BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 01/07/98 for the Period Ending 11/29/97

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

BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 1/7/1998 For Period Ending 11/29/1997

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE --- ACT OF 1934 For the quarterly period ended November 29, 1997

OR

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

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For the transition period from                    to
                               ------------------    ------------------

Commission File Number:  1-9595
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BEST BUY CO., INC.

(Exact Name of Registrant as Specified in Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

At November 29, 1997, there were 43,906,017 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 29, 1997

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Part I - Financial Information

Item 1. Consolidated Financial Statements

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

($ in 000, except per share amounts)

	November 29, 1997 (Unaudited)	March 1, 1997	November 30, 1996 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 122,060	$ 89,808	$ 43,195
Receivables	185,885	79,581	217,106
Recoverable costs from developed properties	36,883	53,485	91,420
Merchandise inventories	1,679,721	1,132,059	1,844,782
Deferred and refundable income taxes	10,058	25,560	32,478
Prepaid expenses	13,537	4,542	13,763
Total current assets	2,048,144	1,385,035	2,242,744
PROPERTY AND EQUIPMENT, at cost:			
Land and buildings	18,006	18,000	17,738
Leasehold improvements	157,177	148,168	140,842
Furniture, fixtures, and equipment	360,967	324,333	306,530
Property under capital leases	29,079	29,326	29,138
	565,229	519,827	494,248
Less accumulated depreciation and amortization	238,269	188,194	173,783
Net property and equipment	326,960	331,633	320,465
OTHER ASSETS	14,635	17,639	12,838
TOTAL ASSETS	$2,389,739	$1,734,307	$2,576,047

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000, except per share amounts)

	November 29, 1997 (Unaudited)	March 1, 1997	November 30, 1996 (Unaudited)
CURRENT LIABILITIES:			
Note payable, bank	$ -	$ -	$ 271,500
Obligations under financing arrangements	50,238	127,510	124,632
Accounts payable	1,152,821	487,802	1,047,941
Accrued salaries and related expenses	37,688	33,663	33,686
Accrued liabilities	170,221	122,611	149,373
Deferred service plan revenue	21,596	24,602	26,086
Current portion of long-term debt	18,287	21,391	17,249
Total current liabilities	1,450,851	817,579	1,670,467
DEFERRED INCOME TAXES	3,578	3,578	-
DEFERRED REVENUE AND OTHER LIABILITIES	18,862	28,210	33,127
LONG-TERM DEBT	211,624	216,625	212,768
CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY	230,000	230,000	230,000
SHAREHOLDERS' EQUITY:			
Preferred stock, $1.00 par value; authorized 400,000 shares; none issued			
Common stock, $.10 par value; authorized 120,000,000 shares; issued and outstanding 43,906,000, 43,287,000, and 43,273,000 shares, respectively	4,391	4,329	4,327
Additional paid-in capital	247,320	241,300	241,196
Retained earnings	223,113	192,686	184,162
Total shareholders' equity	474,824	438,315	429,685
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,389,739	$1,734,307	$2,576,047

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 29, 1997	November 30, 1996	November 29, 1997	November 30, 1996
Revenues	$2,106,361	$2,007,324	$5,506,116	$5,423,148
Cost of goods sold	1,768,471	1,758,556	4,631,435	4,690,064
Gross profit	337,890	248,768	874,681	733,084
Selling, general & administrative expenses	284,971	251,878	796,620	703,558
Operating income (loss)	52,919	(3,110)	78,061	29,526
Interest expense, net	9,601	14,883	28,171	40,639
Earnings (loss) before income taxes	43,318	(17,993)	49,890	(11,113)
Income tax (expense) benefit	(16,900)	7,020	(19,463)	4,337
Net earnings (loss)	$ 26,418	$ (10,973)	$ 30,427	$ (6,776)
Net earnings (loss) per share	$ .57	$ (.25)	$ .69	$ (.16)
Weighted average shares (000)	50,526	43,251	44,352	43,119

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 29, 1997

($ in 000)

(unaudited)

	Common stock	Additional paid-in capital	Retained earnings
Balance, March 1, 1997	$4,329	$241,300	$192,686
Stock options exercised	62	6,020	
Net earnings			30,427
Balance, November 29, 1997	$4,391	$247,320	$223,113

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(unaudited)

	Nine Months Ended	
	November 29, 1997	November 30, 1996
OPERATING ACTIVITIES:		
Net earnings (loss)	$ 30,427	$ (6,776)
Charges to operations not affecting cash:		
Depreciation and amortization	52,628	50,743
Inventory write-down	-	15,000
	83,055	58,967
Changes in operating assets and liabilities:		
Receivables	(106,304)	(95,668)
Merchandise inventories	(547,662)	(658,640)
Income taxes and prepaid expenses	8,116	(11,564)
Accounts payable	665,019	374,089
Deferred revenue and other liabilities	39,281	10,712
Total cash provided by (used in) operating activities	141,505	(322,104)
INVESTING ACTIVITIES:		
Additions to property and equipment	(47,955)	(60,169)
Recoverable costs from developed properties	16,602	34,817
Decrease(increase) in other assets	3,004	(792)
Total cash used in investing activities	(28,349)	(26,144)
FINANCING ACTIVITIES:		
Borrowings on revolving credit line, net	-	271,500
(Decrease)increase in obligations under financing arrangements	(77,272)	30,681
Long-term borrowings	10,000	21,542
Payments on long-term debt	(18,105)	(21,380)
Common stock issued	4,473	2,655
Total cash (used in) provided by financing activities	(80,904)	304,998
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	32,252	(43,250)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89,808	86,445
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 122,060	$ 43,195

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

Supplemental cash flow information:
Cash paid (received) during the period for:
Interest $ 30,723 $ 41,411 Income taxes $ 1,807 $ (3,487)

See notes to consolidated financial statements.

BEST BUY CO., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:
The consolidated balance sheets as of November 29, 1997, and November 30, 1996, the related consolidated statements of operations for the three and nine months ended November 29, 1997 and November 30, 1996, the consolidated statements of cash flows for the nine months ended November 29, 1997 and November 30, 1996 and the consolidated statement of changes in shareholders' equity for the nine months ended November 29, 1997, are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included and were normal and recurring in nature (see note 5). Interim results are not necessarily indicative of results for a full year. These interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Annual Report to Shareholders for the fiscal year ended March 1, 1997.

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

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

4. EARNINGS PER SHARE:
Earnings per share relate to fully diluted earnings per share. Earnings per share for the three months ended November 29, 1997 reflect the dilutive impact of the Company's Convertible Preferred Securities. This results in the assumption of approximately 5.1 million additional shares outstanding and requires the addback of $2.28 million in after tax cost of the interest expense on such securities during the period. All other periods presented do not reflect such dilution as the result would be antidilutive.

5. INVENTORY WRITE-DOWN:
The results of operations for the three and nine month periods ended November 30, 1996 include a $15 million pretax charge to adjust certain inventories, primarily personal computers, to their expected net realizable values.

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

RESULTS OF OPERATIONS

Net earnings for the third quarter of fiscal 1998 were a record $26,418,000, or $.57 per share on a fully diluted basis, compared to a loss of $10,973,000 or $.25 per share, in the comparable period last year. For the first nine months of the current fiscal year net earnings were a record $30,427,000 or $.69 per share compared to a net loss of $6,776,000, or $.16 per share for the same period last year. Results for the prior year periods were impacted by a $15 million pre-tax inventory writedown in the third quarter. Exclusive of the inventory writedown, current year results for the quarter and year-to-date periods, as compared to the prior year, reflect modest increases in revenues, significantly improved gross profit margins and lower interest expense. Higher selling, general and administrative expenses as a percentage of sales offset a portion of those gains.

Revenues in the third quarter increased 5% to $2.106 billion compared to $2.007 billion in the third quarter last year. Revenues for the year to date period were $5.506 billion, an increase of 2% over the comparable nine month period from last year. Comparable store sales for the quarter were essentially flat compared to last year and for the year to date declined 4%. Revenues were impacted by the contribution from the 13 new stores opened in the past twelve months, as the Company operated 285 stores at November 29, 1997 compared to 272 a year ago. The comparable store sales decline for the year to date was driven by lower average selling prices, particularly in personal computers where average selling prices have declined approximately 15% compared to the first nine months of last year primarily due to the increased popularity of sub-$1,000 units. An increase in personal computer unit sales was not sufficient to offset the lower selling prices.

The entertainment software category, which includes pre-recorded music and videos as well as video games, continued to build strength in the quarter. Video game products in particular performed extremely well, with significant comparable store sales increases continuing since a year ago when the Nintendo 64 and Sony Playstation formats were introduced. The Company's new DSS/Cellular area, introduced in the stores early in the third quarter, resulted in significant comparable store sales increases in cellular phones, satellite systems, and digital cameras. This new area, which was created from a portion of the space vacated by a refinement of the Company's music assortment, has a dedicated sales staff assisting customers with product explanation and service registration. As is currently being experienced industry wide, the consumer electronics business continues to be soft as consumers await new technology and the distribution of audio and video products through mass merchants continues to expand.

In the third quarter the Company introduced an assortment of books and magazines and exercise equipment, further utilizing the space created by the tailoring of the music assortment. While these new products are not expected to make a significant contribution to current year revenues, they, along with an expanded assortment of ready to assemble furniture, are expected to grow to 2% of sales next year.

In the third quarter, the Company opened five new stores, including stores in the Philadelphia, Pittsburgh and Los Angeles markets. These openings completed the Company's planned store openings for fiscal 1998 with a total of 13 new stores. The Company also relocated or expanded five stores to larger facilities this year. The Company's announced expansion plans for the next fiscal year, which begins in March 1998, include 20 to 25 new stores including entry into the Boston market.

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

	Third Quarter Ended		Nine Months Ended	
	11/29/97	11/30/96	11/29/97	11/30/96
Home Office	40%	41%	40%	41%
Consumer Electronics				
Video	16	17	15	17
Audio	10	11	11	12
Entertainment Software	18	17	18	16
Appliances	9	9	10	9
Other	7	5	6	5
Total	100%	100%	100%	100%

Gross profit margin was 16.0% of sales in the third quarter of this year and 15.9% for the first nine months, compared to 12.4% and 13.5%, respectively, in the comparable periods last year. The inventory writedown in the third quarter last year, which was principally due to declines in value of personal computer inventories in advance of new technology, reduced margins for the quarter and nine month periods by .7% and .3% of sales, respectively. Exclusive of the impact of the inventory writedown, gross profit margins improved 2.9% of sales and 2.1% of sales for the quarter and year to date period, respectively. The higher gross profit margins resulted from better product margins and a more profitable sales mix. Gains in product margins were impacted by enhanced buying and selling strategies, including improved product life cycle management of personal computers. Inventory turns for personal computers have increased to approximately 10 times, reducing the Company's exposure to significant markdowns during model and technology transitions. The increase in gross margins due to a more profitable sales mix was driven by an increase in the sale of performance service plans (PSPs) in the Company's sales mix. PSPs represented 3.2% of sales in the third quarter this year compared to 2.1% in the third quarter last year. For the year to date PSPs represented 3.0% of sales compared to 1.8% of sales for the first nine months of last year. Increased sales of the higher margin products in the new DSS/Cellular area also increased the overall profitability of the Company's sales mix. The promotional environment during the third quarter was also less intense than last year as a number of the Company's competitors have closed stores in the past year. As a result of the less competitive conditions the Company used fewer and less aggressive consumer financing offers, contributing to the profit margin improvement. Management expects that gross profit margins for the fourth quarter, while still significantly above last years levels, will be slightly lower than the margins reported in the third quarter, due in part, to the traditional shift in the Company's sales mix during the holiday selling season.

Selling, general and administrative (SG&A) expenses were 13.5% of sales for the third quarter and 14.5% for the nine month period of the current year. These compare to SG&A expense ratios for the third quarter and nine month period last year of 12.5% and 13.0%, respectively. In the third quarter SG&A expenses were impacted by the staffing associated with the DSS/Cellular area. Generally higher compensation costs due to market conditions and improved operating performance also contributed to higher payroll costs as compared to last year. In addition, SG&A expenses for the quarter and the year to date were impacted by higher professional fees associated with the Company's strategic initiatives and management information systems enhancements. Higher rent expense resulting from stores that were owned last year and leased this year also increased the Company's SG&A, although this also resulted in lower interest expense. The year to date increase was, in part, due to reduced leverage on the Company's operating expenses resulting from the decline in comparable store sales for the year to date. Although the SG&A ratio for the year will be higher than last year, management expects to achieve better leverage on operating expenses in the traditionally higher volume fourth quarter of the year.

Net interest expense decreased $5.2 million in the third quarter and $12.5 million in the first nine months compared to fiscal 1997. The decreases were due principally to significantly lower inventory levels and fewer properties held for sale.

FINANCIAL CONDITION

Working capital of $597 million at November 29, 1997 was essentially unchanged from a year ago as lower inventories and costs recovered from developed properties were used to pay off bank borrowings and increased cash balances. The Company's net cash position, as measured by cash balances net of bank borrowings, improved $350 million compared to November 30, 1996. As a result of improved inventory and model transition management, as well as a narrowing of product offerings in selected categories, inventory has declined by $165 million from year ago levels even though the Company is operating 13 additional stores. Better timing of inventory purchases in advance of the holiday selling season also resulted in increased leveraging of inventory through trade payables at the end of the quarter. Receivables declined from year ago levels due to lower levels of vendor advertising receivables at the end of the period. Other current assets have declined, in part, due to a reduction in refundable income taxes resulting from the improved operating performance compared to a year ago. Deferred revenues, and the related deferred taxes, continue to decline as revenues from performance service plans sold prior to the fourth quarter of fiscal 1996 are recognized over the lives of the contracts. Revenues from sales subsequent to that time are recognized at the time of sale as they are insured through a third party.

The Company's investment in property held for sale has declined approximately $50 million in the past year to $37 million as retail locations developed by the Company have been sold and leased back under long term leases. At November 29, 1997, the Company owned six retail locations that were held for sale and leaseback, two of which have been subsequently sold. In addition to sales of property owned by the Company, the Company continues to reduce its master lease facility as properties are sold by the lessor and leased by the Company under long term lease agreements. Capital spending for the year to date is $48 million compared to $60 million last year, reflecting fewer store openings. The Company currently expects that capital spending for the year will be approximately $65 million, exclusive of amounts to be recovered under long term financing such as financing under sale/leaseback transactions.

In May 1997, the Company reduced the seasonal capacity of its revolving credit facility from $550 million to $365 million as improvement in inventory management and a slower rate of store growth has reduced the Company's borrowing needs for the current year. During the nine month period the Company had only minimal borrowings under this facility. In August 1997, the Company obtained $10 million in intermediate term equipment financing.

Management believes that funds available through cash flow from operations, including further anticipated improvement in inventory turns, customary vendor terms and inventory financing facilities and the revolving credit facility will be sufficient to support the Company's working capital needs for the coming year. Management also intends to evaluate its working capital financing needs in the coming months and determine the appropriate size credit facility to be in place before the maturity of the current facility in June 1998.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per Share". SFAS No. 128 is effective for periods ending after December 15, 1997, and requires restatement of all prior period EPS data presented. The Company will adopt SFAS No. 128 in the fourth quarter of the current fiscal year. The Company's basic and diluted earnings (loss) per common share computed under the new pronouncement would have been as follows:

	Third Quarter Ended		Nine Months Ended	
	11/29/97	11/30/96	11/29/97	11/30/96
Basic	$.60	$(.25)	$.70	$(.16)
Diluted	$.57	$(.25)	$.68	$(.16)

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

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

BEST BUY CO., INC.

Part II - Other Information

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

a. Exhibits:

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

b. Reports on Form 8-K:

None

SIGNATURES

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

BEST BUY CO., INC.
(Registrant)

Date: January 7, 1998

By: /s/ ALLEN U. LENZMEIER

Allen U. Lenzmeier, Executive Vice President & Chief Financial Officer (principal financial officer)

By: /s/ ROBERT C. FOX

Robert C. Fox, Senior Vice President-Finance & Treasurer (principal accounting officer)

EXHIBIT 11.1

BEST BUY CO., INC.

COMPUTATION OF NET EARNINGS (LOSS) PER COMMON SHARE

(Amounts in 000, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 29, 1997	November 30, 1996	November 29, 1997	November 30, 1996
Earnings (loss):				
Net earnings (loss) available to common shares	$26,418	$(10,973)	$30,427	$(6,776)
Interest expense reduction, net of tax, upon exercise of preferred securities	2,280	-	-	-
Earnings (loss) per share for calculation purposes	$28,698	$(10,973)	$30,427	$(6,776)
Shares:				
Weighted average common shares outstanding	43,847	43,251	43,739	43,119
Adjustments:				
Assumed issuance of shares purchased under stock option plans	1,568	-	613	-
Assumed issuance of shares upon exercise of preferred securities	5,111	-	-	-
Total common equivalent shares	50,526	43,251	44,352	43,119
Net earnings (loss) per common share	$ .57	$ (.25)	$ .69	$ (.16)

Note: The computation of earnings (loss) per common share assuming full dilution results in anti-dilution for periods other than the three month period ended November 29, 1997.

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	9 MOS
FISCAL YEAR END	FEB 28 1998
PERIOD START	MAR 02 1997
PERIOD END	NOV 29 1997
CASH	122,060
SECURITIES	0
RECEIVABLES	185,885
ALLOWANCES	0
INVENTORY	1,679,721
CURRENT ASSETS	2,048,144
PP&E	565,229
DEPRECIATION	238,269
TOTAL ASSETS	2,389,739
CURRENT LIABILITIES	1,450,851
BONDS	211,624
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	4,391
OTHER SE	470,433
TOTAL LIABILITY AND EQUITY	2,389,739
SALES	5,506,116
TOTAL REVENUES	5,506,116
CGS	4,631,435
TOTAL COSTS	4,631,435
OTHER EXPENSES	796,620
LOSS PROVISION	0
INTEREST EXPENSE	28,171
INCOME PRETAX	49,890
INCOME TAX	19,463
INCOME CONTINUING	30,427
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	30,427
EPS PRIMARY	.69
EPS DILUTED	.69

End of Filing