unsecured. Interest on borrowings is at rates specified in the Agreement, as elected by the Company. The Company also pays certain commitment and agent fees.

The Agreement contains covenants that require maintenance of certain financial ratios and place limits on owned real estate and capital expenditures. The Agreement also provides that once a year, for a period of not less than 45 days thereafter, the aggregate principal amount outstanding is limited to $50,000. There were no balances outstanding under the facility at February 28, 1998, or March 1, 1997. The weighted average interest rate under the Company's current and prior credit agreements was 8.67%, 6.86% and 7.11% for the fiscal years 1998, 1997 and 1996, respectively.

SENIOR SUBORDINATED NOTES:
The Company has $150,000 of senior subordinated notes outstanding. The notes mature on October 1, 2000, and bear interest at 8.63%. The Company may, at its option, prepay the notes at 102.50% of par after September 30, 1998, or at 101.25% of par after September 30, 1999. The Company may be required to offer early redemption in the event of a change in control, as defined.

The notes are unsecured and subordinate to the prior payment of all senior debt, which approximates $147,800 at February 28, 1998. The indenture also contains provisions, which limit the amount of additional borrowings the Company may incur and limit the Company's ability to pay dividends and make other restricted payments.

SUBORDINATED NOTES:
The Company has an $18,000 unsecured, subordinated note outstanding which bears interest at 9.95% and matures on July 30, 1999. In addition, the Company had $3,904 of unsecured, subordinated notes bearing interest at 9.00% which matured and were paid on June 15, 1997.

EQUIPMENT FINANCING LOANS:
The equipment financing loans require monthly or quarterly payments and have maturity dates between March 1998 and March 2001. Interest rates on these loans range from 5.65% to 9.41%. Furniture and fixtures with a book value of $28,400 are pledged against these loans.

OBLIGATIONS UNDER CAPITAL LEASES:
The present value of future minimum lease payments relating to certain equipment and a distribution center has been capitalized. The capitalized cost was approximately $29,000 both at February 28, 1998, and March 1, 1997. The net book value of assets under capital leases was $10,200 and $13,900 at February 28, 1998, and March 1, 1997, respectively. Assets acquired under capital leases were $0, $300 and $3,500 in fiscal 1998, 1997 and 1996, respectively.

CORPORATE HEADQUARTERS FINANCING:
The Company's corporate headquarters is financed with a 15-year mortgage at an interest rate of 8.40%.

During fiscal 1998, 1997 and 1996, interest paid (net of amounts capitalized) totaled $37,700, $50,900 and $44,800, respectively. The fair value of the Company's senior subordinated notes was $153,400 at February 28, 1998, based on quoted market prices. The fair value of all other financial instruments approximates carrying value.

FUTURE MATURITIES OF DEBT:

FISCAL YEAR	CAPITAL LEASES	OTHER DEBT
1999	$ 2,031	$ 12,993
2000	586	29,594
2001	7,631	157,767
2002	18	4,251
2003		1,445
Thereafter		9,147
	10,266	$ 215,197
Less amount representing interest	141	
Minimum lease payments	$ 10,125	

$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

4. CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY In November 1994, the Company and Best Buy Capital, L.P. (Best Buy Capital), a special-purpose limited partnership in which the Company is the sole general partner, completed the public offering of 4,600,000 convertible monthly income preferred securities with a liquidation preference of $50 per security. The underwriting discount and expenses of the offering aggregated $7,700. The proceeds of the offering were loaned to the Company in exchange for a subordinated debenture with payment terms substantially similar to the preferred securities. Distributions on the securities are payable monthly at the annual rate of 6.50% of the liquidation preference and are included in interest expense in the consolidated financial statements. The securities are convertible into shares of the Company's common stock at the rate of 2.222 shares per security (equivalent to a conversion price of $22.50 per share). The preferred securities are subject to mandatory redemption in November 2024 at the liquidation preference price. The Company has the option to defer distributions on the securities for up to 60 months. A deferral of distributions may result in the conversion of the preferred securities into Series A Preferred Stock of the Company. The Company has the right to cause the conversion rights to expire any time after three years from the date of issuance in the event the Company's common stock price exceeds $27 per share for 20 out of 30 consecutive trading days. The common stock met this criteria in March 1998 and the Company issued notice to holders of the preferred securities that the conversion rights would expire on April 24, 1998.

5. SHAREHOLDERS' EQUITY STOCK OPTIONS:
The Company currently sponsors two non-qualified stock option plans for employees and one non-qualified plan for directors. These plans provide for the issuance of up to 13,000,000 shares. Options may be granted only to employees or directors at option prices not less than the fair market value of the Company's common stock on the date of the grant. In addition, two plans expired in fiscal 1998 that still have outstanding options. At February 28, 1998, options to purchase 8,372,000 shares are outstanding under all of these plans.

Pursuant to Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," the Company has elected to account for its stock option plans under the provisions of APB Opinion No. 25 "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has generally been recognized for the stock option plans. The Company has evaluated the pro forma effects of Statement 123 and as such, net earnings, basic earnings per share and diluted earnings per share would have been as follows:

	1998	1997	1996
Net Earnings			
As reported	$ 94,453	$ 1,748	$ 48,019
Pro forma	88,614	(1,196)	46,052
Basic Earnings Per Share			
As reported	$ 1.08	$ .02	$ .56
Pro forma	1.01	(.01)	.54
Diluted Earnings Per Share			
As reported	$ 1.04	$ .02	$ .55
Pro forma	.98	(.01)	.53

The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	1998	1997	1996
Risk-free interest rate	6.8%	6.2%	6.9%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	60%	40%	40%
Expected life of options	4.2 years	4.3 years	4.2 years

The pro forma effect on net earnings and earnings per share is not representative of the pro forma net earnings in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted average fair value of options granted during fiscal 1998, 1997 and 1996 used in computing pro forma compensation expense was $3.47, $2.52 and $4.87 per share, respectively.

In February 1997, the Company canceled 3,278,000 options, representing approximately half of the outstanding options granted to employees since April 1993, with exercise prices ranging from $5.60 to $19.10 and granted the same number of new options with an exercise price of $4.31. Options issued to the Company's CEO and president were not included in the repricing.

$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

Option activity for the last three fiscal years is as follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding February. 25, 1995	7,540,000	$ 7.82
Granted	2,944,000	11.60
Exercised	(1,250,000)	2.50
Canceled	(694,000)	13.13
Outstanding March 2, 1996	8,540,000	9.47
Granted	5,330,000	6.11
Exercised	(892,000)	3.08
Canceled	(4,528,000)	11.22
Outstanding March 1, 1997	8,450,000	7.09
Granted	3,860,000	6.47
Exercised	(2,678,000)	5.56
Canceled	(1,260,000)	6.88
Outstanding February 28, 1998	8,372,000	$ 7.32

Excerscisable options at the end of fiscal 1998, 1997 and 1996 were 2,358,000, 2,930,000 and 4,652,000 respectively. The following table summarizes information concerning currently outstanding and exercisable options:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0 to $5	2,448,000	3.81	$ 4.31	700,000	$ 4.31
$5 to $10	4,208,000	7.81	6.71	612,000	7.09
$10 to $15	1,156,000	2.52	11.60	606,000	11.60
$15 to $20	560,000	1.10	16.22	440,000	16.22
$0 to $20	8,372,000	5.46	$ 7.32	2,358,000	$ 9.13

EARNINGS PER SHARE:
In accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share," the following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share for the fiscal years 1998, 1997 and 1996:

	1998	1997	1996
Numerator:			
Net earnings	$ 94,453	$ 1,748	$ 48,019
Interest on preferred securities, net of tax	9,179		
Net earnings per share assuming dilution	$ 103,632	$ 1,748	$ 48,019
Denominator:			
Average common shares outstanding	87,708,000	86,344,000	85,240,000
Effect of dilutive securities:			
Employee stock options	2,202,000	902,000	1,726,000
Preferred securities	10,216,000		
Average common shares outstanding assuming dilution	100,126,000	87,246,000	86,966,000
Basic earnings per share	$ 1.08	$ .02	$ .56
Diluted earnings per share	$ 1.04	$ .02	$ .55

6. OPERATING LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS The Company conducts essentially all of its retail and distribution operations from leased locations. Transaction costs associated with the sale and leaseback of properties and any gain or loss are recognized over the term of the lease agreement. Proceeds from the sale/leaseback of properties are included in the net change in recoverable costs from developed properties. The Company also leases various equipment under operating leases. In addition, the Company had leased 17 stores and a distribution center, along with the related fixtures and equipment under a master lease agreement through February 1998. The initial terms of the leases under this agreement ranged from one to five years, and rent was variable based on interest rate options as selected by

the Company. The leases on these properties were terminated in fiscal 1998 and the properties were re-leased under long-term leases. The Company purchased the fixtures and equipment from the lessor. The leases require payment of real estate taxes, insurance and common area maintenance. Most of the leases contain renewal options and escalation clauses, and several require contingent rents based on specified percentages of sales. Certain leases also contain covenants related to maintenance of financial ratios.

The composition of total rental expenses for all operating leases during the last three fiscal years, including leases of buildings and equipment, was as follows:

	1998	1997	1996
Minimum rentals	$161,500	$139,200	$105,300
Percentage rentals	400	500	500
	$161,900	$139,700	$105,800

$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

As of February 28, 1998 three stores are leased from the Company's CEO and principal shareholder, his spouse, or partnerships in which he is a partner. Rent under these leases during the last three fiscal years and two additional stores, for which the leases expired in January 1996 and January 1998, was as follows:

	1998	1997	1996
Minimum rentals	$1,000	$1,000	$1,100
Percentage rentals	300	400	400
	$1,300	$1,400	$1,500

Future minimum lease obligations by year (not including percentage rentals) for all operating leases at February 28, 1998, are as follows:

FISCAL YEAR	
1999	$ 152,200
2000	153,000
2001	148,500
2002	147,000
2003	143,000
Later years	1,422,500

7. RETIREMENT SAVINGS PLAN The Company has a retirement savings plan for employees meeting certain age and service requirements. The plan provides for a Company-matching contribution, which is subject to annual approval. This matching contribution was $2,100, $2,000 and $1,700 during fiscal 1998, 1997 and 1996, respectively.

8. INCOME TAXES Following is a reconciliation of the provision for income taxes to the federal statutory rate:

	1998	1997	1996
Federal income tax at the statutory rate	$53,849	$1,004	$27,646
State income taxes, net of federal benefit	5,763	116	3,717
Tax exempt interest	(1,038)		
Jobs tax credit			(574)
Other	826		181
Provision for income taxes	$59,400	$1,120	$30,970
Effective tax rate	38.6%	39.0%	39.2%

The provision for income taxes consists of the following:

		1998	1997	1996
Current:	Federal	$ 50,950	$ (5,100)	$ 27,401
	State	5,487	(581)	6,693
		56,437	(5,681)	34,094
Deferred:	Federal	2,687	6,103	(2,904)
	State	276	698	(220)
		2,963	6,801	(3,124)
Provision for income taxes		$ 59,400	$ 1,120	$ 30,970

Deferred taxes are the result of differences between the basis of assets and liabilities for financial reporting and income tax purposes. Significant deferred tax assets and liabilities consist of the following:

	FEB. 28 1998	MARCH 1 1997
Accrued expenses	$ 13,294	$ 7,579
Deferred service plan revenue	9,125	18,811
Compensation and benefits	2,554	3,375
Inventory	1,872	
Other - net	350	159
Total deferred tax assets	27,195	29,924
Property and equipment	17,067	15,697
Other - net	573	3,356
Total deferred tax liabilities	17,640	19,053
Net deferred tax assets	$ 9,555	$ 10,871

The Internal Revenue Service (IRS) has taken a position that interest on securities such as the subordinated debenture referred to in Note 4 is not deductible for federal income tax purposes. The Company believes that the interest is deductible and intends to contest the IRS' position. Income taxes paid (received) were $12,700, ($8,600) and $45,900 in fiscal 1998, 1997 and 1996, respectively.

9. LEGAL PROCEEDINGS The Company is involved in various legal proceedings arising during the normal course of conducting business. Management believes that the resolution of these proceedings will not have any material adverse impact on the Company's financial statements.

EXHIBIT 21.1

BEST BUY CO., INC.

SUBSIDIARIES OF THE REGISTRANT

	State of Formation
BBC Property Co.	Minnesota
BBC Investment Co.	Nevada
Best Buy Concepts, Inc.	Nevada
Best Buy Stores, L.P.	Delaware
Best Buy Capital, L.P.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Registration S-8 pertaining to the Deferred Compensation Plan (No. 333-49371), the 1997 Directors' Non-Qualified Stock Option Plan (No. 333-39531), the 1997 Employee Non-Qualified Stock Option Plan (No. 333-39533), the 1987 Employee Non-Qualified Stock Option Plan (No. 33-54871), the 1994 Full-Time Employee Non-Qualified Stock Option Plan (No. 33-54875), and the 1987 Directors' Non-Qualified Stock Option Plan (No. 33-54873) of Best Buy Co., Inc. of our report dated March 31, 1998, with respect to the consolidated financial statements of Best Buy Co., Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended February 28, 1998.

Minneapolis, Minnesota
May 26, 1998

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	YEAR
FISCAL YEAR END	FEB 28 1998
PERIOD START	MAR 02 1997
PERIOD END	FEB 28 1998
CASH	520,127
SECURITIES	0
RECEIVABLES	95,702
ALLOWANCES	0
INVENTORY	1,060,788
CURRENT ASSETS	1,710,277
PP&E	581,572
DEPRECIATION	248,648
TOTAL ASSETS	2,056,346
CURRENT LIABILITIES	1,033,676
BONDS	210,397
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4,463
OTHER SE	553,283
TOTAL LIABILITY AND EQUITY	2,056,346
SALES	8,358,212
TOTAL REVENUES	8,358,212
CGS	7,026,074
TOTAL COSTS	7,026,074
OTHER EXPENSES	1,145,280
LOSS PROVISION	0
INTEREST EXPENSE	33,005
INCOME PRETAX	153,853
INCOME TAX	59,400
INCOME CONTINUING	94,453
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	94,453
EPS PRIMARY	1.08
EPS DILUTED	1.04

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RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	6 MOS	9 MOS
FISCAL YEAR END	FEB 28 1998	FEB 28 1998	FEB 28 1998
PERIOD START	MAR 02 1997	MAR 02 1997	MAR 02 1997
PERIOD END	MAY 31 1997	AUG 30 1997	NOV 29 1997
CASH	94,909	101,353	122,060
SECURITIES	0	0	0
RECEIVABLES	84,423	101,470	185,885
ALLOWANCES	0	0	0
INVENTORY	1,110,017	1,188,361	1,679,721
CURRENT ASSETS	1,382,025	1,481,117	2,048,144
PP&E	525,968	546,953	565,229
DEPRECIATION	204,647	222,725	238,269
TOTAL ASSETS	1,720,681	1,820,368	2,389,739
CURRENT LIABILITIES	808,417	900,044	1,450,851
BONDS	212,609	217,820	211,624
PREFERRED MANDATORY	0	0	0
PREFERRED	0	0	0
COMMON	4,381	4,381	4,391
OTHER SE	435,708	442,460	470,433
TOTAL LIABILITY AND EQUITY	1,720,681	1,820,368	2,389,739
SALES	1,606,551	3,399,755	5,506,116
TOTAL REVENUES	1,606,551	3,399,755	5,506,116
CGS	1,358,668	2,862,964	4,631,435
TOTAL COSTS	1,358,668	2,862,964	4,631,435
OTHER EXPENSES	242,667	511,649	796,620
LOSS PROVISION	0	0	0
INTEREST EXPENSE	9,540	18,570	28,171
INCOME PRETAX	(4,324)	6,572	49,890
INCOME TAX	(1,685)	2,563	19,463
INCOME CONTINUING	(2,639)	4,009	30,427
DISCONTINUED	0	0	0
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	(2,639)	4,009	30,427
EPS PRIMARY	(.03)	.05	.35
EPS DILUTED	(.03)	.05	.34

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RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	6 MOS	9 MOS	YEAR
FISCAL YEAR END	MAR 01 1997	MAR 01 1997	MAR 01 1997	MAR 01 1997
PERIOD START	MAR 03 1996	MAR 03 1996	MAR 03 1996	MAR 03 1996
PERIOD END	JUN 01 1996	AUG 31 1996	NOV 30 1996	MAR 01 1997
CASH	20,604	30,670	43,195	89,808
SECURITIES	0	0	0	0
RECEIVABLES	104,732	125,870	217,106	79,581
ALLOWANCES	0	0	0	0
INVENTORY	1,368,959	1,447,382	1,844,782	1,132,059
CURRENT ASSETS	1,653,329	1,733,975	2,242,744	1,385,035
PP&E	459,529	478,962	494,248	519,827
DEPRECIATION	149,449	161,445	173,783	188,194
TOTAL ASSETS	1,978,569	2,064,404	2,576,047	1,734,307
CURRENT LIABILITIES	1,064,476	1,149,113	1,674,386	817,579
BONDS	207,855	209,927	212,768	216,625
PREFERRED MANDATORY	0	0	0	0
PREFERRED	0	0	0	0
COMMON	4,312	4,322	4,327	4,329
OTHER SE	430,517	435,609	425,358	433,986
TOTAL LIABILITY AND EQUITY	1,978,569	2,064,404	2,576,047	1,734,307
SALES	1,637,184	3,415,824	5,423,148	7,770,683
TOTAL REVENUES	1,637,184	3,415,824	5,423,148	7,770,683
CGS	1,404,534	2,931,508	4,690,064	6,711,802
TOTAL COSTS	1,404,534	2,931,508	4,690,064	6,711,802
OTHER EXPENSES	219,698	451,680	703,558	1,005,675
LOSS PROVISION	0	0	0	0
INTEREST EXPENSE	12,281	25,756	40,639	50,338
INCOME PRETAX	671	6,880	(11,113)	2,868
INCOME TAX	262	2,683	(4,337)	1,120
INCOME CONTINUING	409	4,197	(6,776)	1,748
DISCONTINUED	0	0	0	0
EXTRAORDINARY	0	0	0	0
CHANGES	0	0	0	0
NET INCOME	409	4,197	(6,776)	1,748
EPS PRIMARY	.01	.05	(.08)	.02
EPS DILUTED	.01	.05	(.08)	.02

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RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	MAR 02 1996
PERIOD START	FEB 25 1995
PERIOD END	MAR 02 1996
CASH	86,445
SECURITIES	0
RECEIVABLES	121,438
ALLOWANCES	0
INVENTORY	1,201,142
CURRENT ASSETS	1,560,543
PP&E	443,715
DEPRECIATION	132,676
TOTAL ASSETS	1,890,832
CURRENT LIABILITIES	973,702
BONDS	206,287
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4,284
OTHER SE	427,330
TOTAL LIABILITY AND EQUITY	1,890,832
SALES	7,217,448
TOTAL REVENUES	7,217,448
CGS	6,280,877
TOTAL COSTS	6,280,877
OTHER EXPENSES	813,988
LOSS PROVISION	0
INTEREST EXPENSE	43,594
INCOME PRETAX	78,989
INCOME TAX	30,970
INCOME CONTINUING	48,019
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	48,019
EPS PRIMARY	.56
EPS DILUTED	.55