BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 01/11/00 for the Period Ending 11/27/99

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 1/11/2000 For Period Ending 11/27/1999

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 27, 1999 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)

(612) 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 November 27, 1999, there were 204,411,000 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 27, 1999

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

($ in 000)

	November 27, 1999 (Unaudited)	February 27, 1999	November 28, 1998 (Unaudited)
CURRENT ASSETS			
Cash and cash equivalents	$ 514,797	$ 785,777	$ 409,373
Receivables	383,461	132,401	278,468
Recoverable costs from developed properties	87,377	73,956	75,329
Merchandise inventories	2,082,543	1,046,366	1,684,928
Other current assets	40,601	33,900	31,878
Total current assets	3,108,779	2,072,400	2,479,976
PROPERTY AND EQUIPMENT			
Land and buildings	51,905	23,158	22,946
Leasehold improvements	221,434	174,495	164,140
Furniture, fixtures and equipment	679,391	505,232	455,084
Property under capital leases	29,079	29,079	29,079
	981,809	731,964	671,249
Less accumulated depreciation and amortization	372,722	308,324	297,822
Net property and equipment	609,087	423,640	373,427
OTHER ASSETS	54,187	35,583	22,114
TOTAL ASSETS	$3,772,053	$ 2,531,623	$ 2,875,517

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000)

	November 27, 1999 (Unaudited)	February 27, 1999	November 28, 1998 (Unaudited)
CURRENT LIABILITIES			
Accounts payable	$2,070,254	$1,011,746	$1,534,021
Accrued compensation and related expenses	78,691	86,667	59,270
Accrued liabilities	359,062	282,711	265,657
Current portion of long-term debt	9,046	30,088	32,132
Total current liabilities	2,517,053	1,411,212	1,891,080
LONG-TERM LIABILITIES	72,932	55,957	59,794
LONG-TERM DEBT	23,679	30,509	31,830
SHAREHOLDERS' EQUITY			
Preferred stock, $1.00 par value: Authorized - 400,000 shares; Issued and outstanding - none	-	-	-
Common stock, $.10 par value: Authorized - 400,000,000 shares; Issued and outstanding 204,411,000, 203,621,000 and 201,764,000 shares, respectively	20,441	10,181	10,088
Additional paid-in capital	473,296	542,377	510,145
Retained earnings	664,652	481,387	372,580
Total shareholders' equity	1,158,389	1,033,945	892,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,772,053	$2,531,623	$2,875,517

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 27, 1999	November 28, 1998	November 27, 1999	November 28, 1998
Revenues	$ 3,107,337	$ 2,492,467	$ 8,179,408	$ 6,608,616
Cost of goods sold	2,516,970	2,048,252	6,596,519	5,409,472
Gross profit	590,367	444,215	1,582,889	1,199,144
Selling, general and administrative expenses	467,779	353,985	1,298,994	1,017,693
Operating income	122,588	90,230	283,895	181,451
Net interest income (expense)	4,451	(3,190)	13,140	(6,695)
Earnings before income tax expense	127,039	87,040	297,035	174,756
Income tax expense	48,650	33,497	113,770	67,281
Net earnings	$ 78,389	$ 53,543	$ 183,265	$ 107,475
Basic earnings per share	$ .38	$ .27	$ .90	$ .54
Diluted earnings per share	$ .37	$ .25	$ .86	$ .52
Basic weighted average common shares outstanding (000's)	204,784	201,612	204,618	198,070
Diluted weighted average common shares outstanding (000's)	212,760	210,046	213,430	209,346

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 27, 1999

($ in 000)

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings
Balance, February 27, 1999	$ 10,181	$ 542,377	$ 481,387
Stock options exercised	357	30,140	--
Tax benefit from stock options exercised	--	69,386	--
Two-for-one stock split	10,190	(10,190)	--
Repurchase of common stock	(287)	(158,417)	--
Net earnings, nine months ended November 27, 1999	--	--	183,265
Balance, November 27, 1999	$ 20,441	$ 473,296	$ 664,652

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(Unaudited)

	Nine Months Ended	
	November 27, 1999	November 28, 1998
OPERATING ACTIVITIES		
Net earnings	$ 183,265	$ 107,475
Depreciation, amortization and other non-cash charges	71,134	56,394
	254,399	163,869
Changes in operating assets and liabilities:		
Receivables	(251,060)	(182,766)
Merchandise inventories	(1,036,177)	(624,140)
Other assets	(7,562)	(3,525)
Accounts payable	1,058,508	771,369
Other liabilities	153,542	82,183
Total cash provided by operating activities	171,650	206,990
INVESTING ACTIVITIES		
Additions to property and equipment	(255,624)	(95,040)
Increase in recoverable costs from developed properties	(13,421)	(67,114)
Increase in other assets	(16,841)	(3,245)
Total cash used in investing activities	(285,886)	(165,399)
FINANCING ACTIVITIES		
Repurchase of common stock	(158,704)	(2,462)
Common stock issued	29,832	12,148
Long-term debt payments	(27,872)	(162,031)
Total cash used in financing activities	(156,744)	(152,345)
DECREASE IN CASH AND CASH EQUIVALENTS	(270,980)	(110,754)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	785,777	520,127
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 514,797	$ 409,373

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:	$ 3,879	$ 23,822
Income taxes:	$ 47,595	$ 60,728

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The consolidated balance sheets as of November 27, 1999, and November 28, 1998, the related consolidated statements of earnings for the three and nine months then ended, consolidated cash flows for the nine months then ended and the consolidated statement of changes in shareholders' equity for the nine months ended November 27, 1999, 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 Company's business is seasonal in nature 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 27, 1999, and incorporated by reference into the Company's Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. CHANGE IN ACCOUNTING POLICY - PERFORMANCE SERVICE PLANS:

The Company sells performance service plans (PSPs) on behalf of an unrelated third party. In December 1999, the staff of the Securities and Exchange Commission (SEC Staff) announced its position with respect to the accounting for revenues from insured extended service contracts, such as PSPs. The SEC Staff indicated that in those states where a retailer is deemed to be the obligor, net revenues from the sales of service contracts should be recognized over the life of the underlying contract rather than at the time of the sale. The designation of a retailer as the obligor varies depending in large part on applicable state regulations. The Company had, until the third quarter of fiscal 2000, recognized the net commission revenue from the sale of all insured PSPs at the time of sale.

Effective as of the beginning of the third quarter of fiscal 2000, the Company has changed its accounting policy with respect to the recognition of revenues from the sale of obligor service contracts. Pursuant to the Company's new policy, the Company recognizes revenues, net of direct selling expenses (consisting primarily of a lump sum payment due to the administrator at the time of sale), ratably over the terms of the contracts sold, generally two to five years. Previously, the Company recognized all revenues, net of direct selling expenses, for the sale of obligor service contracts at the time of sale. That accounting policy was adopted in fiscal 1996, the year the Company began selling insured PSPs. The Company has and will continue to recognize net commission revenues from the sale of non-obligor service contracts at the time of sale. The Company has given retroactive effect to this new accounting policy by restating its previously published financial statements beginning with fiscal 1996. The impact of the restatement on the consolidated statements of operations for the three and nine month periods ended November 28, 1998, is as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	As Previously Reported November 28, 1998	As Restated November 28, 1998	As Previously Reported November 28, 1998	As Restated November 28, 1998
Revenues	$2,493,843	$2,492,467	$6,619,631	$6,608,616
Cost of goods sold	2,048,252	2,048,252	5,409,472	5,409,472
Gross profit	445,591	444,215	1,210,159	1,199,144
Selling, general and administrative expenses	353,985	353,985	1,017,693	1,017,693
Operating income	91,606	90,230	192,466	181,451
Income tax expense	34,027	33,497	71,522	67,281
Net earnings	54,389	53,543	114,249	107,475
Basic earnings per share	$.27	$.27	$.58	$.54
Diluted earnings per share	$.26	$.25	$.55	$.52

In addition, the restatement also resulted in changes to the consolidated balance sheets as of February 27, 1999 and November 28, 1998, the statement of earnings for the nine-month period ended November 28, 1998, and certain classifications within the statements of cash flows for the nine-month period ended November 28, 1998. As of the beginning of fiscal 2000, the restatement resulted in a net reduction in retained earnings of approximately $30 million. The revenue deferred under the new policy will be recognized over the lives of the related contracts.

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:

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

	Three Months Ended		Nine Months Ended	
	November 27, 1999	November 28, 1998	November 27, 1999	November 28, 1998
Numerator (000's):				
Net earnings	$ 78,389	$ 53,543	$ 183,265	$ 107,475
Interest on preferred securities, net of tax	-	-	-	770
Net earnings assuming dilution	$ 78,389	$ 53,543	$ 183,265	$ 108,245
Denominator (000's):				
Weighted average common shares outstanding	204,784	201,612	204,618	198,070
Effect of dilutive securities:				
Employee stock options	7,976	8,434	8,812	5,690
Preferred securities	-	-	-	5,586
Weighted average common shares outstanding assuming dilution	212,760	210,046	213,430	209,346
Basic earnings per share	$ .38	$ .27	$ .90	$ .54
Diluted earnings per share	$ .37	$ .25	$ .86	$ .52

Net earnings reflect the change in accounting for PSPs described in Note 2 and have been restated as necessary.

In March 1999, the Company effected a two-for-one stock split in the form of a stock dividend. All share and per share information reflects the stock split.

5. CREDIT FACILITY:

In August 1999, the Company entered into an unsecured $100 million revolving credit facility, replacing the $220 million facility that was scheduled to mature in June 2000. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. In addition, the new facility makes certain financial covenants less restrictive thereby providing the Company with additional flexibility. The current facility is scheduled to mature in August 2002.

6. SHARE REPURCHASE PROGRAMS:

In October 1998, the Company's Board of Directors approved the purchase of up to $100 million of the Company's common stock from time to time through open market purchases over the following twelve months. This repurchase program was completed in the second quarter of fiscal 2000 with a total of 1.8 million shares purchased.

In September 1999, the Company's Board of Directors approved the purchase of up to $200 million of the Company's common stock from time to time through open market purchases. This repurchase program has no stated expiration date. As of November 27, 1999, 1.1 million shares have been purchased at a cost of approximately $61 million.

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 2000 were a record $78.4 million, or $.37 per share on a diluted basis, compared to net earnings of $53.5 million, or $.25 per share, for the comparable period last year. For the first nine months of the current fiscal year, net earnings were a record $183.3 million, or $.86 per share on a diluted basis, compared to $107.5 million, or $.52 per share, for the same period last year. A combination of new products, strong consumer demand and improved execution of selling strategies at the Company's retail stores has generated market share gains and improved gross profit margins resulting in record quarterly and year-to-date financial performance. Quarterly net earnings have exceeded those of the comparable quarter of the prior year by 30% or more for the past ten consecutive quarters.

Results of operations reflect a change in accounting and restatement of previously reported amounts where necessary to reflect recent SEC Staff guidance on accounting for extended service contracts, as more fully described in Note 2 to the accompanying financial statements. Net earnings for the third quarter of fiscal 2000 were $.38 per share before being reduced by $2.0 million, or $.01 per share, to reflect the change. The combined reduction to retained earnings through February 27, 1999, totals approximately $30 million. For the nine-month period, net earnings were reduced by $3.4 million, or $.01 per share. For the prior year's third quarter and year-to-date periods, results were restated and reduced earnings by $846,000 and $6.8 million, or $.01 and $.03 per share, respectively.

Revenues in the third quarter increased 25% to $3.107 billion compared to $2.492 billion in the third quarter last year. Revenues in the first nine months increased 24% to $8.179 billion compared to $6.609 billion last year. Comparable store sales increases of 9.2% for the third quarter and 11.1% year-to-date and a net increase of 42 new stores in the past twelve months drove the revenue increases. All major product categories generated comparable store sales increases for the eighth consecutive quarter. Sales of digital technology products such as Digital Versatile Disc (DVD), Digital Broadcast Satellite (DBS), digital cameras and camcorders, as well as strong sales of video games fueled the comparable store sales gains. Management believes that the comparable store sales gains illustrate the Company's ability to successfully bring new products and selling strategies to market and capture market share. Management expects that comparable store sales increases could moderate in the future, as the compounding effect of the sales gains over the past two years makes future increases more difficult.

As of November 27, 1999, the Company operated 354 stores compared to 312 stores one year ago. In the third quarter, the Company opened 22 new stores, including entry into the markets of Norfolk and Richmond, Virginia; Albany and Rochester, New York; Jacksonville and Tallahassee, Florida; and San Diego, California. Included in the 22 new store openings were three small market stores designed to serve markets with populations under 200,000. All new stores opened during the quarter were Concept IV stores which feature improved merchandising, signage and customer service and are expected to better address customers' needs as the industry continues to progress into new digital products. The Company also relocated six stores and expanded two stores to the Concept IV format during the third quarter. In fiscal 2001, the Company plans to open approximately 60 new stores including entry into the New York metropolitan market.

The Company continues to invest in building the systems infrastructure and content base to support its developing e-commerce business, BestBuy.com. The Company has filled most of the critical leadership roles for BestBuy.com and has finalized agreements with nearly all major vendors to offer an expanded product assortment on-line. The Company's objective is to begin rolling out its expanded online product assortment in the first quarter of fiscal 2001.

Retail store sales mix by major product category for the three-month and nine-month periods was as follows:

	Three Months Ended		Nine Months Ended	
	November 27, 1999	November 28, 1998	November 27, 1999	November 28, 1998
Home Office	36%	38%	36%	37%
Consumer Electronics				
Audio	10	10	10	10
Video	17	17	17	16
Entertainment Software	19	19	18	19
Appliances	8	8	9	10
Other	10	8	10	8
Total	100%	100%	100%	100%

In the home office category, sales of personal computers benefited throughout the quarter from subsidy offers provided by Internet Service Providers (ISPs). The offers provide customers with an instant rebate on the purchase of a personal computer when the customer signs a contract to subscribe to Internet service provided by the ISP. This rebate to the customer is funded by the ISP, who also bears the risk of collection of the monthly subscriber fees paid by the customer to the ISP. Nearly 500,000 customers have signed up for the ISP offers since the offers began in July. Average selling prices of computers have remained relatively flat for the last two quarters, but declined 20-25% compared to the third quarter of fiscal 1999. The year-over-year decline in average selling prices was offset by an increase in unit volume driven in part by the ISP subsidy. The increased unit volume stimulated sales of ancillary products and services such as accessories and PSPs.

Digital technology continued to be the driving force in consumer electronics with digital product sales currently representing more than eight percent of the Company's total sales for the quarter. Digital technology products such as DVD hardware, digital satellite systems and digital camcorders made strong contributions to the quarterly comparable store sales increase. While not yet significant to total revenues, digital television sales increased as a result of an expanded number of models available, lower price points and more programming options. Sales of DBS systems are expected to increase in markets where local programming is available as a result of recent federal legislation permitting local broadcast signals to be offered over DBS Systems. Sales of large screen televisions and home theater systems also contributed to the overall sales increase.

In the entertainment software category, sales of compact discs and DVD movies were particularly strong driven by solid in-stock levels and a consistent flow of new music releases and new DVD movie releases including new Disney classics. Strong sales of DVD players, with price points beginning under $200, continued to positively impact DVD software sales. The Company believes it has the largest assortment of DVD movies of any retailer and has increased the retail floor space dedicated to DVD movies to accommodate more than 1,800 DVD movie titles, an increase of 30% over last year. Sales of video games were strong, benefiting from the launch of Sega's 128-bit Dreamcast system and the popularity of newly released software titles.

Gross profit margin in the third quarter improved to 19.0% compared to 17.8% in the third quarter of fiscal 1999. Gross profit margin for the nine-month period improved 1.3% of sales to 19.4% compared to 18.1% in the same period last year. These improvements reflect the ongoing benefit from the Company's initiatives to generate more profitable product assortments, improve inventory management and enhance advertising effectiveness. A more profitable sales mix, as well as higher gross profit margins in most product categories, were significant contributors to the year-over-year improvements. In addition, increased sales of higher margin PSPs and accessories favorably impacted margins in the quarter and year-to-date periods stimulated by higher unit volume sales of personal computers and digital products. Sales of PSPs accounted for 4.1% and 4.2% of sales for the third quarter and nine-month periods of the current year, respectively, compared to 3.8% for both the quarter and nine-month periods of the prior year. Management expects that while gross profit margins will continue to improve over prior year levels, the improvement will not be as significant due to benefits already realized from progress on the Company's strategic initiatives. The gross profit margin in the third quarter of this fiscal year improved by 3% of sales, over the third quarter two years ago. Also, a traditionally lower margin product sales mix and a lower level of PSP sales during the high-volume holiday season could result in a lower gross profit margin in the fourth quarter of the year as compared to the first three quarters.

Selling, general and administrative (SG&A) expenses increased to 15.1% of sales in the quarter compared to 14.2% in the third quarter last year. Year-to-date, SG&A expenses increased to 15.9% of sales in the current year compared to 15.4% in the same period last year. The increases were largely due to three factors. Store labor expenses have increased as a result of hiring a more highly skilled sales staff to support higher levels of sales of complex products, including the new digital technology products that have contributed to the sales and gross profit margin gains. The higher skilled labor has also resulted in increased sales of the basket of products and services that accompany a major product purchase. These labor costs, coupled with a decline in average selling prices of products, particularly personal computers, have led to a higher ratio of labor to revenues. Also, the increased rate of store expansion and preparation for approximately 60 new stores in fiscal 2001, compared to only 28 new stores in fiscal 1999, has led to an increased number of managers in the Company's management development program. Finally, personnel expenses and consulting costs have increased as a result of the Company's programs to re-engineer systems and processes and implement the technological infrastructure to provide long-term benefits and position the Company for further growth. All of these expenses have been funded through year-over-year increases in gross profit margins, as illustrated by the decrease in SG&A expenses as a percent of gross profit margin to 79.2% and 82.1% for the third quarter and nine-month periods of the current year, respectively, as compared to 79.7% and 84.9% for the same periods, respectively, in the prior fiscal year. Management currently expects that SG&A spending will continue to increase on a year-over-year basis, however seasonally higher sales volumes in the fourth quarter are expected to result in a traditionally lower ratio of SG&A expenses as a percentage of sales compared to the first three quarters of the year.

Net interest income was $4.5 million in the third quarter and $13.1 million year-to-date compared to net interest expense of $3.2 million and $6.7 million in the same periods, respectively, last year. These improvements were principally due to the early retirement of the Company's $150 million 8-5/8% Senior Subordinated Notes in the third quarter of fiscal 1999 and the conversion into equity of the Company's $230 million in preferred securities in the first quarter of fiscal 1999. Interest earned on higher cash balances resulting from faster inventory turns and improved profitability also contributed to the improvement.

The Company's effective income tax rate for the third quarter and first nine months of the current fiscal year was 38.3%, compared to 38.5% for the same periods last year. The Company's effective tax rate is primarily impacted by the levels and taxability of investment income, as well as state income taxes.

In December 1999, the Company announced its plans to form a comprehensive strategic alliance with Microsoft Corp. (Microsoft) that encompasses development of broadband and narrowband technology, as well as in-store and online efforts. The parties signed a letter of intent that provides for significant joint marketing in Best Buy's retail stores, online and through print/broadcast vehicles, profit sharing, the promotion of BestBuy.com throughout Microsoft's properties, and technology assistance. In addition, the agreement is expected to provide for the issuance of $200 million of Best Buy stock to Microsoft in exchange for cash.

Also, in December 1999, BestBuy.com made a $10 million strategic equity investment in Collabrative Media, Inc. dba etown.com, the leading online information and shopping source for buyers of consumer electronics products. In connection with the investment, the Company has obtained non-exclusive license rights to etown.com's editorial content including more than 4,200 product profiles and unbiased, expert product reviews and side-by-side product comparisons. BestBuy.com intends to integrate selective portions of this content into its new Internet shopping site.

FINANCIAL CONDITION

Working capital of $592 million at November 27, 1999 was essentially unchanged from $589 million one year ago. Cash and cash equivalents increased by $105 million compared to one year ago even with the repurchase of approximately $160 million of the Company's common stock and the investment of over $330 million in new stores, systems, and corporate facilities in the past 12 months. Merchandise inventories increased by approximately $400 million compared to the third quarter last year, a 24% increase consistent with the rate of sales growth. Inventory turns continued to improve while in-stock levels remained strong in preparation for the holiday selling season. Rolling twelve-month inventory turns improved to 6.8 times from 6.2 times for the period one year ago. The Company's net investment in inventory (i.e., inventory net of accounts payable) was $12 million at November 27, 1999, down from $151 million at November 28, 1998. 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 $105 million as compared to a year ago and $251 million compared to last fiscal year end, primarily due to higher business volumes including amounts due from the ISP subsidy providers. Recoverable costs from developed properties increased by $12 million compared to last year, primarily due to the development of new stores. Other assets and long-term liabilities both increased due to the investments and deferrals related to the Company's deferred compensation plan. Acquisition of leasehold rights also contributed to the increase in other long-term assets. Accounts payable increased as compared to a year ago as a result of the higher business volume and increased inventory levels. Accruals for payroll related liabilities increased as compared to last year's third quarter which is consistent with the expanding employee base needed to support the Company's growth. Other accrued liabilities increased compared to November 28, 1998, as a result of the overall higher levels of business activity.

Capital spending in the first nine months of fiscal 2000 was $256 million compared to $95 million for the same period last year as the Company invested in 44 new stores and 13 remodeled, expanded or relocated stores opened in fiscal 2000. Additionally, the Company expanded its corporate facilities to support the growth of the business, the most significant investment being the purchase of an additional office building to supplement the Company's existing corporate office. The Company also continued to invest in new systems and technology to better position the Company for continued growth and generate improvements in its existing business. Management expects total capital spending for fiscal 2000 to be approximately $400 million, exclusive of the amounts expected to be recovered through subsequent sales and leasebacks.

In October 1998, the Company's Board of Directors authorized the purchase of up to $100 million of the Company's common stock over a twelve-month period. This repurchase program was completed in the second quarter of fiscal 2000, with a total of 1.8 million shares purchased. In September 1999, the Board authorized the purchase of up to an additional $200 million of the Company's common stock. During the third quarter, the Company repurchased 1.1 million shares of stock at a cost of approximately $61 million under this plan, bringing the total amount of stock repurchased in the current fiscal year under both stock repurchase plans to approximately $160 million.

In August 1999, the Company entered into an unsecured $100 million revolving credit facility, replacing the $220 million facility that was scheduled to mature in June 2000. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. In addition, the new facility makes certain financial covenants less restrictive thereby providing the Company with additional flexibility. The current facility is scheduled to mature in August 2002.

Management believes that funds from the expected results of operations and available cash and cash equivalents will be sufficient to support the Company's anticipated expansion plans and strategic initiatives for the next year. The revolving credit facility and the Company's inventory financing program are also available for additional working capital needs or investment opportunities.

YEAR 2000

The Company recognized the material nature of the business issues surrounding computer processing of dates into and beyond the year 2000 (Y2K) and began taking corrective action in 1997. The Company's efforts included replacing and testing Y2K affected mainframe computer code, identifying and resolving non-mainframe computer hardware and software Y2K issues, assessing the Y2K readiness of the Company's business partners and developing contingency plans. Management believes the Company has completed all of the activities within its control to ensure that the Company's systems are Y2K compliant.

The Company's Y2K readiness costs were approximately $18 million, including $9 million in outside professional fees. Of the total costs, approximately $9 million were incurred in the current fiscal year. The Company funded both the capital and expensed elements of resolving Y2K issues through funds generated from operations.

The Company successfully completed its Y2K rollover without any major problems or disruptions. All of the Company's stores, logistics operations, service centers and corporate support areas were fully functional subsequent to the Y2K rollover. The Company is not aware that any of its major business partners have experienced significant Y2K issues. Additionally, the Company generally believes that the vendors that supply products to the Company for resale are responsible for the products' Y2K functionality. To date, the Company's efforts in handling customer product returns and repairs at its retail stores have not been significant.

Although the Company's Y2K rollover was successful, there are some remaining Y2K-related risks. These risks include potential product supply issues and other non-operational issues. Management believes appropriate action has been taken to address these remaining Y2K issues and contingency plans are in place to minimize the financial impact to the Company.

While the Company believes that it has pursued the appropriate course of action to ensure Y2K readiness, there can be no assurance that this objective will be achieved as it relates to its business partners or its remaining internal Y2K issues.

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 are encouraged to review 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 herein.

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.

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

a. Exhibits:

		Method of Filing
10.1	1997 Directors' Non-Qualified Stock Option Plan; 1999-2 Amendment and Restatement	Filed herewith
27.1	Financial Data Schedule	Filed herewith

b. Reports on Form 8-K:

Announcement of $200 million stock repurchase program filed on September 23, 1999.

Announcement of new member of Company's Board of Directors filed on September 27, 1999.

Announcement of new member of Company's Board of Directors filed on November 19, 1999.

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 11, 2000 *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)

BEST BUY CO., INC.

1997
DIRECTORS' NON-QUALIFIED STOCK OPTION PLAN

1999-2 AMENDMENT AND RESTATEMENT

A. PURPOSE.

The purpose of this Directors' Non-Qualified Stock Option Plan ("Plan") is to further the growth and general prosperity of Best Buy Co., Inc. (the "Company"), and its directly and indirectly wholly-owned subsidiaries (collectively, the "Companies") by enabling current directors of the Company, who have been or are serving on the Company's Board of Directors (the "Board") and upon whose judgment, initiative and effort the Companies were or are largely dependent for the successful conduct of their business, to acquire shares of the common stock of the Company under the terms and conditions and in the manner contemplated by this Plan, thereby increasing their personal involvement in the Companies. Options granted under the Plan are intended to be options which do not meet the requirements of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

B. ADMINISTRATION.

This Plan shall be administered by the Compensation and Human Resources Committee (the "Committee") of the Board. Subject to such orders and resolutions not inconsistent with the provisions of this Plan as may from time to time be issued or adopted by the Board, the Committee shall have full power and authority to interpret the Plan.

All decisions and determinations made by the Committee pursuant to the provisions of the Plan and applicable orders and resolutions of the Board shall be final. Each option granted shall be evidenced by a written agreement containing such terms and conditions as may be approved by the Committee and which shall not be inconsistent with the Plan and the orders and resolutions of the Board with respect thereto.

C. ELIGIBILITY, PARTICIPATION AND GRANTS.

Options shall be granted under the Plan to current members of the Board. The Committee shall grant to each director options to purchase shares in such amounts as the Committee shall from time to time determine.

D. SHARES SUBJECT TO THE PLAN.

Subject to adjustment as provided below, an aggregate of 2,800,000 shares of $0.10 par value common stock of the Company shall be subject to this Plan from authorized but unissued shares of the Company. Such number and kind of shares shall be appropriately adjusted in the event of any one or more stock splits, reverse stock splits or stock dividends hereafter paid or declared with respect to such stock. If, prior to the termination of the Plan, shares issued pursuant hereto shall have been repurchased by the Company pursuant to this Plan, such repurchased shares shall again become available for issuance under the Plan.

Any shares which, after the effective date of this Plan, shall become subject to valid outstanding options under this Plan may, to the extent of the release of any such shares from option by termination or expiration of option(s) without valid exercise, be made the subject of additional options under this Plan.

E. NO ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.

Except as expressly provided herein, in the event of a merger, consolidation, reorganization, stock dividend, stock split, or other change in corporate structure or capitalization affecting the common stock of the Company, there shall be no change in the number of shares subject to options to be granted thereafter pursuant to the Plan; provided, however, that in such event, an appropriate adjustment may be made in the number and kind of shares subject to and the exercise prices of outstanding options granted under the Plan as determined by the Committee.

F. TERMS AND CONDITIONS OF OPTIONS.

The Committee shall have the power, subject to the limitations contained in this Plan, to prescribe any terms and conditions in respect of the granting or exercise of any option under this Plan and, in particular, shall prescribe the following terms and conditions:

(1) Each option shall state the number of shares to which it pertains.

(2) The price at which shares shall be sold to participants hereunder (the "Exercise Price") shall be the Fair Market Value of the Company's common stock on the date of grant. Payment of the Exercise Price shall be made (a) if payment is made by check payable to the Company, at the time the shares are sold hereunder, or (b) if payment is made pursuant to an irrevocable election to surrender outstanding shares of common stock of the Company which have a Fair Market Value on the date of surrender equal to the Exercise Price of the shares as to which the option is being exercised, no later than the settlement date for the shares sold in the market to cover the Exercise Price, or (c) by a combination thereof, UNLESS an option is exercised in connection with a deferral election pursuant to the Deferred Compensation Plan, defined below, in which case payment of the Exercise Price shall be made as provided in Section M herein.

(3) An option shall be exercisable in whole or in part with respect to the shares included therein until the earlier of (a) the close of business on the tenth day prior to the proposed effective date of (i) any merger or consolidation of the Company with any other

corporation or entity as a result of which the holders of the common stock of the Company will own less than a majority voting control of the surviving corporation; (ii) any sale of substantially all of the assets of the Companies or (iii) any sale of common stock of the Company to a person not a shareholder on the date of issuance of the option who thereby acquires majority voting control of the Company, subject to any such transaction actually being consummated, or (b) the close of business on the date ten (10) years after the date the option was granted. The Company shall give written notice to the optionee not less than 30 days prior to the proposed effective date of any of the transactions described in (a) above. Notwithstanding the foregoing, in the event a director who is not an employee of the Companies resigns or is removed from the Board prior to the end of the term to which he or she has been elected or appointed (the "Term End"), all of the then outstanding options granted pursuant hereto shall expire on and as of the Term End; provided, however, that the foregoing shall not apply to any resignation or removal due to health reasons.

(4) An option shall be exercised when notice of such exercise, whether in writing or orally, has been given to the Company at its principal business office or to its designated agent by the person entitled to exercise the option and full payment for the shares with respect to which the option is exercised has been received by the Company. Until the stock certificates are issued, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to optioned shares, notwithstanding the exercise of the option.

(5) Each optionee shall be obligated to maintain the confidentiality of all of the confidential and proprietary information of the Companies and, in the event of a breach by the optionee of such obligation, all of the optionee's options granted pursuant to the Plan and all rights thereunder shall immediately terminate. Notwithstanding the foregoing, this Section F(5), adopted as of April 16, 1999, shall be effective only for options granted hereunder on and after April 16, 1999.

G. OPTIONS NOT TRANSFERABLE.

Options under the Plan may not be sold, pledged, assigned or transferred in any manner, whether by operation of law or otherwise, except by will, the laws of descent or a qualified domestic relations order.

H. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may amend this Plan from time to time as it may deem advisable and may at any time terminate the Plan, provided that any such termination of the Plan shall not adversely affect options already granted and such options shall remain in full force and effect as if the Plan had not been terminated.

I. AGREEMENT AND REPRESENTATIONS OF PARTICIPANTS.

As a condition precedent to the exercise of any option or portion thereof, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required under the Securities Act of 1933 or any other applicable law, regulation or rule of any governmental agency.

In the event legal counsel to the Company renders an opinion to the Company that shares for options exercised pursuant to this Plan cannot be issued to the optionee because such action would violate any applicable federal or state securities laws, then in that event the optionee agrees that the Company shall not be required to issue said shares to the optionee and shall have no liability to the optionee other than the return to optionee of amounts tendered to the Company upon exercise of the option.

J. EFFECTIVE DATE AND TERMINATION OF THE PLAN.

The Plan shall become effective as of April 18, 1997 if approved thereafter by the Company's shareholders. The Plan shall terminate on the earliest of:

(1) The date when all the shares available under the Plan shall have been acquired through the exercise of options granted under the Plan; or

(2) Ten (10) years after the date of approval of the Plan by the Company's shareholders; or

(3) Such other earlier date as the Board may determine.

K. FAIR MARKET VALUE.

"Fair Market Value" shall mean the last reported sale price of the Company's common stock on the date of grant, as quoted on by the New York Stock Exchange. If the Company's common stock ceases to be listed for trading on the New York Stock Exchange, "Fair Market Value" shall mean the value determined in good faith by the Board.

L. COMPLIANCE WITH RULE 16b-3 AND SECTION 162(m).

Transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and avoid loss of the deduction referred to in paragraph (1) of Section 162(m) of the Code. Anything in the Plan to the contrary notwithstanding, to the extent any provision of the Plan or action by the Committee fails to so comply or avoid the loss of such deduction, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

M. DEFERRAL OF OPTION GAIN.

Participants in the Company's Deferred Compensation Plan, effective as of April 1, 1998 (the "Deferred Compensation Plan"), may be able to defer the gain, if any, upon exercise of options granted hereunder pursuant to and in accordance with the terms of the Deferred Compensation Plan. To the extent that the Deferred Compensation Plan permits a participant to defer any gain with respect to an option, the Exercise Price must be satisfied utilizing shares of the Company's common stock held at least six months prior to exercise. In the event any deferral election is made with respect to an option, if the optionee is unable to deliver the requisite number of shares of the Company's common stock to cover the full Exercise Price prior to the expiration of such option, the portion of the option that corresponds to the portion of the full Exercise Price not covered shall be forfeited.

N. FORM OF OPTION.

Options shall be issued in substantially the same form as the Committee or the Board may approve.

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 26 2000
PERIOD START	FEB 28 1999
PERIOD END	NOV 27 1999
CASH	514,797
SECURITIES	0
RECEIVABLES	383,461
ALLOWANCES	0
INVENTORY	2,082,543
CURRENT ASSETS	3,108,779
PP&E	981,809
DEPRECIATION	372,722
TOTAL ASSETS	3,772,053
CURRENT LIABILITIES	2,517,053
BONDS	23,679
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	20,441
OTHER SE	1,137,948
TOTAL LIABILITY AND EQUITY	3,772,053
SALES	8,179,408
TOTAL REVENUES	8,179,408
CGS	6,596,519
TOTAL COSTS	6,596,519
OTHER EXPENSES	1,298,994
LOSS PROVISION	0
INTEREST EXPENSE	(13,140)
INCOME PRETAX	297,035
INCOME TAX	113,770
INCOME CONTINUING	183,265
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	183,265
EPS BASIC	.90
EPS DILUTED	.86

End of Filing