BEST BUY CO INC

FORM 10-Q/A
(Amended Quarterly Report)

Filed 03/20/00 for the Period Ending 05/29/99

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/A
(Amended Quarterly Report)

Filed 3/20/2000 For Period Ending 5/29/1999

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT NUMBER 1)

(Mark One)

/x/	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MAY 29, 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 May 29, 1999, there were 203,806,000 shares of common stock, $.10 par value, outstanding.

The Registrant's financial statements as of May 29, 1999, February 27, 1999 and May 30, 1998, and for the three-month periods ended May 29, 1999 and May 30, 1998 have been restated and are included herein. Items 1, 2 and 6 of the Registrant's Quarterly Report on Form 10-Q are hereby amended in their entirety as follows:

PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

($ in 000)

	May 29, 1999 (Unaudited)	February 27, 1999	May 30, 1998 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 510,883	$ 785,777	$ 397,298
Receivables	145,699	132,401	75,563
Recoverable costs from developed properties	84,258	73,956	25,917
Merchandise inventories	1,111,396	1,046,366	1,101,144
Other current assets	33,977	33,327	35,909
Total current assets	1,886,213	2,071,827	1,635,831
PROPERTY AND EQUIPMENT:			
Land and buildings	24,524	23,158	21,200
Leasehold improvements	177,805	174,495	161,797
Furniture, fixtures and equipment	537,611	505,232	380,907
Property under capital leases	29,079	29,079	29,079
	769,019	731,964	592,983
Less accumulated depreciation and amortization	331,632	308,324	265,345
Net property and equipment	437,387	423,640	327,638
OTHER ASSETS	39,661	36,156	19,884
TOTAL ASSETS	$ 2,363,261	$ 2,531,623	$ 1,983,353

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000)

	May 29, 1999 (Unaudited)	February 27, 1999	May 30, 1998 (Unaudited)
CURRENT LIABILITIES:			
Accounts payable	$ 867,329	$ 1,011,746	$ 703,301
Accrued compensation and related expenses	53,834	86,667	40,702
Accrued liabilities	248,643	234,364	179,975
Income taxes payable	10,682	46,851	—
Current portion of long-term debt	29,191	30,088	14,390
Total current liabilities	1,209,679	1,409,716	938,368
LONG-TERM LIABILITIES	66,720	57,453	51,625
LONG-TERM DEBT	28,402	30,509	207,247
CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY	—	—	671
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 203,806,000, 203,621,000 and 200,619,000 shares, respectively	20,380	10,181	10,031
Additional paid-in capital	509,884	542,377	497,828
Retained earnings	528,196	481,387	277,583
Total shareholders' equity	1,058,460	1,033,945	785,442
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,363,261	$ 2,531,623	$ 1,983,353

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended	
	May 29, 1999	May 30, 1998
Revenues	$ 2,385,431	$ 1,938,383
Cost of goods sold	1,923,429	1,589,445
Gross profit	462,002	348,938
Selling, general and administrative expenses	390,301	326,154
Operating income	71,701	22,784
Net interest income (expense)	4,413	(2,495)
Earnings before income tax expense	76,114	20,289
Income tax expense	29,305	7,812
Net earnings	$ 46,809	$ 12,477
Basic earnings per share	$ .23	$ .07
Diluted earnings per share	$ .22	$ .06
Basic weighted average common shares outstanding (000's)	204,034	191,571

Diluted weighted average common shares outstanding (000's)	213,279	199,781

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MAY 29, 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	119	9,243	—
Tax benefit from stock options exercised	—	20,782	—
Two-for-one stock split	10,190	(10,190)	—
Repurchase of common stock	(110)	(52,328)	—
Net earnings, three months ended May 29, 1999	—	—	46,809
Balance, May 29, 1999	$ 20,380	$ 509,884	$ 528,196

See notes to consolidated financial statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in 000)

(Unaudited)

	Three Months Ended	
	May 29, 1999	May 30, 1998
OPERATING ACTIVITIES		
Net earnings	$ 46,809	$ 12,477
Depreciation, amortization and other non-cash charges	23,638	17,604
	70,447	30,081
Changes in operating assets and liabilities:		
Receivables	(13,298)	20,139
Merchandise inventories	(65,030)	(40,356)
Other assets	(934)	2,309
Accounts payable	(144,417)	(59,350)
Other liabilities	(9,785)	(20,158)
Income taxes payable	(15,387)	(24,608)

Total cash used in operating activities	(178,404)	(91,943)
INVESTING ACTIVITIES		
Additions to property and equipment	(36,937)	(12,084)
Increase in recoverable costs from developed properties	(10,302)	(17,702)
Increase in other assets	(2,949)	(3,580)
Total cash used in investing activities	(50,188)	(33,366)
FINANCING ACTIVITIES		
Repurchase of common stock	(52,438)	—
Common stock issued	9,140	6,165
Long-term debt payments	(3,004)	(3,685)
Total cash (used in) provided by financing activities	(46,302)	2,480
DECREASE IN CASH AND CASH EQUIVALENTS	(274,894)	(122,829)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	785,777	520,127
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 510,883	$ 397,298

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	$ 1,328	$ 9,443
Income taxes	$ 44,048	$ 28,891

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 May 29, 1999, and May 30, 1998, the related consolidated statements of earnings and cash flows for the three months then ended and the consolidated statement of changes in shareholders' equity for the three months ended May 29, 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 10-K. Certain prior year amounts have been reclassified to conform to 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 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. The Company began selling insured PSPs in the fourth quarter of fiscal 1996.

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 net commission revenues ratably over the terms of the obligor service contracts sold, generally two to five years. The Company has and will continue to recognize net commission revenues for 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 affected financial information in the consolidated statements of operations for the three-month periods ended May 29, 1999 and May 30, 1998, is as follows (in thousands, except per share amounts):

	Three Months Ended			
	As Previously Reported May 29, 1999 (Unaudited)	As Restated May 29, 1999 (Unaudited)	As Previously Reported May 30, 1998 (Unaudited)	As Restated May 30, 1998 (Unaudited)
Revenues	$ 2,386,188	$ 2,385,431	$ 1,943,664	$ 1,938,383
Cost of goods sold	1,923,429	1,923,429	1,589,445	1,589,445
Gross profit	462,759	462,002	354,219	348,938
Selling, general and administrative expenses	390,301	390,301	326,154	326,154
Operating income	72,458	71,701	28,065	22,784
Income tax expense	29,596	29,305	9,845	7,812
Net earnings	47,275	46,809	15,725	12,477
Basic earnings per share	0.23	0.23	0.08	0.07
Diluted earnings per share	0.22	0.22	0.08	0.06

In addition, the restatement also resulted in changes to the consolidated balance sheets as of May 29, 1999, February 27, 1999 and May 30, 1998 and certain classifications within the statements of cash flows for the three-month periods ended May 29, 1999 and May 30, 1998. As of May 29, 1999, the restatement resulted in a net reduction in retained earnings of approximately $31 million representing the deferral of revenues net of the applicable income tax effect. The revenue deferred under the new policy will be recognized in future years 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 common share:

	Three Months Ended	
	May 29, 1999	May 30,1998
Numerator (000's):		
Net earnings	$ 46,809	$ 12,477
Denominator (000's):		
Weighted average common shares outstanding	204,034	191,571
Dilutive effect of employee stock options	9,245	8,210
Weighted average common shares outstanding assuming dilution	213,279	199,781
Basic earnings per share	$ .23	$ .07
Diluted earnings per share	$ .22	$ .06

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

5. Retirement of Debt:

On October 5, 1998, the Company redeemed its $150 million, 8 5/8% Senior Subordinated Notes due 2000, at 102.5% of their par value. In addition, in April 1998, over 99% of the Company's 6.5% Convertible Monthly Income Preferred Securities were converted into approximately 20.4 million shares of common stock, increasing shareholders' equity by over $222 million net of $6.8 million in deferred offering costs. The remaining outstanding preferred securities were redeemed for cash of $671,000.

6. Share Repurchase Program:

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. As of May 29, 1999, 1.1 million shares have been purchased at a cost of approximately $55 million.

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

Results of Operations

Net earnings for the first quarter of fiscal 2000 were a record $46.8 million, or $.22 per share on a diluted basis, compared to $12.5 million, or $.06 per share, for the comparable period last year. Strong consumer spending and market share gains combined with continued improvement in gross profit margins were the principal factors generating the record results. In addition, earnings of over $250 million in the past four quarters, the retirement of over $380 million in debt in fiscal 1999 and improved inventory management strengthened the Company's balance sheet and reduced net interest by $6.9 million compared to the first quarter one year ago.

Results of operations reflect a change in accounting and restatement of previously reported amounts where necessary to reflect recent Securities and Exchange Commission Staff guidance on accounting for certain extended service contracts, as more fully described in Note 2 to the accompanying financial statements. The Company refers to these contracts as Performance Service Plans (PSPs). Previously reported earnings for the first quarter of fiscal 2000 were $47.3 million before being reduced by $500,000 to reflect the change. The restatement had no impact on earnings per share as reported for the quarter. The reduction to retained earnings, as a result of the change, through May 29, 1999, totaled approximately $31 million.

Revenues in the first quarter increased 23% to $2.385 billion compared to $1.938 billion in the first quarter last year. A comparable store sales increase of 13.3% on top of 15.3% for the first quarter last year and the operation of 24 net additional stores drove the increase in revenues. The comparable store sales increase was the sixth consecutive quarter of sales gains in excess of 10%. Improved store execution, better in-stock levels and more effective advertising allowed the Company to capitalize on the continued strength in its retail sector and achieve market share gains. Each of the Company's major product categories generated double-digit comparable store sales increases.

As of May 29, 1999, the Company operated 313 stores compared to 289 stores one year ago. In the first quarter, the Company opened three of the approximately 45 new stores planned for fiscal 2000. New stores opened in the quarter included one store each in Reno, Nevada; Ft. Worth, Texas; and Sacramento, California. The Company also closed one store during the quarter. Of the remaining stores scheduled to open in fiscal 2000, 20 are expected to open during the second quarter, including entry into the new major markets of San Francisco, California and Jacksonville, Florida. Included in the total number of fiscal 2000 new store openings are about six new, small market format stores of approximately 30,000 square feet.

In the home office category, unit volume sales of personal computers increased significantly as compared to one year ago as average selling prices declined approximately 20% and the popularity of the Internet increased demand. The stronger unit volumes contributed to increased sales of the higher margin products and services that accompany the sales of personal computers.

Sales of analog video products such as televisions benefited from lower average selling prices and drove the sales increase in the consumer electronics category. Rapid acceptance of digital technology, such as DVD, digital camcorders and Digital Broadcast Satellite also contributed to the sales increase. Sales of DVD players continue to exceed industry expectations and the Company continues to effectively capitalize on the popularity of this new product.

Increased sales of entertainment software, which includes music and movies, computer software and video games were fueled by new releases from popular artists. In addition, the release of new DVD titles coupled with the increasing base of installed DVD players further drove the sales increases in this category. By year-end, the Company expects to offer over 2,000 DVD movie titles.

The appliance category continued to perform better than the industry as a whole. Strong new housing starts and a strengthened product assortment, including the addition of the Whirlpool line in the second quarter of last year, contributed to the gains in this category in the first quarter.

Retail store sales mix by major product category for the first quarter of the current and prior fiscal years was as follows:

	Three Months Ended	
	May 29, 1999	May 30, 1998
Home Office	37%	37%
Consumer Electronics		
Video	16	15
Audio	11	11
Entertainment Software	18	19
Appliances	9	9
Other	9	9
Total	100%	100%

Gross profit margins improved significantly in the first quarter of fiscal 2000 to 19.4% of sales compared to 18.0% of sales in the first quarter of fiscal 1999. This improvement reflects the continuing benefit from the Company's marketing initiatives including improved inventory management, more effective advertising, and more profitable assortments within product categories. Also, the increase in sales of higher margin performance service plans in the first quarter to 4.1% of sales from 3.7% of sales last year contributed to the increased gross profit margin.

Selling, general and administrative expenses (SG&A) decreased to 16.4% of sales in the quarter, compared to 16.8% of sales in the first quarter last year. The improvement was due to leverage on operating expenses, in particular overhead and net advertising costs, resulting from the strong sales gains. SG&A as a percent of sales declined while the Company continued to invest in initiatives to improve business processes and operating performance. The year over year increase in SG&A spending was due principally to payroll-related expenses to support the Company's growth and strategic initiatives as well as increased retail store compensation due to the competitive labor market and continuing efforts to build a higher caliber staff. The Company's ability to report a 3% operating margin in the lowest volume quarter illustrates the return being generated by its investment in strategic initiatives. SG&A as a percent of gross margin fell to 84% from 93% in the first quarter of the prior year as gross margin gains continue to fund the Company's initiatives.

Net interest income was $4.4 million in the first quarter compared to net interest expense of $2.5 million in the same period last year. The improvement was primarily due to the conversion of the Company's 6.5% Convertible Monthly Income Preferred Securities into equity in the first quarter of fiscal 1999 and the early redemption of the Company's $150 million 8 $^{5}/_{8}$% Senior Subordinated Notes in the third quarter of fiscal 1999. Interest earned on higher cash balances resulting from faster inventory turns and earnings over the past four quarters in excess of $250 million also contributed to the improvement.

The Company's effective income tax rate for the first quarter was 38.5%, unchanged from the same quarter a year ago. The Company's effective tax rate could be impacted by changes in the taxability of investment income and state income tax rates.

Financial Condition

Working capital of $677 million at May 29,1999, decreased only $20 million even after the early redemption of the Notes in the third quarter of fiscal 1999 and the acceleration of the Company's expansion plans which are being funded through operations. Cash and cash equivalents increased by

$114 million as a result of improved inventory management and profitability improvements over the past four quarters. Merchandise inventories were essentially unchanged compared to last year, even with the net addition of 24 stores, as inventory turns approached seven times. The Company's net investment in inventory, inventory net of accounts payable, improved by approximately $150 million compared to last year's first quarter as a result of the faster inventory turns. The Company's cash position and net investment in inventory is impacted by the timing of payments to vendors and can vary significantly. Receivables increased by $70 million due primarily to higher business volumes as compared to last year's first quarter. The receivable balance was relatively unchanged from fiscal 1999 year-end. Recoverable costs from developed properties increased by $58 million due to development of new stores and a new distribution center which opened in May 1999.

Accounts payable increased as compared to year ago levels as a result of the higher business volume. Accruals for payroll related liabilities increased as compared to last year's first quarter consistent with an expanding employee base needed to support the Company's growth. Other accrued liabilities increased as a result of outside services fees, the generally higher levels of business activity and increased income taxes due to the significant increase in earnings as compared to last year.

Capital spending in the first quarter of fiscal 2000 was $37 million compared to $12 million for the first quarter of fiscal 1999 as the Company invested in the stores scheduled to open in fiscal 2000. The majority of the stores to be opened in fiscal 2000 will incorporate the features of the Company's Concept IV store format. This format utilizes the 45,000 square foot prototype, features improved merchandising, signage and customer service and is expected to better address consumers needs as the industry progresses into new digital products. Also, during the quarter, the Company completed and opened a new distribution center in Dinuba, CA, which replaced a leased facility in Ontario, CA. Additionally, the Company continued its investment in new systems and technology to better position the Company for continued growth and generate improvements in its existing businesses.

Management expects total capital spending for fiscal 2000 to be approximately $400 million, exclusive of amounts to be recovered through subsequent sales and leasebacks, to support the Company's plans to open approximately 45 new stores and remodel or relocate approximately 20 stores. The Company also continues to invest in information systems to support the development of its e-commerce business and improve its Services division.

In October 1998, the Company's Board of Directors authorized the purchase of up to $100 million of the Company's common stock during the ensuing 12 months. Through May 29, 1999, 1.1 million shares had been purchased at a cost of $55 million. The Company expects to complete the repurchase program in the next four months.

In May 1998, the Company entered into an unsecured $220 million revolving credit facility, replacing the $365 million facility that was scheduled to mature in June 1998. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. The current facility is scheduled to mature on June 30, 2000 and can be extended for one year if certain conditions are met. Management is currently negotiating to reduce the facility to $100 million and extend the terms for an additional one to two years. The modification of the facility is also expected to make certain financial covenants less restrictive thereby providing the Company with additional flexibility.

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 opportunities.

Year 2000 Readiness

The Company understands the material nature of the business issues surrounding computer processing of dates into and beyond the year 2000 (Y2K). Any computer program or computer chip-controlled

device could harbor a Y2K processing issue. Typically, Y2K issues arise from systems or software processing only two digits representing a year. The absence of century digits (e.g., "19" for years 1900-1999, or "20" for years beginning in 2000) usually leads to false results from computer-controlled systems.

The Company recognized that Y2K issues existed within its computer programs and computer chip-controlled devices and has taken corrective action. The Company's actions to address Y2K issues began with the selection of a nationally recognized, experienced computer hardware and consulting firm to assist in both identifying and resolving these issues. The Company developed specific and detailed plans to correct Y2K issues and management believes the Company has made significant progress to date.

The majority of the Company's business processing applications operate on mainframe computer systems. Over five million lines of computer programming were scanned and analyzed to identify Y2K issues in these systems. To date, the Company has replaced approximately 95% of its existing computer code for these Y2K issues with corrective programming logic. Corrected logic was tested as changes were made. This portion of the Company's plan was completed in fiscal 1999 at a total cost of approximately $9 million in outside professional fees. In addition, the Company has dedicated a staff of its internal resources to address Y2K issues. Although the change to the calendar year 2000 is responsible for the majority of the Y2K issues, the Company's systems are fully functional in its current fiscal year 2000, which began February 28, 1999.

The Company is also replacing or installing certain computer hardware and software which will address new business applications, as well as Y2K issues. The timing of some of these projects has been accelerated to meet Y2K compliance. The Company expects to fund both the capital and expensed elements of resolving Y2K issues through funds generated from operations.

In addition to the mainframe system Y2K issues, the Company has substantially completed efforts to identify non-mainframe computer system Y2K issues and other potential Y2K issues. These issues include the Company's communication systems and operating systems at and between the Company's locations and support facilities. The Company has corresponded with its business partners, including merchandise suppliers and service providers to assess their ability to support the Company's operations with respect to their individual Y2K issues. These issues include data exchange with the Company, as well as the partners' production and shipping processes. The issues that were identified as part of this process have been prioritized in order of significance to the Company's operations and corrective action is being taken as appropriate. This portion of the Company's plan is expected to be completed at a total cost of approximately $8 million, of which the majority will be incurred in fiscal 2000.

The Company generally believes that the vendors that supply products to the Company for resale are responsible for the Y2K functionality of those products. However, should product failures occur, the Company may be required to address the administrative aspects of those failures such as handling product returns or repairs.

While the Company believes that it is pursuing the appropriate courses of action to ensure Y2K readiness, there can be no assurance that the objective will be achieved either internally or as it relates to business partners. Also, the Company can provide no assurance regarding potential impact on consumer spending that may result from concerns regarding the Y2K functionality of products. For the Y2K issues which, if not timely resolved, could have a significant impact on the Company's operations, the Company is continuing to develop contingency plans to minimize the impact of failure to achieve Y2K compliance. The Company has also devoted significant attention to planning for what could be the result of the most adverse consequence of Y2K issues. Management believes that adequate contingency plans are being developed to minimize the financial impact to the Company.

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, sales volumes, profit margins, the Company's and its suppliers' Year 2000 readiness, 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.

PART II—OTHER INFORMATION

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

			Method of Filing
a.	Exhibits:		
	10.1	1997 Employee Non-Qualified Stock Option Plan, 1999 Amendment and Restatement	(2)
	10.2	1997 Directors' Non-Qualified Stock Option Plan, 1999 Amendment and Restatement	(2)
	10.3	1994 Full-Time Employee Non-Qualified Stock Option Plan, 1999 Amendment and Restatement	(2)
	27.1	Financial Data Schedule	(1)
b.	Reports on Form 8-K: None.		

(1) Document is filed herewith.

(2) Exhibit so marked was filed with the Securities and Exchange Commission on July 12, 1999, as an exhibit to the Form 10-Q of Best

Buy Co., Inc. and is incorporated herein by reference and made a part hereof.

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: March 17, 2000 By: /s/ ROBERT C. FOX

Robert C. Fox
Senior Vice President Finance & Treasurer

QuickLinks

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	3 MOS	3 MOS
FISCAL YEAR END	FEB 26 2000	FEB 27 1999
PERIOD START	FEB 28 1999	MAR 01 1998
PERIOD END	MAY 29 1999	MAY 30 1998
CASH	510,883	397,298
SECURITIES	0	0
RECEIVABLES	145,699	75,563
ALLOWANCES	0	0
INVENTORY	1,111,396	1,101,144
CURRENT ASSETS	1,886,213	1,635,831
PP&E	769,019	592,983
DEPRECIATION	331,632	265,345
TOTAL ASSETS	2,363,261	1,983,353
CURRENT LIABILITIES	1,209,679	938,368
BONDS	28,402	207,247
PREFERRED MANDATORY	0	0
PREFERRED	0	0

COMMON	20,380	10,031
OTHER SE	1,038,080	775,411
TOTAL LIABILITY AND EQUITY	2,363,261	1,983,353
SALES	2,385,431	1,938,383
TOTAL REVENUES	2,385,431	1,938,383
CGS	1,923,429	1,589,445
TOTAL COSTS	1,923,429	1,589,445
OTHER EXPENSES	390,301	326,154
LOSS PROVISION	0	0
INTEREST EXPENSE	(4,413)	2,495
INCOME PRETAX	76,114	20,289
INCOME TAX	29,305	7,812
INCOME CONTINUING	46,809	12,477
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	46,809	12,477
EPS BASIC	.23	.07
EPS DILUTED	.22	.06

End of Filing