

BEST BUY CO INC  
Form 10-Q  
January 03, 2012  
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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 26, 2011

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)  
(612) 291-1000  
(Registrant's telephone number, including area code)

55423  
(Zip 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  No

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  No

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 — 350,316,613 shares outstanding as of December 29, 2011.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## BEST BUY CO., INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

(\$ in millions, except per share amounts)

(Unaudited)

	November 26, 2011	February 26, 2011	November 27, 2010
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$2,392	\$1,103	\$925
Short-term investments	—	22	2
Receivables	3,212	2,348	2,793
Merchandise inventories	9,220	5,897	10,064
Other current assets	1,085	1,103	1,045
Total current assets	15,909	10,473	14,829
<b>PROPERTY AND EQUIPMENT, NET</b>	3,567	3,823	3,994
<b>GOODWILL</b>	2,420	2,454	2,441
<b>TRADENAMES, NET</b>	129	133	145
<b>CUSTOMER RELATIONSHIPS, NET</b>	165	203	220
<b>EQUITY AND OTHER INVESTMENTS</b>	146	328	343
<b>OTHER ASSETS</b>	412	435	380
<b>TOTAL ASSETS</b>	<b>\$22,748</b>	<b>\$17,849</b>	<b>\$22,352</b>

NOTE: The consolidated balance sheet as of February 26, 2011, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 LIABILITIES AND EQUITY

(\$ in millions, except per share amounts)

(Unaudited)

	November 26, 2011	February 26, 2011	November 27, 2010
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$10,064	\$4,894	\$9,858
Unredeemed gift card liabilities	428	474	424
Accrued compensation and related expenses	497	570	464
Accrued liabilities	1,976	1,471	1,920
Accrued income taxes	11	256	31
Short-term debt	163	557	690
Current portion of long-term debt	427	441	33
Total current liabilities	13,566	8,663	13,420
<b>LONG-TERM LIABILITIES</b>	1,119	1,183	1,166
<b>LONG-TERM DEBT</b>	1,687	711	1,101
<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 — 353,991,000, 392,590,000 and 394,067,000 shares, respectively		39	39
Additional paid-in capital	—	18	—
Retained earnings	5,663	6,372	5,824
Accumulated other comprehensive income	12	173	138
Total Best Buy Co., Inc. shareholders' equity	5,710	6,602	6,001
Noncontrolling interests	666	690	664
Total equity	6,376	7,292	6,665
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$22,748</b>	<b>\$17,849</b>	<b>\$22,352</b>

NOTE: The consolidated balance sheet as of February 26, 2011, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.  
 CONSOLIDATED STATEMENTS OF EARNINGS  
 (\$ in millions, except per share amounts)  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Revenue	\$12,099	\$11,890	\$34,386	\$34,016
Cost of goods sold	9,155	8,907	25,802	25,322
Restructuring charges – cost of goods sold	13	—	13	—
Gross profit	2,931	2,983	8,571	8,694
Selling, general and administrative expenses	2,616	2,598	7,683	7,585
Restructuring charges	137	—	141	—
Operating income	178	385	747	1,109
Other income (expense)				
Gain on sale of investments	55	—	55	—
Investment income and other	8	8	26	33
Interest expense	(37	) (20	) (102	) (64
Earnings before income tax expense and equity in loss of affiliates	204	373	726	1,078
Income tax expense	72	133	270	400
Equity in loss of affiliates	(1	) —	(2	) —
Net earnings including noncontrolling interests	131	240	454	678
Net loss (earnings) attributable to noncontrolling interests	23	(23	) 13	(52
Net earnings attributable to Best Buy Co., Inc.	\$154	\$217	\$467	\$626
Earnings per share attributable to Best Buy Co., Inc.				
Basic	\$0.43	\$0.55	\$1.25	\$1.53
Diluted	\$0.42	\$0.54	\$1.23	\$1.50
Dividends declared per common share	\$0.16	\$0.15	\$0.46	\$0.43
Weighted-average common shares outstanding (in millions)				
Basic	359.7	397.1	373.1	410.3
Diluted	368.8	407.8	382.4	420.7

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 26, 2011, AND NOVEMBER 27, 2010

(\$ and shares in millions)

(Unaudited)

	Best Buy Co., Inc.								
	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Best Buy Co., Inc.	Non controlling Interests	Total	
Balances at February 26, 2011	393	\$ 39	\$ 18	\$ 6,372	\$ 173	\$ 6,602	\$ 690	\$ 7,292	
Net earnings, nine months ended November 26, 2011	—	—	—	467	—	467	(13 )	454	
Other comprehensive (loss), net of tax									
Foreign currency translation adjustments	—	—	—	—	(84 )	(84 )	(4 )	(88 )	
Unrealized losses on available-for-sale investments	—	—	—	—	(29 )	(29 )	—	(29 )	
Reclassification adjustment for gain on available-for-sale securities included in net earnings	—	—	—	—	(48 )	(48 )	—	(48 )	
Cash flow hedging instruments unrealized losses	—	—	—	—	—	—	—	—	
Total comprehensive income (loss)						306	(17 )	289	
Dividend distribution	—	—	—	—	—	—	(7 )	(7 )	
Stock-based compensation	—	—	93	—	—	93	—	93	
Stock options exercised	1	—	26	—	—	26	—	26	
Issuance of common stock under employee stock purchase plan	2	—	38	—	—	38	—	38	
Tax deficit from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	(6 )	—	—	(6 )	—	(6 )	
Common stock dividends, \$0.46 per share	—	—	—	(171 )	—	(171 )	—	(171 )	
Repurchase of common stock	(42 )	(4 )	(169 )	(1,005 )	—	(1,178 )	—	(1,178 )	
Balances at November 26, 2011	354	\$ 35	\$ —	\$ 5,663	\$ 12	\$ 5,710	\$ 666	\$ 6,376	
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									

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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 )
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

See Notes to Condensed Consolidated Financial Statements.



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BEST BUY CO., INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

(Unaudited)

	Nine Months Ended		
	November 26, 2011	November 27, 2010	
<b>OPERATING ACTIVITIES</b>			
Net earnings including noncontrolling interests	\$454	\$678	
Adjustments to reconcile net earnings including noncontrolling interests to total cash provided by operating activities			
Depreciation	668	668	
Amortization of definite-lived intangible assets	38	63	
Restructuring charges	154	—	
Realized gain on sale of investments	(55)	) —	
Stock-based compensation	93	87	
Deferred income taxes	148	(6	)
Other, net	16	3	
Changes in operating assets and liabilities			
Receivables	(761	) (805	)
Merchandise inventories	(3,402	) (4,561	)
Other assets	20	80	
Accounts payable	5,278	4,492	
Other liabilities	340	159	
Income taxes	(364	) (313	)
Total cash provided by operating activities	2,627	545	
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment	(616	) (529	)
Purchases of investments	(111	) (245	)
Sales of investments	167	383	
Proceeds from sale of business, net of cash transferred	—	21	
Change in restricted assets	(31	) (1	)
Other, net	(7	) 10	
Total cash used in investing activities	(598	) (361	)
<b>FINANCING ACTIVITIES</b>			
Repurchase of common stock	(1,165	) (1,128	)
Borrowings of debt	2,438	1,925	
Repayments of debt	(1,870	) (1,884	)
Dividends paid	(172	) (178	)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	64	171	
Other, net	(22	) 1	
Total cash used in financing activities	(727	) (1,093	)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(13	) 8	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,289	(901	)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,103	1,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2,392	\$925

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 26, 2011.

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 and Mexico operations on a two-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our consolidated financial statements. In November 2011, we announced plans to close our large-format Best Buy branded stores in the United Kingdom (“U.K.”). Accordingly, \$109 of restructuring charges related to the store closures were included in our third quarter of fiscal 2012 results. Except for these restructuring activities, no significant intervening events occurred which would have materially affected our financial condition, results of operations or liquidity had they been recorded during the three months ended November 26, 2011. We plan to close our large-format Best Buy branded stores in the U.K. during the fourth quarter of fiscal 2012; however, the stores remained open and continued operations throughout the third quarter of fiscal 2012. For further information about our fiscal 2012 restructuring and the nature of the charges we recorded, refer to Note 5, Restructuring Charges.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from November 27, 2011, through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. Other than as described in Note 13, Subsequent Event, no such events were identified for this period.

Fiscal Year

On November 7, 2011, we announced our intention to change our fiscal year-end from the Saturday nearest the end of February to the Saturday nearest the end of January, effective beginning with our fiscal year 2013. This change will not impact our current fiscal year (fiscal year 2012), which will end on March 3, 2012. However, our fiscal year 2013 will be shortened from 12 months to 11 months and end on February 2, 2013.

New Accounting Standards

Comprehensive Income — In June 2011, the Financial Accounting Standards Board (“FASB”) issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net

income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We do not believe our adoption of the new guidance in the first quarter of fiscal 2013 will have an impact on our consolidated financial position, results of operations or cash flows.

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Fair Value Measurement — In April 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We do not believe our adoption of the new guidance in the first quarter of fiscal 2013 will have an impact on our consolidated financial position, results of operations or cash flows.

## 2. Investments

Investments were comprised of the following:

	November 26, 2011	February 26, 2011	November 27, 2010
Short-term investments			
Money market fund	\$—	\$2	\$2
U.S. Treasury bills	—	20	—
Total short-term investments	\$—	\$22	\$2