

BEST BUY CO INC  
Form 10-Q  
January 05, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended November 27, 2010

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.)

**7601 Penn Avenue South  
Richfield, Minnesota**

(Address of principal executive offices)

**55423**

(Zip Code)

**(612) 291-1000**

(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 o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes x No o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes**  **No**

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. **Yes**  **No**

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$.10 Par Value 394,196,420 shares outstanding as of December 29, 2010.

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BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 27, 2010

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BEST BUY CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(\$ in millions, except per share amounts)

(Unaudited)

	November 27, 2010	February 27, 2010	November 28, 2009
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 925	\$ 1,826	\$ 564
Short-term investments	2	90	93
Receivables	2,793	2,020	2,630
Merchandise inventories	10,064	5,486	8,978
Other current assets	1,045	1,144	1,002
Total current assets	14,829	10,566	13,267
<b>PROPERTY AND EQUIPMENT, NET</b>	3,994	4,070	4,123
<b>GOODWILL</b>	2,441	2,452	2,421
<b>TRADENAMES, NET</b>	145	159	163
<b>CUSTOMER RELATIONSHIPS, NET</b>	220	279	292
<b>EQUITY AND OTHER INVESTMENTS</b>	343	324	332
<b>OTHER ASSETS</b>	380	452	502
<b>TOTAL ASSETS</b>	\$ 22,352	\$ 18,302	\$ 21,100

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NOTE: The consolidated balance sheet as of February 27, 2010, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsBEST BUY CO., INC.CONDENSED CONSOLIDATED BALANCE SHEETSLIABILITIES AND EQUITY

(\$ in millions, except per share amounts)

(Unaudited)

	November 27, 2010	February 27, 2010	November 28, 2009
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 9,858	\$ 5,276	\$ 9,083
Unredeemed gift card liabilities	424	463	425
Accrued compensation and related expenses	464	544	482
Accrued liabilities	1,920	1,681	1,856
Accrued income taxes	31	316	55
Short-term debt	690	663	741
Current portion of long-term debt	33	35	36
<b>Total current liabilities</b>	<b>13,420</b>	<b>8,978</b>	<b>12,678</b>
<b>LONG-TERM LIABILITIES</b>	<b>1,166</b>	<b>1,256</b>	<b>1,194</b>
<b>LONG-TERM DEBT</b>	<b>1,101</b>	<b>1,104</b>	<b>1,104</b>
<b>EQUITY</b>			
Best Buy Co., Inc. Shareholders' Equity			
Preferred stock, \$1.00 par value: Authorized 400,000 shares; Issued and outstanding none			
Common stock, \$0.10 par value: Authorized 1.0 billion shares; Issued and outstanding 394,067,000, 418,815,000 and 418,032,000 shares, respectively	39	42	42
Additional paid-in capital		441	404
Retained earnings	5,824	5,797	5,076
Accumulated other comprehensive income	138	40	7
<b>Total Best Buy Co., Inc. shareholders' equity</b>	<b>6,001</b>	<b>6,320</b>	<b>5,529</b>
Noncontrolling interests	664	644	595
<b>Total equity</b>	<b>6,665</b>	<b>6,964</b>	<b>6,124</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 22,352</b>	<b>\$ 18,302</b>	<b>\$ 21,100</b>

NOTE: The consolidated balance sheet as of February 27, 2010, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.



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(\$ in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Revenue	\$ 11,890	\$ 12,024	\$ 34,016	\$ 33,141
Cost of goods sold	8,907	9,082	25,322	24,958
Gross profit	2,983	2,942	8,694	8,183
Selling, general and administrative expenses	2,598	2,566	7,585	7,179
Restructuring charges				52
Operating income	385	376	1,109	952
Other income (expense)				
Investment income and other	8	11	33	38
Interest expense	(20)	(23)	(64)	(68)
Earnings before income tax expense	373	364	1,078	922
Income tax expense	133	93	400	338
Net earnings including noncontrolling interests	240	271	678	584
Net earnings attributable to noncontrolling interests	(23)	(44)	(52)	(46)
Net earnings attributable to Best Buy Co., Inc.	\$ 217	\$ 227	\$ 626	\$ 538
Earnings per share attributable to Best Buy Co., Inc.				
Basic	\$ 0.55	\$ 0.54	\$ 1.53	\$ 1.29
Diluted	\$ 0.54	\$ 0.53	\$ 1.50	\$ 1.27
Dividends declared per common share	\$ 0.15	\$ 0.14	\$ 0.43	\$ 0.42
Weighted-average common shares outstanding (in millions)				
Basic	397.1	417.1	410.3	416.3
Diluted	407.8	428.6	420.7	426.8

See Notes to Condensed Consolidated Financial Statements.



Table of ContentsBEST BUY CO., INC.CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITYFOR THE NINE MONTHS ENDED NOVEMBER 27, 2010, AND NOVEMBER 28, 2009

(\$ and shares in millions)

(Unaudited)

**Best Buy Co., Inc.**

	<b>Common Shares</b>	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Best Buy Co., Inc. Shareholders Equity</b>	<b>Non controlling Interests</b>	<b>Total Equity</b>
Balances at February 27, 2010	419	\$ 42	\$ 441	\$ 5,797	\$ 40	\$ 6,320	\$ 644	\$ 6,964
Net earnings, nine months ended November 27, 2010				626		626	52	678
Other comprehensive income (loss), net of tax								
Foreign currency translation adjustments					40	40	(35)	5
Unrealized gains on available-for-sale investments					55	55		55
Cash flow hedging instruments' unrealized gains					3	3	3	6
Total comprehensive income						724	20	744
Stock-based compensation			87			87		87
Stock options exercised	5		127			127		127
Issuance of common stock under employee stock purchase plan	1		44			44		44
Tax benefit from stock options exercised, restricted stock vesting and employee stock purchase plan			5			5		5
Common stock dividends, \$0.43 per share				(178)		(178)		(178)

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Repurchase of common stock	(31)		(3)		(704)		(421)			(1,128)		(1,128)
Balances at November 27, 2010	394	\$	39	\$		\$	5,824	\$	138	\$	6,001	\$ 664 \$ 6,665
Balances at February 28, 2009	414	\$	41	\$	205	\$	4,714	\$	(317)	\$	4,643	\$ 513 \$ 5,156
Net earnings, nine months ended November 28, 2009							538				538	46 584
Other comprehensive income, net of tax												
Foreign currency translation adjustments									289		289	58 347
Unrealized gains on available-for-sale investments									35		35	35
Cash flow hedging instruments unrealized gains												
Total comprehensive income											862	104 966
Acquisition of business (adjustments to purchase price allocation)												(22) (22)
Stock-based compensation							88				88	88
Stock options exercised	3		1		79						80	80
Issuance of common stock under employee stock purchase plan	1				40						40	40
Tax deficit from stock options exercised, restricted stock vesting and employee stock purchase plan					(8)						(8)	(8)
Common stock dividends, \$0.42 per share							(176)				(176)	(176)
Balances at November 28, 2009	418	\$	42	\$	404	\$	5,076	\$	7	\$	5,529	\$ 595 \$ 6,124

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsBEST BUY CO., INC.CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>November 27, 2010</b>	<b>November 28, 2009</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings including noncontrolling interests	\$ 678	\$ 584
Adjustments to reconcile net earnings including noncontrolling interests to total cash provided by operating activities		
Depreciation	668	614
Amortization of definite-lived intangible assets	63	66
Restructuring charges		52
Stock-based compensation	87	88
Deferred income taxes	(6)	(41)
Excess tax benefits from stock-based compensation	(13)	(3)
Other, net	16	(4)
Changes in operating assets and liabilities		
Receivables	(805)	(691)
Merchandise inventories	(4,561)	(4,087)
Other assets	80	(5)
Accounts payable	4,492	3,936
Other liabilities	159	374
Income taxes	(313)	(204)
Total cash provided by operating activities	545	679
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(529)	(469)
Purchases of investments	(245)	(10)
Sales of investments	383	46
Proceeds from sale of business, net of cash transferred	21	
Change in restricted assets	(1)	19
Settlement of net investment hedges	12	27
Other, net	(2)	(18)
Total cash used in investing activities	(361)	(405)
<b>FINANCING ACTIVITIES</b>		
Repurchase of common stock	(1,128)	
Borrowings of debt	1,925	3,593
Repayments of debt	(1,884)	(3,703)
Dividends paid	(178)	(175)
	171	120

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Issuance of common stock under employee stock purchase plan and for the exercise of stock options			
Acquisition of noncontrolling interests	(21)		(34)
Excess tax benefits from stock-based compensation	13		3
Other, net	9		(12)
Total cash used in financing activities	(1,093)		(208)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	8		
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(901)		66
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,826		498
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 925	\$	564

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ in millions, except per share amounts)

(Unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the use of the terms Best Buy, we, us and our in these Notes to Condensed Consolidated Financial Statements refers to Best Buy Co., Inc. and its consolidated subsidiaries.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary for a fair presentation as prescribed by accounting principles generally accepted in the United States ( GAAP ). All adjustments were comprised of normal recurring adjustments, except as noted in these Notes to Condensed Consolidated Financial Statements.

Historically, we have realized more of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Europe and Canada, than in any other fiscal quarter. Due to the seasonal nature of our business, interim results are not necessarily indicative of results for the entire fiscal year. The interim financial statements and the related notes in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended February 27, 2010.

In order to align our fiscal reporting periods and comply with statutory filing requirements in certain foreign jurisdictions, we consolidate the financial results of our Europe, China, Mexico and Turkey operations on a two-month lag. There were no significant intervening events which would have materially affected our consolidated financial statements had they been recorded during the three months ended November 27, 2010.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from November 28, 2010 through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

New Accounting Standards

*Consolidation of Variable Interest Entities* In June 2009, the Financial Accounting Standards Board ( FASB ) issued new guidance on the treatment of a consolidation of variable interest entities ( VIE ) in response to concerns about the application of certain key provisions of pre-existing guidance, including those regarding the transparency of an involvement with a VIE. Specifically, this new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, this new guidance requires additional disclosures about an involvement with a VIE and any significant changes in risk exposure due to that involvement. This new guidance was effective for fiscal years beginning after November 15, 2009. As such, we adopted the new guidance on February 28, 2010, and determined that it did not have an impact on our consolidated financial position or results of operations.

*Transfers of Financial Assets* In June 2009, the FASB issued new guidance on the treatment of transfers of financial assets which eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance was effective for fiscal years beginning after November 15, 2009. As such, we adopted the new guidance on February 28, 2010, and determined that it did not have an impact on our consolidated financial position or results of operations.



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Investments were comprised of the following:

	November 27, 2010		February 27, 2010		November 28, 2009
<b>Short-term investments</b>					
Money market fund	\$	2	\$	2	\$ 4
Debt securities (auction-rate securities)				88	89
Total short-term investments	\$	2	\$	90	\$ 93
<b>Equity and other investments</b>					
Debt securities (auction-rate securities)	\$	131	\$	192	\$ 195
Marketable equity securities		145		77	86
Other investments		67		55	51
Total equity and other investments	\$	343	\$	324	\$ 332

Debt Securities

Our debt securities are comprised of auction-rate securities ( ARS ). ARS were intended to behave like short-term debt instruments because their interest rates reset periodically through an auction process, most commonly at intervals of seven, 28 and 35 days. The auction process had historically provided a means by which we could rollover the investment or sell these securities at par in order to provide us with liquidity as needed. As a result, we classify our investments in ARS as available-for-sale and carry them at fair value.

In February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. To date, we have collected all interest due on our ARS and expect to continue to do so in the future. Due to persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, we have classified all of our investments in ARS as non-current assets within equity and other investments in our condensed consolidated balance sheet at November 27, 2010.

In October 2008, we accepted a settlement with UBS AG and its affiliates (collectively, UBS ) pursuant to which UBS issued to us Series C-2 Auction Rate Securities Rights ( ARS Rights ). The ARS Rights provided us the right to receive the full par value of our UBS-brokered ARS plus accrued but unpaid interest at any time between June 30, 2010, and July 2, 2012. Of the \$88 UBS-brokered ARS held at the end of fiscal 2010, we sold \$35 at par in the first quarter of fiscal 2011, and exercised our right to sell the remaining \$53 at par in the second quarter of fiscal 2011.

During the third quarter of fiscal 2011, we sold \$3 of ARS at par. At November 27, 2010, our entire remaining ARS portfolio, consisting of 24 investments in ARS having an aggregate par value of \$141, was subject to failed auctions. Subsequent to November 27, 2010, and through December 30, 2010, we sold \$8 of ARS at par.

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Our ARS portfolio consisted of the following, at fair value:

Description	Nature of collateral or guarantee	November 27, 2010	February 27, 2010	November 28, 2009
Student loan bonds	Student loans guaranteed 95% to 100% by the U.S. government	\$ 113	\$ 261	\$ 264
Municipal revenue bonds	100% insured by AA/Aa-rated bond insurers at November 27, 2010	18	19	20
Total fair value plus accrued interest(1)		\$ 131	\$ 280	\$ 284

(1) The par value and weighted-average interest rates (taxable equivalent) of our ARS were \$141, \$285 and \$293, and 0.91%, 1.10% and 0.95%, respectively, at November 27, 2010, February 27, 2010, and November 28, 2009