BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 01/06/94 for the Period Ending 11/27/93

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 1/6/1994 For Period Ending 11/27/1993

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, 1993

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 Charter)

Minnesota (State of Incorporation)	41-0907483 (IRS Employer Identification Number)
4400 West 78th Street Bloomington, Minnesota (Address of principal executive offices)	55435 (Zip Code)

Registrant's telephone number, including area code: 612/896-2300

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, 1993, there were 20,854,005 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 27, 1993

INDEX

Part I - Financial Information

Item 1. Financial Statements

BEST BUY CO., INC.

BALANCE SHEETS

ASSETS
(unaudited)

	November 27, 1993	February 27, 1993	November 28, 1992
CURRENT ASSETS:			
Cash and cash equivalents	$ 74,977,000	$ 7,138,000	$ 13,852,000
Receivables	86,196,000	37,968,000	73,978,000
Merchandise inventories	823,875,000	249,991,000	411,120,000
Deferred income taxes	10,368,000	9,497,000	7,928,000
Prepaid expenses	3,044,000	332,000	4,780,000
Total current assets	998,460,000	304,926,000	511,658,000
PROPERTY AND EQUIPMENT, at cost:			
Land and buildings	28,093,000	45,676,000	41,051,000
Property under capital leases	15,478,000	14,163,000	5,675,000
Leasehold improvements	49,637,000	33,222,000	23,814,000
Furniture, fixtures, and equipment	115,356,000	76,806,000	86,881,000
	208,564,000	169,867,000	157,421,000
Less accumulated depreciation and amortization	56,017,000	43,425,000	39,100,000
Property and equipment, net	152,547,000	126,442,000	118,321,000
OTHER ASSETS:			
Deferred income taxes	6,882,000	6,284,000	5,607,000
Other assets	10,863,000	1,490,000	1,144,000
Total other assets	17,745,000	7,774,000	6,751,000
TOTAL ASSETS	$1,168,752,000	$439,142,000	$636,730,000

See notes to financial statements.

BEST BUY CO., INC.

BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY
(unaudited)

	November 27, 1993	February 27, 1993	November 28, 1992
CURRENT LIABILITIES:			
Note payable, bank		$ 3,700,000	$ 46,800,000
Obligations under financing arrangements	$ 36,324,000	4,871,000	58,490,000
Accounts payable	521,027,000	118,338,000	245,001,000
Accrued salaries and related expenses	17,304,000	12,350,000	11,705,000
Other accrued liabilities	34,062,000	18,221,000	23,268,000
Deferred revenue and warranty obligations--short term	17,891,000	16,240,000	18,101,000
Accrued income tax	5,918,000	6,545,000	1,795,000
Current portion of long term debt	7,302,000	5,740,000	4,330,000
Total current liabilities	639,828,000	186,005,000	409,490,000
DEFERRED REVENUE AND WARRANTY OBLIGATIONS-long term	26,796,000	22,724,000	18,261,000
LONG TERM DEBT, less current portion	212,504,000	48,130,000	40,553,000
SHAREHOLDERS' EQUITY:			
Preferred stock, $1.00 par value; authorized 400,000 shares; none issued			
Common stock, $.10 par value; authorized 30,000,000 shares; issued and outstanding 20,854,000, 17,242,000, and 16,997,000 shares, respectively	2,085,000	1,149,000	1,133,000
Additional paid-in capital	223,710,000	137,151,000	134,086,000
Retained earnings	63,829,000	43,983,000	33,207,000
Total shareholders' equity	289,624,000	182,283,000	168,426,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,168,752,000	$439,142,000	$636,730,000

See notes to financial statements.

BEST BUY CO., INC.

STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Nine Months Ended	
	November 27, 1993	November 28, 1992	November 27, 1993	November 28, 1992
REVENUES	$808,476,000	$474,442,000	$1,813,375,000	$1,006,353,000
COST OF GOODS SOLD	687,368,000	396,640,000	1,523,593,000	825,078,000
GROSS PROFIT	121,108,000	77,802,000	289,782,000	181,275,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	100,259,000	67,977,000	252,169,000	164,262,000
INCOME FROM OPERATIONS	20,849,000	9,825,000	37,613,000	17,013,000
INTEREST EXPENSE, NET	2,560,000	1,409,000	4,509,000	2,372,000
INCOME BEFORE INCOME TAXES	18,289,000	8,416,000	33,104,000	14,641,000
INCOME TAXES	7,128,000	3,196,000	12,833,000	5,562,000
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	11,161,000	5,220,000	20,271,000	9,079,000
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES			(425,000)	
NET EARNINGS	$ 11,161,000	$ 5,220,000	$ 19,846,000	$ 9,079,000
EARNINGS PER COMMON SHARE BEFORE ACCOUNTING CHANGE	$ .52	$ .30	$ 1.00	$ .53
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES			(.02)	
NET EARNINGS PER SHARE	$ .52	$ .30	$ .98	$ .53
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	21,558,000	17,368,000	20,353,000	17,253,000

See notes to financial statements.

BEST BUY CO., INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 27, 1993

(unaudited)

	Common stock	Additional paid in capital	Retained earnings
BALANCE, February 27, 1993	$1,149,000	$137,151,000	$43,983,000
STOCK OPTIONS EXERCISED	8,000	1,961,000	
SALE OF COMMON STOCK	234,000	85,294,000	
ADJUSTMENT TO REFLECT 3-FOR-2 STOCK SPLIT	694,000	(696,000)	
NET EARNINGS, nine months ended November 27, 1993			19,846,000
BALANCE, November 27, 1993	$2,085,000	$223,710,000	$63,829,000

See notes to financial statements.

BEST BUY CO., INC.

STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended November 27, 1993	Nine Months Ended November 28, 1992
OPERATIONS:		
Net earnings	$ 19,846,000	$ 9,079,000
Charges to earnings not affecting cash:		
Depreciation and amortization	15,055,000	9,982,000
Loss on disposal of property and equipment	909,000	169,000
Cumulative effect of change in accounting	425,000	
	36,235,000	19,230,000
Changes in operating assets and liabilities:		
Receivables	(48,228,000)	(57,997,000)
Merchandise inventories	(573,884,000)	(275,282,000)
Deferred income taxes and prepaid expenses	(4,606,000)	(4,265,000)
Accounts payable	402,689,000	176,331,000
Accrued salaries and related expenses	4,954,000	3,781,000
Other current liabilities	10,275,000	11,977,000
Deferred revenue and warranty obligations	5,723,000	3,546,000
Total cash used in operations	(166,842,000)	(122,679,000)
INVESTMENT ACTIVITIES:		
Additions to property and equipment	(71,521,000)	(70,066,000)
Sale of property and equipment	44,506,000	46,000
Increase in other assets	(9,373,000)	(834,000)
Total cash used in investment activities	(36,388,000)	(70,854,000)
FINANCING ACTIVITIES:		
Common stock issued	87,495,000	1,779,000
Borrowings on revolving credit line	79,500,000	200,100,000
Payments on revolving credit line	(83,200,000)	(153,300,000)
Long term debt borrowings	160,311,000	25,000,000
Long term debt payments	(4,490,000)	(33,299,000)
Increase in obligations under financing arrangements	31,453,000	54,316,000
Total cash provided by financing activities	271,069,000	94,596,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67,839,000	(98,937,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,138,000	112,789,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 74,977,000	$ 13,852,000

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:		
Non-cash investing and financing activities:		
Leased asset additions	$ 1,415,000	$ 202,000
Purchased land and building on contract for deed	8,700,000	
Payables for property and equipment	4,939,000	
Cash paid during the period for:		
Interest, net of amount capitalized	$ 2,477,000	$ 3,698,000
Income taxes	2,562,000	3,201,000

See notes to financial statements.

BEST BUY CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The balance sheets as of November 27, 1993, and November 28, 1992, the related statements of operations and cash flows for the three and nine months ended November 27, 1993, and November 28, 1992, and the statement of changes in shareholders' equity for the nine months ended November 27, 1993, 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. Interim results are not necessarily indicative of results for a full year. The financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's annual report to shareholders for the fiscal year ended February 27, 1993.

2. CHANGE IN ACCOUNTING PRINCIPLE:

Effective February 28, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by FASB Statement No. 109, "Accounting for Income Taxes." As permitted under the new rules, prior years' financial statements have not been restated.

The cumulative effect of adopting Statement 109 as of February 28, 1993, was to decrease net earnings in the first quarter by $425,000, or $.02 per share. Application of the new rules did not change earnings before cumulative effect of change in accounting principle for the first nine months.

3. ISSUANCE OF SENIOR NOTES:

In October, the Company completed the sale of $150 million principal amount of 8 5/8% Senior Subordinated Notes due 2000.

4. PUBLIC STOCK OFFERING:

In May, the Company completed the sale of 3,375,000 shares of its common stock at $25.67 per share. In June, the underwriters of this offering exercised their overallotment option and an additional 135,000 shares were issued. Proceeds from the offering were $85,528,000 after deducting the underwriting costs and offering expenses.

NOTES TO FINANCIAL STATEMENTS, (Cont.)

5. STOCK SPLIT:

In July, the Company's Board of Directors declared a three-for-two stock split payable in the form of a stock dividend, effective September 1, 1993, to the shareholders of record on July 30, 1993. Except as otherwise indicated, all common share and per share amounts herein have been adjusted to give retroactive effect to the stock split, with the adjustment within shareholders' equity shown net of amounts paid for redemption of fractional shares.

6. BANK REVOLVING LINE OF CREDIT:

In September, the Company increased its bank line of credit to allow seasonal borrowings of up to $125 million.

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

RESULTS OF OPERATIONS

Three and nine months ended November 27, 1993 and November 28, 1992:

Earnings for the third quarter increased 114% to $11.2 million, or 52 cents per share. This compares to earnings of $5.2 million, or 30 cents per share, for the comparable quarter last year. For the first nine months of fiscal 1994, earnings have increased 123% to $20.3 million, or $1.00 per share, before a cumulative effect adjustment relating to a change in accounting for income taxes. Earnings for the first nine months of last year were $9.1 million, or 53 cents per share. Per share amounts reflect a three-for-two stock split effective on September 1, 1993. The improved earnings reflect the operating leverage the Company has achieved through increased sales per store and an increased number of stores.

Sales increased 70% in the third quarter to $808 million from $474 million last year, and increased 80% to $1.8 billion for the nine-month period. The Company operated 149 stores at November 27, 1993. Third quarter sales benefitted from the Company's entry into three new major metropolitan markets. The Company opened six stores at the end of the second quarter in Detroit and opened six stores each in Atlanta and Phoenix in the third quarter. A total of 38 new stores have been opened in the current year through November. Two additional stores opened in the metropolitan Chicago area in December, where Best Buy now operates 23 stores. Comparable store sales increased 21% in both the quarter and nine-month period, contributing $77 million and $187 million of the sales increase for the respective periods. The Company attributes its comparable store sales increases to its distinctive retailing strategy and continued sales growth in the personal computer product line. Average sales per store have risen to $20.2 million for the trailing twelve-month period. In addition, the Company's new private label credit card program, introduced near the beginning of the second quarter, made special financing offers more attractive and available to consumers.

The gross profit margin was 15.0% for the third quarter and 16.0% for the nine-month period. These compare to 16.4% and 18.0% for the respective periods last year. The changes in margin reflect a reduced emphasis on the sale of higher margin extended service plans and the impact of increased competition and the promotional product pricing associated with the opening of stores in new markets. The increased volume of personal computers in the Company's sales mix also has contributed to the change in gross profit margin.

RESULTS OF OPERATIONS, cont.

Sales of extended service plans represented less than 1.0% of retail sales in both the quarter and year to date periods. This compares to 1.1% and 1.5%, respectively, for the same periods in fiscal 1993. Pretax profit from extended service plans, before allocation of any selling, general and administrative expenses, other than direct selling expenses, was $3.2 million and $9.4 million for the quarter and year to date periods, respectively, as compared to $3.0 million and $8.9 million in the third quarter and year to date periods of fiscal 1993.

Selling, general and administrative expense as a percentage of sales was 12.4% for the quarter and 13.9% for the nine-month period. This is an improvement of 1.9% and 2.0% of sales, respectively, as compared to the same periods last year. Improvement in this expense percentage continues to exceed the change in gross profit margin. Higher sales per store have resulted in increased productivity at the stores and in the corporate support areas. Additionally, the growth in sales volume and number of stores have enabled the Company to enhance the efficiency of its advertising expenditures. The Company's operating income margins of 2.6% for the third quarter and 2.1% for the nine-month period represent improvements of .5% and .4% of revenues, respectively, compared to the same periods last year.

The Company's effective tax rates of 39.0% and 38.8% for the quarter and year to date periods, respectively, are up slightly from the 38% rate in the same periods last year. This increase reflects the new tax legislation which increased the statutory federal tax rate.

The Company's net earnings were reduced in the first quarter of fiscal 1994 by $425,000, or 2 cents per share, due to the one-time cumulative effect adjustment resulting from the adoption of the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", as of the beginning of the current fiscal year.

FINANCIAL CONDITION

Total assets were $1.2 billion at November 27, 1993, with $359 million in working capital, compared to working capital of $119 million at February 27, 1993, and $102 million at November 28, 1992. Inventories have increased since February 1993 as a result of the increased number of stores, the seasonal increase to support higher holiday sales levels, the expansion of the personal computer product line, the increased selling space at certain existing stores, and to support the increased sales trend being experienced by the Company. Inventory growth has been funded by increases in accounts payable, obligations under financing arrangements and the proceeds from the financing transactions discussed below. The increase in receivables from February 1993 is primarily the result of the volume of credit card sales during the Thanksgiving weekend. These receivables were collected in the first week of December. Receivables arising out of the Company's private label credit card program are sold to a third party financial institution without recourse.

In April 1993, the Company completed the sale and leaseback of 17 stores. The net proceeds from this transaction were approximately $44 million. In May 1993, the Company completed a public offering of 3,375,000 shares of its common stock. The offering price was $25.67 per share and the net proceeds to the Company, including the proceeds from the issuance in June of an additional 135,000 shares pursuant to the underwriters' overallotment option, were $85.5 million. In October 1993, the Company received net proceeds of $146.6 million from the public offering of $150 million aggregate principal amount of its 8% Senior Subordinated Notes due 2000. In addition to funding inventory growth, the proceeds from these financing transactions have supported the Company's expansion during the current year.

Through the first nine months of the fiscal year, the Company has invested approximately $72 million in capital expenditures related to new store expansion, and the relocation and remodeling of existing stores, including the conversion of the Company's remaining traditional superstores to its current store format. The Company expects total capital expenditures for the year to be approximately $110 million, with approximately $20 million of this total for the purchase of new store locations. Market conditions in certain locations have made it necessary for the Company to purchase or provide interim financing for development of some of its store locations. The Company's strategy is to lease, rather than own, its stores, and it will likely enter into sale/leasebacks of most of these owned stores in the future. In October 1993, the Company completed the purchase of an expanded corporate headquarters facility. This acquisition was financed by the seller on a contract for deed due in 1996.

FINANCIAL CONDITION, cont.

The Company has an agreement with a bank that provides for an unsecured revolving credit facility under which up to an aggregate principal amount of $125 million is available to provide working capital to the Company. The agreement provides that up to $40 million of the credit facility is available to the Company at all times and that an additional $85 million is available to fund seasonal working capital needs between August 1 and December 31 of each year. The Company's borrowing under this facility during the third quarter was minimal. The Company also has secured inventory financing credit lines available through arrangements with two credit corporations. The total amount available under these lines is approximately $120 million.

Management feels that cash on hand, available credit facilities, and cash flow from operations will be adequate to meet the Company's cash requirements for the immediate future.

Part II - Other Information

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

a. Exhibits:

Exhibit		Method of Filing
11.1	Computation of Earnings per Common Share	Filed herewith

b. Reports on Form 8-K:

A report on Form 8-K was filed on September 15, 1993, containing the Company's press release announcing the results of operations for the quarter ended August 28, 1993. The Form 8-K was filed to update the preliminary prospectus being used by the Company in the public offering of its Senior Subordinated Notes.

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 3, 1994 *By: /s/ ALLEN U. LENZMEIER*

Allen U. Lenzmeier, Executive Vice President,
and Chief Financial Officer
(Principal Financial Officer)

Date: January 3, 1994 *By: /s/ ROBERT C. FOX*

Robert C. Fox, Vice President-Controller
and Treasurer (Principal Accounting Officer)

EXHIBIT 11.1

BEST BUY CO., INC.

COMPUTATION OF EARNINGS PER COMMON SHARE

(unaudited)

	Three Months Ended		Nine Months Ended	
	November 27, 1993	November 28, 1992	November 27, 1993	November 28, 1992
Earnings:				
Net earnings available to common shares	$ 11,161,000	$ 5,220,000	$ 19,846,000	$ 9,079,000
Shares:				
Weighted average common shares outstanding	20,840,000	16,910,000	19,737,000	16,856,000
Adjustments:				
Assumed issuance of shares purchased under stock option plans	718,000	458,000	616,000	397,000
Total common equivalent shares	21,558,000	17,368,000	20,353,000	17,253,000
Earnings per common share:				
Earnings before cumulative effect of change in accounting principle	$ .52	$ .30	$ 1.00	$ .53
Cumulative effect of change in accounting for income taxes			(.02)	
Net earnings per share	$ .52	$ .30	$ .98	$ .53

Note: The computation of earnings per common share assuming full dilution is substantially the same as set forth above.

The share and per share amounts reflect the three-for-two stock split effective September 1, 1993.