BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 10/10/00 for the Period Ending 08/26/00

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

BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 10/10/2000 For Period Ending 8/26/2000

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

/x/ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended August 26, 2000

or

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

For the transition period from ________to ________

Commission File Number: 1-9595

BEST BUY CO., INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-0907483** (I.R.S. Employer Identification No.)
7075 Flying Cloud Drive **Eden Prairie, Minnesota** (Address of principal executive offices)	**55344** (Zip Code)

(952) 947-2000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No / /

At August 26, 2000, there were 207,595,000 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.
FORM 10-Q
FOR THE QUARTER ENDED AUGUST 26, 2000

INDEX

			Page
Part I.	Financial Information		
	Item 1.	Consolidated Financial Statements:	
a)	Consolidated balance sheets as of August 26, 2000, February 26, 2000 and August 28, 1999		3-4
b)	Consolidated statements of earnings for the three and six months ended August 26, 2000 and August 28, 1999		5
c)	Consolidated statement of changes in shareholders' equity for the six months ended August 26, 2000		6
d)	Consolidated statements of cash flows for the six months ended August 26, 2000 and August 28, 1999		7
e)	Notes to consolidated financial statements		8
	Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	9-13
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	13
Part II.	Other Information		
	Item 4.	Submission of Matters to a Vote of Security Holders	14-15
	Item 6.	Exhibits and Reports on Form 8-K	15
Signatures			16

PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS

($ in 000)

	August 26, 2000 (Unaudited)	February 26, 2000	August 28, 1999 (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 845,021	$ 750,723	$ 473,444
Receivables	201,375	189,301	178,492
Recoverable costs from developed properties	116,336	72,770	89,699
Merchandise inventories	1,456,752	1,183,681	1,287,646
Other current assets	56,861	41,985	35,135

Total current assets	2,676,345	2,238,460	2,064,416
PROPERTY AND EQUIPMENT			
Land and buildings	78,736	76,228	48,309
Leasehold improvements	277,707	254,767	187,887
Fixtures and equipment	997,489	762,476	639,910
	1,353,932	1,093,471	876,106
Less accumulated depreciation and amortization	464,531	395,387	353,286
Net property and equipment	889,401	698,084	522,820
OTHER ASSETS	78,441	58,798	40,947
TOTAL ASSETS	$ 3,644,187	$ 2,995,342	$ 2,628,183

See Notes to Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (continued)

($ in 000)

	August 26, 2000	February 26, 2000	August 28, 1999
	(Unaudited)		(Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 1,478,697	$ 1,313,940	$ 1,058,921
Accrued compensation and related expenses	113,912	102,065	68,097
Accrued liabilities	317,576	287,888	261,095
Accrued income taxes	—	65,366	—
Current portion of long-term debt	7,218	15,790	10,130
Total current liabilities	1,917,403	1,785,049	1,398,243
LONG-TERM LIABILITIES	141,161	99,448	69,743
LONG-TERM DEBT	21,585	14,860	25,690
SHAREHOLDERS' EQUITY			
Preferred stock, $1.00 par value: Authorized—400,000,000 shares; Issued and outstanding—none	—	—	—
Common stock, $.10 par value: Authorized—1,000,000,000 shares; Issued and outstanding 207,595,000, 200,379,000 and 205,270,000 shares, respectively	20,760	20,038	20,527
Additional paid-in capital	565,915	247,490	527,717
Retained earnings	977,363	828,457	586,263
Total shareholders' equity	1,564,038	1,095,985	1,134,507
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,644,187	$ 2,995,342	$ 2,628,183

See Notes to Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	August 26, 2000	**August 28, 1999**	**August 26, 2000**	**August 28, 1999**
Revenues	$ 3,169,171	$ 2,686,640	$ 6,132,889	$ 5,072,071
Cost of goods sold	2,520,426	2,156,120	4,878,551	4,079,549
Gross profit	648,745	530,520	1,254,338	992,522
Selling, general and administrative expenses	533,395	440,914	1,030,470	831,215
Operating income	115,350	89,606	223,868	161,307
Net interest income	8,998	4,276	17,438	8,689
Earnings before income tax expense	124,348	93,882	241,306	169,996
Income tax expense	47,600	35,815	92,400	65,120
Net earnings	$ 76,748	$ 58,067	$ 148,906	$ 104,876
Basic earnings per share	$ .37	$ .28	$ .72	$ .51
Diluted earnings per share	$ .36	$ .27	$ .70	$ .49
Basic weighted average common shares outstanding (000's)	207,115	205,038	205,574	204,536
Diluted weighted average common shares outstanding (000's)	213,536	213,907	212,528	213,593

See Notes to Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED AUGUST 26, 2000

($ in 000)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings
Balances at February 26, 2000	$ 20,038	$ 247,490	$ 828,457
Stock options exercised	334	32,765	—
Tax benefit from stock options exercised	—	86,048	—
Stock issuance	388	199,612	—
Net earnings, six months ended August 26, 2000	—	—	148,906

Balances at August 26, 2000	$ 20,760	$ 565,915	$ 977,363

See Notes to Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(Unaudited)

	Six Months Ended	
	August 26, 2000	**August 28, 1999**
OPERATING ACTIVITIES		
Net earnings	$ 148,906	$ 104,876
Depreciation, amortization and other non-cash charges	72,467	46,110
	221,373	150,986
Changes in operating assets and liabilities:		
Receivables	(12,074)	(46,091)
Merchandise inventories	(273,071)	(241,280)
Other assets	(8,948)	(2,263)
Accounts payable	164,757	47,175
Income taxes payable	14,754	18,805
Other liabilities	83,248	19,936
Total cash provided by (used in) operating activities	190,039	(52,732)
INVESTING ACTIVITIES		
Additions to property and equipment	(266,304)	(144,733)
Increase in recoverable costs from developed properties	(43,566)	(15,743)
Increase in other assets	(6,379)	(3,933)
Total cash used in investing activities	(316,249)	(164,409)
FINANCING ACTIVITIES		
Long-tem debt payments	(11,100)	(24,777)
Issuance of common stock	231,608	27,125
Repurchase of common stock	—	(97,540)
Total cash provided by (used in) financing activities	220,508	(95,192)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,298	(312,333)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	750,723	785,777
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 845,021	$ 473,444

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 during the period for:		
Interest	$ 1,864	$ 3,132
Income taxes	$ 60,235	$ 47,064

See Notes to Consolidated Financial Statements.

BEST BUY CO., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

The consolidated balance sheets as of August 26, 2000, and August 28, 1999, the related consolidated statements of earnings for the three and six months then ended, the consolidated statements of cash flows for the six months then ended and the consolidated statement of changes in shareholders' equity for the six months ended August 26, 2000, 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. The business of Best Buy Co., Inc. (the "Company") is seasonal and interim results are not necessarily indicative of results for a full year. These interim financial statements and the related notes 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 February 26, 2000, and incorporated by reference into the Company's Annual Report on Form 10-K.

2. Income Taxes:

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

3. Earnings Per Share:

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share:

	Three Months Ended		Six Months Ended	
	August 26, 2000	August 28, 1999	August 26, 2000	August 28, 1999
Numerator (000's):				
Net earnings	$ 76,748	$ 58,067	$ 148,906	$ 104,876
Denominator (000's):				
Weighted average common shares outstanding	207,115	205,038	205,574	204,536
Dilutive effect of employee stock options	6,421	8,869	6,954	9,057
Weighted average common shares outstanding assuming dilution	213,536	213,907	212,528	213,593
Basic earnings per share	$ .37	$ .28	$ .72	$ .51
Diluted earnings per share	$ .36	$ .27	$ .70	$ .49

BEST BUY CO., INC.

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

Results Of Operations

Net earnings for the second quarter of fiscal 2001 were a record $76.7 million, or $.36 per share on a diluted basis, compared to net earnings of $58.1 million, or $.27 per share, for the comparable period last year. For the first six months of the current fiscal year, net earnings were a record $148.9 million, or $.70 per share on a diluted basis, compared to $104.9 million, or $.49 per share, for the same period last year. Strong consumer electronics sales, including continued growth in sales of digital products, combined with gross profit margin improvements were the principle factors contributing to the 32% increase in second quarter earnings compared to the same period last year. The Company's financial performance also continues to benefit from strategic alliances formed over the past year. The record profits were achieved even though expenses increased in connection with the continued investment in growth initiatives including the increased retail store expansion and the launch of BestBuy.com™.

Revenues in the second quarter increased 18% to $3.169 billion, compared to $2.687 billion in the second quarter last year. Revenues in the first six months increased 21% to $6.133 billion, compared to $5.072 billion last year. A net increase of 41 new stores in the past 12 months and comparable store sales increases of 5.1% for the second quarter and 7.2% year-to-date, were the principal factors in the revenue increases. Sales of digital technology products such as DVD players, digital televisions, digital cameras and camcorders, as well as strong sales of DVD movies and analog televisions, drove comparable store sales gains. The Company anticipates comparable store sales growth to moderate slightly in the second half of the fiscal year.

As of August 26, 2000, the Company operated 373 stores compared to 332 stores one year ago. In the second quarter, the Company opened 12 new stores including four stores in the New York tri-state area and six small-market concept stores. Small-market stores (approximately 30,000 square feet) offer the same product categories as larger stores, but have more flexible floor plans and product assortments tailored to their communities. The Company plans to open approximately 45 new stores in the second half of fiscal 2001. Of these, approximately 40 stores will open in the third quarter including an additional 10 stores in the New York tri-state area, as well as entry into the Seattle, Washington, and Jackson, Mississippi markets. The remaining stores are expected to open late in the fourth quarter.

Early in the second quarter, Best Buy launched its expanded Internet service, BestBuy.com™. The Company's "clicks-and-mortar" strategy is designed to provide consumers with a fully integrated shopping experience. The web site BestBuy.com™, initially offered consumer electronics products, music and movies. In August, the product offerings were expanded to include computers and peripherals. Enhanced features and further expansion of online product offerings are planned for later this fiscal year. While e-commerce does not currently represent a significant portion of the Company's business, the Company believes the investment in and increased expenses associated with the development, launch and operations of a comprehensive Internet business creates a significant future growth opportunity in serving consumers both on-line and in retail stores. The Company also believes its "clicks-and-mortar" strategy can provide a competitive advantage over Internet only retailers.

The Company's sales mix by major product category for the three-month and six-month periods was as follows:

	Three Months Ended		Six Months Ended	
	August 26, 2000	August 28, 1999	August 26, 2000	August 28, 1999
Home Office	36%	36%	35%	36%
Consumer Electronics—Video	20	18	20	18
Consumer Electronics—Audio	11	11	11	11
Entertainment Software	16	17	17	18
Appliances	9	11	9	10
Other	8	7	8	7
Total	100%	100%	100%	100%

*

Prior year percentages have been adjusted to reflect current year categorization of products. The primary change was to reclassify cameras and photographic equipment from the "other" category to consumer electronics—video.

The home office category continued to experience positive comparable stores sales growth in the second quarter. Sales in this category were driven by expansion of configure-to-order computer offerings and strong customer demand for laptop computers. Average selling prices for computers sold by the Company increased during the second quarter of fiscal 2001, compared to the same period one year ago, due primarily to a shift in the computer product mix. New Microsoft Network (MSN™) customer sign-ups remained strong, with total sign-ups of nearly one million since inception of the program in November 1999, exceeding original expectations. Sales of new digital communication devices including digital web phones, pagers and other new technology products also contributed to the sales increase in the home office category. In the third quarter of fiscal 2001, as part of the Company's continual assessment of its merchandising strategy, digital communication devices will be relocated to a more strategic location within the stores. Management expects that the relocation will contribute to an enhanced consumer awareness of the Company's digital communication product offerings.

Consumer electronics experienced sales growth in the quarter led by digital technology products such as DVD players, digital televisions, camcorders and cameras. Sales of analog video product, such as projection televisions, also generated sales gains during the quarter. The sales growth is primarily due to an improved product assortment, increased customer demand and the availability of more affordable digital products. In particular, the Company's assortment of digital televisions and price points now under $2,000 for high-definition digital compatible televisions has contributed to higher sales in the video category.

Second quarter entertainment software sales, which include music and movies, computer software and video games, were impacted by the general absence of new releases with strong consumer appeal. Scheduled new music releases by artists provide opportunity for better performance in this category in the second half of the year. DVD software sales remained strong, benefiting from new releases and the continued expansion of the DVD hardware base. The Company continues to lead the industry in DVD software sales market share. Video games and computer software sales were weak due to a shortage of new titles and consumers delaying the purchase of new hardware and software in anticipation of the launch of new technology in the second half of the year. Sony's Playstation II video game platform is expected to invigorate the video game business in the second half of the year, in particular the fourth quarter. It is expected that consumer demand for this product will initially exceed supply.

Appliance sales were soft as a result of increased industry competition and lower than expected sales of air conditioners due to a cooler than average summer. Currently, the Company is working with

---

suppliers to redevelop its appliance business model and improve profitability. The primary areas of concentration include improving supply chain management and improving operations to better support the business. During the second quarter, the Company announced the addition of KitchenAid, an upscale appliance line, as well as expansion of delivery and installation capabilities. Also during the quarter, a major competitor announced its intent to exit the appliance business. An opportunity to gain additional market share is expected to be created for the Company when the competitor completely liquidates its inventory.

Gross profit margin improved by 0.8% of sales in the second quarter of fiscal 2001 to 20.5% of sales compared to 19.7% of sales in the second quarter of fiscal 2000. Gross profit margin in the six-month period was also 20.5% of sales, 0.9% of sales higher than the previous year's 19.6%. These improvements were driven by increased contributions from digital products and higher sales of more fully featured products, as well as the continuing benefit from the Company's initiatives to improve inventory management and enhance advertising effectiveness. The Company also benefited from its "Total Solutions" selling strategy that is designed to provide customers with higher-margin accessories and services supporting their purchases. Management expects gross profit margins will continue to exceed prior year levels. However, due to increased promotional activity typically associated with the holiday season and store grand openings, gross profit margin in the second half of the year is traditionally lower than the first half of the year.

Selling, general and administrative expenses (SG&A) increased to 16.8% of sales for the both the second quarter and first six months of fiscal 2001, compared to 16.4% of sales for the same periods last year. The increase in the SG&A rate is primarily the result of expenses associated with new store openings, the launch and operation of BestBuy.com™ and the continued investment in strategic initiatives. Management believes that investing in strategic initiatives has benefited the Company's operating model and contributed to gross profit margin gains. In the third quarter, the Company's SG&A rate is expected to rise due to the opening of almost twice the number of stores compared to a year ago. The New York market launch and the costs of promoting BestBuy.com™ in preparation for the holiday season are the underlying drivers of the cost increases. Management believes the Company will realize the benefits from these investments in the fourth quarter and beyond through sales growth and operating margin improvement.

Net interest income increased to $9.0 million in the second quarter and $17.4 million for the six-month period, compared to net interest income of $4.3 million and $8.7 million, respectively, in the same periods last year. The increase is due to higher cash balances and higher yields. The higher cash balances are the result of cash flows generated from operations over the last 12 months, including improved inventory management and a $200 million investment in Best Buy common stock by Microsoft Corporation as part of a strategic alliance.

The year-to-date tax rate for the current year and the prior year was 38.3%. The Company's effective income tax rate for the second quarter was 38.3%, up slightly from 38.1% for the same quarter a year ago as management revised the estimated annual effective tax rate in the second quarter of fiscal 2000. The Company's effective tax rate is primarily impacted by the taxability of investment income and state income taxes.

Financial Condition

Working capital of $759 million at August 26, 2000, increased from $666 million a year ago. Cash and cash equivalents increased by $372 million as compared to one year ago as a result of the issuance of additional Best Buy common stock, operating profits and working capital management. Cash increased despite the purchase of $300 million of common stock and capital spending in excess of $480 million for stores, distribution capacity, information systems and other initiatives to expand the business in the last 12 months.

Merchandise inventories increased by $169 million, or 13%, as a result of the net addition of 41 new stores since the second quarter last year. Rolling 12 month inventory turns improved to 7.3 times for the period ended August 26, 2000, compared to 7.0 times for the period ended August 28, 1999. The Company's net investment in inventory, inventory net of accounts payable, improved by $251 million compared to the prior year. Merchandise inventories increased by $273 million compared to fiscal year-end, primarily due to seasonality, the net addition of 16 stores in the first six months of fiscal 2001 and preparation for store openings in the third quarter. The Company's cash position and net investment in inventory are impacted by the timing of payments to vendors and can vary significantly. Receivables increased by $23 million compared with the prior year, and $12 million compared to fiscal year-end, primarily due to increased sales volume. Recoverable costs from developed properties increased by $27 million over last year primarily due to the development of new stores. Other current assets increased, as compared to last year and fiscal year-end, due to a higher level of business activity and timing of income tax payments. Other long-term assets increased by $37 million over last year due to investments and the purchase of insurance policies in connection with the Company's deferred compensation plan. The increase in other long-term assets since fiscal year-end is primarily due to an investment in real estate associated with the Company's long-term corporate facilities expansion plans.

Accounts payable increased as compared to a year ago and the end of fiscal 2000 as a result of higher business volume and increased inventory levels. Accrued compensation and related expenses increased over the second quarter of last year due to payroll tax withholdings related to stock option exercises and the expanding employee base needed to support the Company's growth. Other accrued liabilities increased as a result of increased business activity and the timing of amounts paid or received under alliances and vendor programs. Long-term liabilities increased from a year ago due to increased deferred compensation, cash advances as part of alliances and an increase in long-term deferred taxes. Long-term debt decreased compared to last year and fiscal year-end due to the repayment of debt, partially offset by the assumption of a mortgage related to an investment in real estate.

Capital spending in the first six months of fiscal 2001 was $266 million compared to $145 million for the same period last year. The increase is primarily a result of the Company's investment in new stores, merchandising project enhancements at existing stores, expansion of its distribution facilities, investment in the Company's core financial and operating systems and the improvements to existing systems to support the Company's growth. Total capital spending in fiscal 2001 to support accelerated store growth and the Company's strategic initiatives is expected to be approximately $600-$650 million, exclusive of amounts to be expended on property development. The Company's new store opening plans for the remainder of fiscal 2001 include approximately 45 new stores as well as the remodeling or relocation of approximately 10 locations.

In February 2000, the Company's Board of Directors authorized the purchase of up to $400 million of the Company's common stock from time to time through open market purchases. The stock purchase program has no stated expiration date. Approximately 1.9 million shares were purchased under this plan during the last fiscal year at a cost of $100 million. No additional purchases have been made in the current fiscal year.

In June 2000, the Company amended its $100 million revolving credit facility to among other things make certain financial covenants less restrictive, thereby providing the Company with additional flexibility. The current facility is scheduled to mature in August 2002. Also in June 2000, shareholders adopted an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's common stock to one billion shares.

Management believes that funds from the expected results of operations and available cash and cash equivalents will be sufficient to finance the Company's anticipated expansion plans and strategic

---

initiatives for the next year. The Company's revolving credit facility and the inventory financing program are also available for additional working capital needs or investment opportunities.

Safe Harbor Provisions Under the Private Securities Litigation Reform Act of 1995 (the "1995 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 this Quarterly Report on Form 10-Q are forward-looking statements and may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential." Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause the Company's actual results to differ materially from the anticipated results expressed in such forward-looking statements, including, among other things, general economic conditions, product availability, sales volumes, profit margins, and the impact of labor markets and new product introductions on the Company's overall profitability. Readers should refer to the Company's Current Report on Form 8-K filed on May 15, 1998, that describes additional important factors that could cause actual results to differ materially from those contemplated by the statements made in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations are not currently subject to market risks for interest rates, foreign currency rates, commodity prices or other market price risks of a material nature.

PART II—OTHER INFORMATION

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

a)

The Regular Meeting of the Shareholders of the Company was held June 22, 2000. The following individuals were elected at the meeting as Class 1 directors of the Company to serve until the 2002 Regular Meeting of Shareholders. Shares voted were as follows:

Bradbury H. Anderson	
Shares For	182,108,613
Shares Withheld	938,756
Mark C. Thompson	
Shares For	182,131,374
Shares Withheld	915,995
Frank D. Trestman	
Shares For	182,131,374
Shares Withheld	915,995
Kathy Higgins Victor	
Shares For	182,095,926
Shares Withheld	951,443
James C. Wetherbe	
Shares For	182,131,624
Shares Withheld	915,745

Shareholders ratified the appointment of the following individual as a Class 2 director of the Company to serve until the 2001 Regular Meeting of Shareholders. Shares voted were as follows:

Robert T. Blanchard	
Shares For	181,940,490
Shares Against	624,262
Shares Abstaining	482,617

Other matters voted on and the results of voting were as follows:

Shareholders ratified the appointment of Ernst & Young LLP, as the Company's independent auditor for the fiscal year, which began on February 27, 2000, with shares voted as follows:

Shares For	182,502,628
Shares Against	103,881
Shares Abstaining	440,860

Shareholders approved the Company's 2000 Restricted Stock Award Plan, with shares voted as follows:

Shares For	104,386,214
Shares Against	77,650,237
Shares Abstaining	1,010,918

Shareholders approved an amendment to the Company's Articles of Incorporation increasing the number of authorized shares of common stock to one billion shares, with shares voted as follows:

Shares For	147,378,267
Shares Against	34,791,731
Shares Abstaining	877,371

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

		Method of Filing
a.	Exhibits:	
3.1	Articles of Amendment of Amended and Restated Articles of Incorporation as filed on June 26, 2000	(1)
10.1	Credit Agreement dated June 28, 2000	(1)
27.1	Financial Data Schedule	(1)
b.	Reports on Form 8-K:	
	None.	

(1) Document is filed herewith.

SIGNATURES

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

BEST BUY CO., INC.
(Registrant)

Date: October 5, 2000

By: /s/ ALLEN U. LENZMEIER

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

By: /s/ MARC I. GORDON

Marc I. Gordon
Vice President—Controller
(principal accounting officer)

QuickLinks

INDEX
BEST BUY CO., INC.
SIGNATURES
QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 3.1

ARTICLES OF AMENDMENT OF AMENDED AND RESTATED ARTICLES OF INCORPORATION OF BEST BUY CO., INC.

WE, THE UNDERSIGNED, being officers of Best Buy Co., Inc., a Minnesota corporation subject to the provisions of Minnesota Statutes, Chapter 302A, the Minnesota Business Corporation Act, do hereby certify that the resolutions as hereinafter set forth were adopted on the 22 nd day of June, 2000, by the affirmative vote of the holders of a majority of the voting power of the shares present and entitled to vote:

RESOLVED **:**

The Shareholders of this corporation do hereby amend Article IV of the corporation's Amended and Restated Articles of Incorporation to read as follows:

ARTICLE IV
CAPITAL

The aggregate number of shares of all classes of stock which this corporation shall have the authority to issue is One Billion Four Hundred Thousand (1,000,400,000) shares consisting of:

(1) 1,000,000,000 shares of Common Stock, par value of $.10 per share; and

(2) 400,000 shares of Preferred Stock, par value of $1.00 per share.

The holders of shares of Common Stock shall have one vote for each share of Common Stock held of record on each matter submitted to the holders of shares of Common Stock.

RESOLVED

FURTHER:

The Chairman and Chief Executive Officer and the Secretary of this corporation shall be, and they each hereby are, authorized, empowered and directed to make, execute and acknowledge such document(s) as may be required by Minnesota Statutes, Chapter 302A, to reflect this amendment to the Amended and Restated Articles of Incorporation and to cause such document to be filed for record in the manner required by law.

/s/ RICHARD M. SCHULZE

Richard M. Schulze
Chairman and Chief Executive Officer

/s/ ELLIOT S. KAPLAN

Elliot S. Kaplan
Secretary

QuickLinks

ARTICLES OF AMENDMENT OF AMENDED AND RESTATED ARTICLES OF INCORPORATION OF BEST BUY CO., INC.
ARTICLE IV CAPITAL
QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 10.1

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), made and entered into as of June 28, 2000, is by and between Best Buy Co., Inc., a Minnesota corporation (the "Company"), the banks which are signatories hereto (individually, each a "Bank" and collectively, the "Banks") and U.S. Bank National Association, a national banking association, as agent for the Banks (in such capacity, the "Agent").

RECITALS

1. The Banks, Company, and the Agent entered into a Credit Agreement dated as of August 9, 1999 (the "Credit Agreement"); and

2. The Company desires to amend certain provisions of the Credit Agreement, and the Banks and the Agent have agreed to make such amendments, subject to the terms and conditions set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby covenant and agree to be bound as follows:

Section 1. ***Capitalized Terms.*** Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, unless the context shall otherwise require.

Section 2. ***Amendments.*** The Credit Agreement is hereby amended as follows:

2.1 ***General Capital Expenditures.*** Section 5.17 is hereby amended to read in its entirety as follows:

Section 5.17 *[INTENTIONALLY DELETED]*.

2.2 ***Minimum Consolidated Net Worth.*** Section 5.21 of the Credit Agreement is hereby amended to read in its entirety as follows:

Section 5.21 *Minimum Consolidated Net Worth.* Not permit Consolidated Net Worth to be less than $1,000,000,000 at the end of any fiscal quarter.

2.3 ***Owned Land and Buildings.*** Section 5.24 of the Credit Agreement is hereby amended to read in its entirety as follows:

Section 5.24 *[INTENTIONALLY DELETED.]*

Section 3. ***Effectiveness of Amendments.*** The amendments contained in this Amendment shall become effective upon delivery by the Company of, and compliance by the Company with, the following:

3.1 This Amendment duly executed by the Company, the Agent, and the Majority Banks.

3.2 A consent of each Guarantor in the form of Exhibit A attached to this Amendment, duly executed by each Guarantor.

3.3 A copy of the resolutions of the Board of Directors of the Company authorizing the execution, delivery and performance of this Amendment certified as true and accurate by its Secretary or Assistant Secretary, along with a certification by such Secretary or Assistant Secretary (i) certifying that there has been no amendment to the Articles of Incorporation or Bylaws of the Company since true and accurate copies of the same were delivered to the Agent with a certificate of the Secretary of the Company dated August 9, 1999, and (ii) identifying each officer of the Company authorized to

---

execute this Amendment and any other instrument or agreement executed by the Company in connection with this Amendment, and certifying as to specimens of such officer's signature and such officer's incumbency in such offices as such officer holds.

3.4 A good standing certificate for the Company from the State of Minnesota issued not more than 10 days prior to the date of this Amendment.

3.5 The Company shall have satisfied such other conditions as specified by the Banks, including payment of all unpaid legal fees and expenses incurred by the Agent through the date of this Amendment in connection with the Credit Agreement and this Amendment.

Section 4. ***Representations, Warranties, Authority, No Adverse Claim.***

4.1 ***Reassertion of Representations and Warranties, No Default.*** The Company hereby represents that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties contained in the Credit Agreement are true, correct and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the Credit Agreement, and (b) there will exist no Default or Event of Default under the Credit Agreement as amended by this Amendment on such date which has not been waived by the Banks.

4.2 ***Authority, Validity, No Conflict, No Consent Required.*** The Company represents and warrants that the Company has the power and legal right and authority to enter into this Amendment and has duly authorized as appropriate the execution and delivery of this Amendment and other agreements and documents executed and delivered by the Company in connection herewith or therewith by proper corporate authority, and neither this Amendment nor the agreements contained herein contravenes or constitutes a default under any agreement, instrument or indenture to which the Company is a party or a signatory or a provision of the Company's Articles of Incorporation, Bylaws or any other agreement or requirement of law, or result in the imposition of any Lien on any of its property under any agreement binding on or applicable to the Company or any of its property except, if any, in favor of the Banks. The Company represents and warrants that this Amendment constitutes the legal, valid, and binding obligations of the Company, enforceable against the Company in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium, and other similar laws affecting Creditors' rights generally and general principles of equity. The Company represents and warrants that no consent, approval or authorization of or registration or declaration with any person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Company of this Amendment or other agreements and documents executed and delivered by the Company in connection therewith or the performance of obligations of the Company therein described, except for those which the Company has obtained or provided and as to which the Company has delivered certified copies of documents evidencing each such action to the Agent.

4.3 ***No Adverse Claim.*** The Company warrants, acknowledges and agrees that no events have been taken place and no circumstances exist at the date hereof which would give the Company a basis to assert a defense, offset or counterclaim to any claim of the Banks with respect to the Obligations.

Section 5. ***Affirmation of Credit Agreement, Further References.*** The Banks and the Company each acknowledge and affirm that the Credit Agreement, as hereby amended, is hereby ratified and confirmed in all respects and all terms, conditions and provisions of the Credit Agreement, except as amended by this Amendment, shall remain unmodified and in full force and effect. All references in any document or instrument to the Credit Agreement are hereby amended and shall refer to the Credit Agreement as amended by this Amendment. The Company confirms to the Banks that all of the terms, conditions, provisions, agreements, requirements, promises, obligations, duties, covenants and representations of the Company under any and all other documents and agreements entered into with respect to the obligations under the Credit Agreement are incorporated herein by reference and are hereby ratified and affirmed in all respects by the Company.

Section 6. ***Merger and Integration, Superseding Effect.*** This Amendment, from and after the date hereof, embodies the entire agreement and understanding between the parties hereto and supersedes and has merged into this Amendment all prior oral and written agreements on the same subjects by and between the parties hereto with the effect that this Amendment, shall control with respect to the specific subjects hereof and thereof.

Section 7. ***Severability.*** Whenever possible, each provision of this Amendment and any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted in such manner as to be effective, valid and enforceable under the applicable law of any jurisdiction, but, if any provision of this Amendment or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be held to be prohibited, invalid or unenforceable under the applicable law, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition, invalidity or unenforceability, without invalidating or rendering unenforceable the remainder of such provision or the remaining provisions of this Amendment or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto in such jurisdiction, or affecting the effectiveness, validity or enforceability of such provision in any other jurisdiction.

Section 8. ***Successors.*** This Amendment shall be binding upon the Company and the Banks and their respective successors and assigns, and shall inure to the benefit of the Company and the Banks and the successors and assigns of the Banks.

Section 9. ***Legal Expenses.*** As provided in Section 8.03 of the Credit Agreement, the Company agrees to reimburse the Agent, upon execution of this Amendment, for all reasonable out-of-pocket expenses (including attorney' fees and legal expenses of Dorsey & Whitney LLP, counsel for the Agent) incurred in connection with the Credit Agreement, including in connection with the negotiation, preparation and execution of this Amendment and all other documents negotiated, prepared and executed in connection with this Amendment and in enforcing the obligations of the Company under this Amendment and to pay and save the Agent harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of this Amendment, which obligations of the Company shall survive any termination of the Credit Agreement.

Section 10. ***Headings.*** The headings of various sections of this Amendment have been inserted for reference only and shall not be deemed to be a part of this Amendment.

Section 11. ***Counterparts.*** This Amendment may be executed in several counterparts as deemed necessary or convenient, each of which, when so executed, shall be deemed an original, provided that all such counterparts shall be regarded as one and the same document.

Section 12. ***Governing Law.*** **THIS AMENDMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS, THEIR HOLDING COMPANIES AND THEIR AFFILIATES.**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date and year first above written.

Company: BEST BUY CO., INC.

By: /s/ Robert C. Fox

Title: Senior Vice President Finance

Agent: U.S. BANK NATIONAL ASSOCIATION, as Agent

By: /s/ Matt A. Ross

Title: Vice President

Banks: U.S. BANK NATIONAL ASSOCIATION, as a Bank

By: /s/ Matt A. Ross

Title: Vice President

FIRST UNION NATIONAL BANK

By: /s/ Randall R. Meck

Title: Vice President

BANK ONE, NA (formerly THE FIRST NATIONAL BANK OF CHICAGO)

By: /s/ John D. Runger

Title: Senior Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Allison S. Gelfman

Title: Vice President

By: /s/ Christopher Cudak

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD.,
CHICAGO BRANCH

By: /s/ Gus C. Browne II

Title: Senior Vice President & Manager

QuickLinks

FIRST AMENDMENT TO CREDIT AGREEMENT
RECITALS
AGREEMENT

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS INDICATED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	MAR 03 2001
PERIOD START	FEB 27 2000
PERIOD END	AUG 26 2000
CASH	845,021
SECURITIES	0
RECEIVABLES	201,375
ALLOWANCES	0
INVENTORY	1,456,752
CURRENT ASSETS	2,676,345
PP&E	1,353,932
DEPRECIATION	464,531
TOTAL ASSETS	3,644,187
CURRENT LIABILITIES	1,917,403
BONDS	21,585
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	20,760
OTHER SE	1,543,278
TOTAL LIABILITY AND EQUITY	3,644,187
SALES	6,132,889
TOTAL REVENUES	6,132,889
CGS	4,878,551
TOTAL COSTS	4,878,551
OTHER EXPENSES	1,030,470
LOSS PROVISION	0
INTEREST EXPENSE	(17,438)
INCOME PRETAX	241,306
INCOME TAX	92,400
INCOME CONTINUING	148,906
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	148,906
EPS BASIC	.72
EPS DILUTED	.70

End of Filing