BEST BUY CO INC
Form 10-Q
October 09, 2008

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 August 30, 2008

OR

o **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	**41-0907483**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7601 Penn Avenue South Richfield, Minnesota	**55423**
(Address of principal executive offices)	(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 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 x **Accelerated filer o** **Non-accelerated filer o** **Smaller reporting company o**

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

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 o No o**

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 412,332,000 shares outstanding as of August 30, 2008.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED AUGUST 30, 2008

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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)

	August 30, 2008	March 1, 2008	September 1, 2007
CURRENT ASSETS			
Cash and cash equivalents	$ 544	$ 1,438	$ 1,390
Short-term investments		64	121
Receivables	1,785	549	554
Merchandise inventories	6,105	4,708	4,650
Other current assets	894	583	733
Total current assets	9,328	7,342	7,448
PROPERTY AND EQUIPMENT			
Property and equipment	6,671	5,608	5,328
Less accumulated depreciation	2,552	2,302	2,210
Net property and equipment	4,119	3,306	3,118
GOODWILL	2,536	1,088	1,053
TRADENAMES	188	97	93
EQUITY AND OTHER INVESTMENTS	501	605	200
OTHER ASSETS	850	320	325
TOTAL ASSETS	$ 17,522	$ 12,758	$ 12,237

NOTE: The consolidated balance sheet as of March 1, 2008, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

BEST BUY CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY

($ in millions, except per share amounts)

(Unaudited)

	August 30, 2008	March 1, 2008	September 1, 2007
CURRENT LIABILITIES			
Accounts payable	$ 5,924	$ 4,297	$ 4,312
Unredeemed gift card liabilities	457	531	422
Accrued compensation and related expenses	546	373	287
Accrued liabilities	1,455	975	970
Accrued income taxes	44	404	99
Short-term debt	1,515	156	1,357
Current portion of long-term debt	39	33	20
Total current liabilities	9,980	6,769	7,467
LONG-TERM LIABILITIES	929	838	751
LONG-TERM DEBT	1,136	627	600
MINORITY INTERESTS	725	40	38
SHAREHOLDERS EQUITY			
Preferred stock, $1.00 par value: Authorized 400,000 shares; Issued and outstanding none			
Common stock, $.10 par value: Authorized 1.0 billion shares; Issued and outstanding 412,332,000, 410,578,000 and 417,777,000 shares, respectively	41	41	42
Additional paid-in capital	112	8	
Prepaid stock repurchase			(200)
Retained earnings	4,205	3,933	3,147
Accumulated other comprehensive income	394	502	392
Total shareholders equity	4,752	4,484	3,381
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 17,522	$ 12,758	$ 12,237

NOTE: The consolidated balance sheet as of March 1, 2008, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Revenue	$ 9,801	$ 8,750	$ 18,791	$ 16,677
Cost of goods sold	7,420	6,611	14,277	12,646
Gross profit	2,381	2,139	4,514	4,031
Selling, general and administrative expenses	2,042	1,738	3,898	3,364
Operating income	339	401	616	667
Other income (expense)				
Investment income and other	9	22	30	66
Interest expense	(21)	(23)	(34)	(30)
Earnings before income tax expense, minority interests and equity in loss of affiliates	327	400	612	703
Income tax expense	122	144	228	257
Minority interests	(3)	(5)	(2)	(3)
Equity in loss of affiliates		(1)	(1)	(1)
Net earnings	$ 202	$ 250	$ 381	$ 442
Earnings per share				
Basic	$ 0.49	$ 0.56	$ 0.92	$ 0.96
Diluted	$ 0.48	$ 0.55	$ 0.91	$ 0.94
Dividends declared per common share	$ 0.13	$ 0.10	$ 0.26	$ 0.20
Weighted average common shares outstanding (in millions)				
Basic	412.1	444.1	411.7	461.5
Diluted	423.3	456.2	423.0	473.8

See Notes to Condensed Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE SIX MONTHS ENDED AUGUST 30, 2008

($ and shares in millions)

(Unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances at March 1, 2008	411	$ 41	$ 8	$ 3,933	$ 502	$ 4,484
Net earnings, six months ended August 30, 2008				381		381
Other comprehensive loss, net of tax						
Foreign currency translation adjustments					(61)	(61)
Unrealized losses on available-for-sale investments					(47)	(47)
Total comprehensive income						273
Stock-based compensation			54			54
Issuance of common stock under employee stock purchase plan			25			25
Stock options exercised	1		21			21
Tax benefit from stock options exercised and employee stock purchase plan			4			4
Common stock dividends, $0.26 per share				(109)		(109)
Balances at August 30, 2008	412	$ 41	$ 112	$ 4,205	$ 394	$ 4,752

See Notes to Condensed Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)

(Unaudited)

	Six Months Ended	
	August 30, 2008	September 1, 2007
OPERATING ACTIVITIES		
Net earnings	$ 381	$ 442
Adjustments to reconcile net earnings to total cash provided by operating activities		
Depreciation	312	279
Stock-based compensation	54	58
Deferred income taxes	(24)	(18)
Excess tax benefits from stock-based compensation	(4)	(12)
Other, net	1	3
Changes in operating assets and liabilities, net of acquired assets and liabilities		
Receivables	(57)	4
Merchandise inventories	(899)	(555)
Other assets	14	(2)
Accounts payable	782	278
Other liabilities	(126)	(142)
Accrued income taxes	(384)	(204)
Total cash provided by operating activities	50	131
INVESTING ACTIVITIES		
Additions to property and equipment, net of $122 and $35 non-cash capital expenditures in the six months ended August 30, 2008, and September 1, 2007	(502)	(376)
Purchases of investments	(70)	(3,812)
Sales of investments	183	6,429
Acquisition of businesses, net of cash acquired	(2,089)	(89)
Change in restricted assets	(10)	(9)
Other, net	(12)	
Total cash (used in) provided by investing activities	(2,500)	2,143
FINANCING ACTIVITIES		
Borrowings of debt	2,188	2,861
Repayments of debt	(614)	(1,538)
Dividends paid	(107)	(93)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	46	59
Excess tax benefits from stock-based compensation	4	12
Repurchase of common stock		(3,461)
Other, net	(12)	
Total cash provided by (used in) financing activities	1,505	(2,160)

EFFECT OF EXCHANGE RATE CHANGES ON CASH		51		71
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(894)		185
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		1,438		1,205
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	544	$	1,390

See Notes to Condensed Consolidated Financial Statements.

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. 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. 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 March 1, 2008.

We consolidate the financial results of our China and Europe operations on a two-month lag. In addition, we plan to reflect our Mexico and Turkey businesses on a two-month lag. There was no significant intervening event that would have materially affected our consolidated financial statements had it been recorded during the three months ended August 30, 2008.

Reclassifications

To maintain consistency and comparability, we reclassified certain prior-year amounts to conform to the current-year presentation as described in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008. To conform our consolidated statement of cash flows to the current-year presentation, we reclassified:

- to other, net, $1 for the six months ended September 1, 2007, which was previously reported in asset impairment

charges within cash provided by operating activities; and

- to purchases of investments, $73, and to sales of investments, $84, for the six months ended September 1, 2007, which were previously reported in change in restricted assets within cash provided by investing activities.

These reclassifications had no effect on previously reported consolidated operating income, net earnings or shareholders equity.

New Accounting Standards

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first

quarter of fiscal 2010, and this standard must be applied on a retrospective basis. We are evaluating the impact the adoption of FSP APB 14-1 will have on our consolidated financial position and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, *an amendment of SFAS No. 133*. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effect these instruments and activities have on an entity s financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will adopt SFAS No. 161 beginning in the fourth quarter of fiscal 2009. We are evaluating the impact the adoption of SFAS No. 161 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* (141R). SFAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 141R beginning in the first quarter of fiscal 2010, which will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 160 beginning in the first quarter of fiscal 2010. We are evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. We adopted SFAS No. 159 on March 2, 2008, and did not elect the fair value option for eligible items that existed at the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement

applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued FSPs No. 157-1 and No. 157-2, which, respectively, removed leasing transactions from the scope of SFAS No. 157 and deferred for one year the effective date for SFAS No. 157 as it applies to certain nonfinancial assets and liabilities. On March 2, 2008, we adopted, on a prospective basis, the SFAS No. 157 definition of fair value and became subject to the new disclosure requirements (excluding FSP 157-2) with respect to our fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in our financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. Our adoption did not impact our consolidated financial position or

results of operations. The additional disclosures required by SFAS No. 157 are included in Note 4, *Fair Value Measurements.*

The deferral provided by FSP No. 157-2 applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. We are evaluating the impact FSP No. 157-2 will have on our nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis.

2. Acquisition

On May 7, 2008, we entered into a Sale and Purchase Agreement (SPA) with The Carphone Warehouse Group PLC (CPW). All conditions to closing were satisfied, and the transaction was consummated on June 30, 2008. The effective acquisition date for accounting purposes was the close of business June 28, 2008, the end of CPW s fiscal first quarter. Under the terms of the SPA, CPW contributed certain assets and liabilities into a newly-formed company registered in England and Wales, Best Buy Europe Distributions Limited, formerly Best Buy International Limited (Best Buy Europe), in exchange for all of the ordinary shares of Best Buy Europe, and our wholly-owned subsidiary, Best Buy Distributions Limited, purchased 50% of such ordinary shares of Best Buy Europe from CPW for an aggregate purchase price of $2,167. In addition to the purchase price paid to CPW, we incurred $29 of transactions costs for an aggregate purchase price of $2,196. We funded the payment of the purchase price and related transactions costs with cash-on-hand, through additional borrowings available under our existing credit facilities and with proceeds from a $500 note offering sold on June 24, 2008, in a private placement (see Note 6, *Debt*).

The assets and liabilities contributed to Best Buy Europe by CPW included CPW s retail and distribution business, consisting of retail stores, related mobile airtime reselling operations and device insurance operations; its fixed line telecommunications businesses in Spain and Switzerland; its facilities management business, under which it bills and manages the customers of network operators in the U.K.; its dealer business, under which it acts as a wholesale distributor of handsets and airtime vouchers; and its economic interests in existing commercial arrangements with Best Buy (Best Buy Mobile in the U.S. and the Geek Squad joint venture in the U.K. and Spain).

The amount paid in excess of the fair value of the net assets acquired was primarily for (i) the expected future cash flows derived from the existing business and infrastructure contributed to Best Buy Europe by CPW, which included over 2,400 retail stores, (ii) immediate access to the European market with a management team that is experienced in both retailing and wireless service technologies in this marketplace, and (iii) expected synergies management believes this new venture will generate, which include benefits from joint purchasing, sourcing and merchandising. In addition, Best Buy and CPW plan to introduce new offerings in the retail stores contributed to Best Buy Europe by CPW and launch large-format Best Buy-branded stores and Web sites in the European market.

We have consolidated Best Buy Europe in our financial results as part of our International segment from the date of acquisition. We will consolidate the financial results of Best Buy Europe on a two-month lag to align with CPW s quarterly reporting periods. As a result, the operating results of Best Buy Europe will not be reported in our consolidated statement of earnings until our fiscal third quarter, which ends on November 29, 2008; however, the opening balance sheet of Best Buy Europe is reflected in our condensed consolidated balance sheet at August 30, 2008. We intend to disclose any significant intervening events related to Best Buy Europe that occur in our fiscal quarters and materially affect our consolidated financial statements. In August 2008, the U.S. dollar strengthened relative to the British pound, which is the functional currency of Best Buy Europe. The balance sheet of Best Buy Europe included in our condensed consolidated balance sheet at August 30, 2008, was translated using the exchange rate in effect two months prior to August 30, 2008. If the balance sheet had been translated using the exchange rate in effect at August 30, 2008, the impact would have been to decrease total assets and total liabilities by $415 and $167,

respectively.

We accounted for the acquisition pursuant to SFAS No. 141, *Business Combinations,* using the purchase method. Accordingly, we recorded the net assets acquired at their estimated fair values and allocated the purchase price on a preliminary basis using information currently available. The allocation of the purchase price to the acquired assets and liabilities will be finalized no later than the second quarter of fiscal 2010, as we obtain more information regarding asset valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase. None of the goodwill is deductible for tax purposes.

The preliminary purchase price allocation was as follows:

Cash and cash equivalents	$	107
Restricted cash		112
Receivables		1,186
Merchandise inventories		543
Other current assets		123
Property and equipment		555
Goodwill		1,491
Tradenames		94
Customer relationships		484
Other assets		130
Total assets		4,825
Accounts payable		(814)
Other current liabilities		(694)
Short-term debt		(299)
Long-term liabilities		(140)
Total liabilities		(1,947)
Minority interest1		(682)
Purchase price allocated to assets and liabilities acquired	$	2,196

1 We acquired a 50% interest in the net assets of Best Buy Europe and are consolidating the financial results of Best Buy Europe as part of the International segment from the date of acquisition. We recorded the fair value adjustments only in respect of the 50% of net assets acquired, with the remaining 50% of the net assets of Best Buy Europe being consolidated and recorded at their historical cost basis. This also resulted in an initial $682 minority interest being reflected in our condensed consolidated balance sheet in respect of the 50% owned by CPW.

The valuation of the identifiable intangible assets acquired was based on management s estimates, currently available information and reasonable and supportable assumptions. The allocation was generally based on the fair value of these assets using income and market approaches. The amortizable intangible assets are being amortized using a straight-line method over their respective estimated useful lives. The following table summarizes the identified intangible asset categories and their respective weighted average amortization periods:

	Weighted Average Amortization Period (in years)		Fair Value
Customer relationships	6.8	$	484
Tradenames	4.2		94
Total	6.4	$	578

We recorded an estimate for costs to terminate certain activities associated with Best Buy Europe operations in accordance with Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* A restructuring accrual of $37 was recorded and reflects the accrued restructuring costs incurred at the date of acquisition, primarily for store closure costs and agreement termination fees.

Our pro forma condensed consolidated financial results of operations are presented in the following table as if the acquisition described above had been completed at the beginning of each period presented:

	Three months ended		Six months ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Pro forma revenue	$ 11,221	$ 10,131	$ 21,718	$ 19,496
Pro forma net earnings	162	209	342	395
Pro forma earnings per common share				
Basic	$ 0.39	$ 0.47	$ 0.83	$ 0.86
Diluted	0.39	0.46	0.82	0.84
Weighted average common shares outstanding				
Basic	412.1	444.1	411.7	461.5
Diluted	423.3	456.2	423.0	473.8

These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments, such as increased interest expense on acquisition debt, foregone interest income and amortization related to acquired customer relationships and tradenames. They have not been adjusted for the effect of costs or synergies that would have been expected to result from the integration of this acquisition or for costs that are not expected to recur as a result of the acquisition. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combination occurred at the beginning of each period presented, or of future results of the consolidated entities. The results of Best Buy Europe are presented on a two-month lag.

Our interest in Best Buy Europe is separate from our investment in the common stock of CPW, as discussed in Note 3, *Investments*.

3. Investments

Investments were comprised of the following:

	August 30, 2008	March 1, 2008	September 1, 2007
Short-term investments			
Debt securities	$	$ 64	$ 121
Equity and other investments			
Debt securities	$ 354	$ 417	$
Marketable equity securities	101	172	184
Other investments	46	16	16
Total equity and other investments	$ 501	$ 605	$ 200

Debt Securities

The following table presents the fair values, related weighted-average interest rates (taxable equivalent), maturities and major security types for our investments in debt securities:

	August 30, 2008		March 1, 2008		September 1, 2007	
	Fair Value	Weighted-Average Interest Rate	Fair Value	Weighted-Average Interest Rate	Fair Value	Weighted-Average Interest Rate
Short-term investments	$	N/A	$ 64	4.94%	$ 121	6.23%
Long-term investments	354	6.95%	417	7.60%		N/A
Total	$ 354		$ 481		$ 121	
Auction-rate securities	$ 354		$ 417		$ 88	
Municipal debt securities					20	
Commercial paper			64		13	
Total	$ 354		$ 481		$ 121	

In accordance with our investment policy, we place our investments in debt securities with issuers who have high-quality credit and limit the amount of investment exposure to any one issuer. The primary objective of our investment activities is to preserve principal and maintain a desired level of liquidity to meet working capital needs. We seek to preserve principal and minimize exposure to interest-rate fluctuations by limiting default risk, market risk and reinvestment risk.

Short-term and long-term investments are comprised of auction-rate securities and commercial paper. We classify investments in auction-rate securities and other investments in debt securities as available-for-sale and carry them at fair value. Auction-rate securities are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed.

Our auction-rate securities consisted of the following at August 30, 2008, and March 1, 2008:

Description	Nature of collateral or guarantee	August 30, 2008	March 1, 2008
Student loan bonds	Student loans guaranteed 95% to 100% by the U.S. government	$ 295	$ 297
Municipal revenue bonds	96% and 89% insured by AAA/Aaa-rated bond insurers at August 30, 2008, and March 1, 2008, respectively	44	97
Auction preferred securities	Underlying investments of closed-end funds	15	23
Total par value (includes accrued interest)		$ 354	$ 417

At August 30, 2008, our auction-rate securities portfolio was 96% AAA/Aaa-rated and 4% AA/Aa-rated.

In mid-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. At August 30, 2008, our entire auction-rate securities portfolio, consisting of 58 investments in auction-rate securities, was subject to failed auctions; however, we had sold at par $62 in auction-rate securities during the first six months of fiscal 2009. Subsequent to August 30, 2008, and through October 6, 2008, we sold $4 in auction-rate securities at par and held $350 (par value) at October 6, 2008. In addition, we received firm call notices

from issuers to redeem $24 (par value) by October 28, 2008. To date, we have collected all interest due on our auction-rate securities and expect to continue to do so in the future.

As a result of the persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, we have classified all of our investments in auction-rate securities as non-current assets within equity and other investments in our consolidated balance sheet at August 30, 2008. The investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues, which range from 8 to 40 years. We believe that issuers and financial markets are exploring alternatives that may improve liquidity, although it is not yet clear when or if such efforts will be successful. We intend to hold our auction-rate securities until we can recover the full principal amount through one of the means described above, and have the ability to do so based on our other sources of liquidity.

We evaluated our entire auction-rate securities portfolio for temporary or other-than-temporary impairment at August 30, 2008, based primarily on the methodology described in Note 4, *Fair Value Measurements*. As a result of this review, we determined that the fair value of our auction-rate securities at August 30, 2008, approximates par value, and accordingly, we have not recorded any impairment. The estimated fair values could change significantly based on future market conditions. We will continue to assess the fair value of our auction-rate securities for substantive changes in relevant market conditions, changes in our financial condition or other changes that may alter our estimates described above. We may be required to record an unrealized holding loss or an impairment charge to earnings if we determine that our investment portfolio has incurred a decline in fair value that is temporary or other-than-temporary, respectively.

There were no significant unrealized holding gains or losses recorded in accumulated other comprehensive income at August 30, 2008; March 1, 2008; and September 1, 2007, related to our investments in debt securities.

Marketable Equity Securities

We also invest in marketable equity securities and classify them as available-for-sale. Investments in marketable equity securities are included in equity and other investments in our consolidated balance sheets, and are reported at fair value based on quoted market prices.

Our investments in marketable equity securities were as follows:

	August 30, 2008	March 1, 2008	September 1, 2007
Common stock of CPW	$ 94	$ 160	$ 181
Other	7	12	3
Total	$ 101	$ 172	$ 184

We review all investments for other-than-temporary impairment at least quarterly or as indicators of impairment exist. Indicators of impairment include the duration and severity of the decline in fair value as well as the intent and ability to hold the investment to allow for a recovery in the market value of the investment. In addition, we consider qualitative factors that include, but are not limited to: (i) the financial condition and business plans of the investee including its future earnings potential, (ii) the investee s credit rating, and (iii) the current and expected market and

industry conditions in which the investee operates. If a decline in the fair value of an investment is deemed by management to be other-than-temporary, we write down the cost basis of the investment to fair value, and the amount of the write-down is included in net earnings. Such a determination is dependent on the facts and circumstances relating to each investment.

During the second quarter of fiscal 2008, we purchased in the open market 26.1 million shares of CPW common stock for $183, representing nearly 3% of CPW s then outstanding shares. In accordance with the policy and process discussed above, we reviewed our investment in CPW and determined, based on specific facts and circumstances, that it had not incurred an other-than-temporary impairment at August 30, 2008. At August 30, 2008, the unrealized loss, net of tax, on our investment in CPW common stock was $(74).

All unrealized holding gains or losses related to our investments in marketable equity securities are reflected net of tax in accumulated other comprehensive income in shareholders equity. Net unrealized loss, net of tax, included in accumulated other comprehensive income was $(72), $(25) and $(2) at August 30, 2008; March 1, 2008; and September 1, 2007, respectively.

4. Fair Value Measurements

As discussed in Note 1, we adopted SFAS No. 157, subject to the deferral provisions of FSP No. 157-2, on March 2, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by SFAS No. 157 contains three levels as follows:

Level 1 Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management s estimates of market participant assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following table sets forth by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at August 30, 2008, according to the valuation techniques we used to determine their fair values.

	Fair Value at

	August 30, 2008	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
ASSETS				
Cash and cash equivalents				
Cash equivalents	$ 124	$ 124	$	$
Other current assets (restricted assets)				
Cash equivalents	104	104		
Equity and other investments				
Debt securities	354			354
Marketable equity securities	101	101		
Other assets				
Assets that fund deferred compensation	79	79		
LIABILITIES				
Long-term liabilities				
Deferred compensation	71	71		

The following tables provide a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

	Debt securities- Auction-rate securities only			
	Student loan bonds	Municipal revenue bonds	Auction preferred securities	Total
Balances at May 31, 2008	$ 298	$ 59	$ 23	$ 380
Realized gain (loss) included in earnings				
Unrealized gain (loss) included in other comprehensive income				
Purchases, sales and settlements, net		(15)	(8)	(23)
Interest accrued (received), net	(3)			(3)
Transfers in and/or (out) of Level 3				
Balances at August 30, 2008	$ 295	$ 44	$ 15	$ 354

	Debt securities- Auction-rate securities only			
	Student loan bonds	Municipal revenue bonds	Auction preferred securities	Total
Balances at March 1, 2008	$ 297	$ 97	$ 23	$ 417
Realized gain (loss) included in earnings				
Unrealized gain (loss) included in other comprehensive income				
Purchases, sales and settlements, net	(1)	(53)	(8)	(62)
Interest accrued (received), net	(1)			(1)
Transfers in and/or (out) of Level 3				
Balances at August 30, 2008	$ 295	$ 44	$ 15	$ 354

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash Equivalents. The carrying value of cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2. Our cash equivalents are comprised of money market funds.

Debt Securities. We classify our investments in debt securities as available-for-sale. Our debt securities are comprised of auction-rate securities as described in Note 3, *Investments*. Our investments in auction-rate securities are classified as Level 3 as quoted prices were unavailable due to events described in Note 3, *Investments*. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value at August 30, 2008. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with auction-rate securities.

Marketable Equity Securities. We classify our investments in marketable equity securities as available-for sale. Our marketable equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Deferred Compensation. Our deferred compensation liabilities and the assets that fund our deferred compensation consist of investments in mutual funds. These investments are classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the six months ended August 30, 2008, we had no significant measurements of assets or liabilities at fair value (as defined in SFAS No. 157) on a nonrecurring basis subsequent to their initial recognition. The effective date of SFAS No. 157 was deferred under FSP No. 157-2. SFAS No. 157 relates to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. In the first six months of fiscal 2009, the measurements of fair value affected by the deferral under FSP No. 157-2 related to nonfinancial assets and liabilities recognized as a result of the acquisition discussed in Note 2, *Acquisition*.

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and tradenames by segment were as follows in the six months ended August 30, 2008:

	Goodwill			Tradenames		
	Domestic	International	Total	Domestic	International	Total
Balances at March 1, 2008	$ 450	$ 638	$ 1,088	$ 23	$ 74	$ 97
Acquisition		1,491	1,491		94	94
Changes in foreign currency exchange rates		(43)	(43)		(3)	(3)
Balances at August 30, 2008	$ 450	$ 2,086	$ 2,536	$ 23	$ 165	$ 188

As discussed in Note 2, *Acquisition,* we acquired certain intangible assets that are subject to amortization in the second quarter of fiscal 2009. The estimated future amortization expense for identifiable intangible assets during the remainder of fiscal 2009 and for the next five years is as follows:

Fiscal Year	
Remainder of fiscal 2009	$ 54
2010	108
2011	108
2012	83
2013	58
2014	52

6. Debt

On June 24, 2008, we sold $500 principal amount of notes due July 15, 2013 (the Notes). The Notes bear interest at a fixed rate of 6.75% per year, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2009. The interest payable on the Notes is subject to adjustment if either Moody s Investor Services or Standard & Poor s Ratings Services downgrades to below investment grade the rating assigned to the Notes. Net proceeds from the sale of the Notes were $496, after an initial issuance discount of approximately $1 and other transaction costs.

We may redeem some or all of the Notes at any time, at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and an applicable make-whole amount as described in the indenture relating to the Notes.

We have agreed to file a registration statement under the Securities Act of 1933, as amended, to permit either the exchange of the Notes for registered notes having terms substantially identical to the Notes (except that the registered notes will not be subject to additional interest provisions or restrictions on ownership or transfer) or, in the alternative, the registered resale of the Notes.

The Notes are unsecured and unsubordinated obligations and rank equally with all of our other unsecured and unsubordinated debt. The Notes contain covenants that, among other things, limit our ability and the ability of our North American subsidiaries to incur debt secured by liens, enter into sale and lease-back transactions and, in the case of such subsidiaries, incur debt.

7. Earnings per Share

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, nonvested share awards and shares issuable under our employee stock purchase plan, as well as common shares that would have resulted from the assumed conversion of our convertible debentures. Since the potentially dilutive shares related to the convertible debentures are included in the calculation, the related interest expense, net of tax, is added back to net earnings, as the interest would not have been paid if the convertible debentures had been converted to common stock. Nonvested market-based awards and nonvested performance-based awards are included in the average diluted shares outstanding each period if established market or performance criteria have been met at the end of the respective periods.

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share (shares in millions):

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Numerator				
Net earnings, basic	$ 202	$ 250	$ 381	$ 442
Adjustment for assumed dilution				
Interest on convertible debentures, net of tax	1	1	3	3
Net earnings, diluted	$ 203	$ 251	$ 384	$ 445
Denominator				
Weighted-average common shares outstanding	412.1	444.1	411.7	461.5
Effect of potentially dilutive securities				
Shares from assumed conversion of convertible debentures	8.8	8.8	8.8	8.8
Stock options and other	2.4	3.3	2.5	3.5
Weighted-average common shares outstanding, assuming dilution	423.3	456.2	423.0	473.8
Earnings per share				
Basic	$ 0.49	$ 0.56	$ 0.92	$ 0.96
Diluted	$ 0.48	$ 0.55	$ 0.91	$ 0.94

The computation of average dilutive shares outstanding excluded options to purchase 12.8 million and 8.7 million shares of our common stock for the three months ended August 30, 2008, and September 1, 2007, respectively, and 12.7 million and 8.7 million shares of our common stock for the six months ended August 30, 2008, and September 1, 2007, respectively. These amounts were excluded as the options exercise prices were greater than the average market price of our common stock for the periods presented and, therefore, the effect would be antidilutive (i.e., including such options would result in higher earnings per share).

8. Comprehensive Income

Comprehensive income is computed as net earnings plus certain other items that are recorded directly to shareholders equity. In addition to net earnings, the components of comprehensive income also include foreign currency translation adjustments and unrealized gains or losses, net of tax, on available-for-sale investments. Foreign currency translation adjustments do not include a provision for income tax expense when earnings from foreign operations are considered to be indefinitely reinvested outside the United States. Comprehensive income was $133 and $258 for the three months ended August 30, 2008, and September 1, 2007, respectively, and $273 and $618 for the six months ended August 30, 2008, and September 1, 2007, respectively.

The components of accumulated other comprehensive income, net of tax, were as follows:

	August 30, 2008	March 1, 2008	September 1, 2007
Foreign currency translation	$ 466	$ 527	$ 394
Unrealized losses on available-for-sale investments	(72)	(25)	(2)

Total	$ 394	$ 502	$ 392

9. Segments

We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all store, call center and online operations within the U.S. and its territories. The International segment is comprised of all store and online operations outside the U.S. and its territories. We evaluate our segments on an operating income basis, and we do not calculate a stand-alone tax provision for each segment. The accounting policies of the segments are the same as those described in Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008.

Revenue by reportable segment was as follows:

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Domestic	$ 8,133	$ 7,234	$ 15,586	$ 13,938
International	1,668	1,516	3,205	2,739
Total revenue	$ 9,801	$ 8,750	$ 18,791	$ 16,677

Operating income by reportable segment and the reconciliation to earnings before income tax expense, minority interest and equity in loss of affiliates were as follows:

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Domestic	$ 315	$ 358	$ 592	$ 628
International	24	43	24	39
Total operating income	339	401	616	667
Other income (expense)				
Investment income and other	9	22	30	66
Interest expense	(21)	(23)	(34)	(30)
Earnings before income tax expense, minority interests and equity in loss of affiliates	$ 327	$ 400	$ 612	$ 703

Assets by reportable segment were as follows:

	August 30, 2008	March 1, 2008	September 1, 2007
Domestic	$ 9,680	$ 8,194	$ 8,658
International	7,842	4,564	3,579
Total assets	$ 17,522	$ 12,758	$ 12,237

Goodwill by reportable segment was as follows:

	August 30, 2008	March 1, 2008	September 1, 2007
Domestic	$ 450	$ 450	$ 452
International	2,086	638	601
Total goodwill	$ 2,536	$ 1,088	$ 1,053

Tradenames by reportable segment were as follows:

	August 30, 2008	March 1, 2008	September 1, 2007
Domestic	$ 23	$ 23	$ 23
International	165	74	70
Total tradenames	$ 188	$ 97	$ 93

10. Contingencies

We are involved in various legal proceedings arising in the normal course of conducting business. We believe the amounts provided in our consolidated financial statements are adequate in consideration of the probable and estimable liabilities. The resolution of those proceedings is not expected to have a material effect on our results of operations or financial condition.

11. Subsequent Event

On September 14, 2008, we and our wholly-owned subsidiary, Puma Cat Acquisition Corp., a Delaware corporation (Puma Cat), entered into an Agreement and Plan of Merger (the Merger Agreement) with Napster, Inc., a Delaware corporation (Napster). The total transaction value is expected to be approximately $121 (or approximately $54 net of $67 in cash and short-term investments of Napster as of June 30, 2008).

Pursuant to the Merger Agreement, and subject to the conditions set forth therein, Puma Cat commenced a cash tender offer on September 26, 2008, to acquire all of Napster s issued and outstanding shares of common stock, and all stock purchase rights associated with such shares, at a price of $2.65 per share, without any interest or accrued dividends, net to the seller (the Offer). Following completion of the Offer, Puma Cat will be merged with and into Napster, with Napster as the surviving corporation and our wholly-owned subsidiary.

We entered into this transaction as we believe Napster has one of the most comprehensive and easy-to-use music offerings in the industry. The premium we expect to pay in excess of the fair value of the net assets to be acquired is to obtain Napster s capabilities and digital subscriber base to reach new customers with an enhanced experience for exploring and selecting music and other digital entertainment products over an increasing array of devices. We believe the combined capabilities of our two companies will allow us to build stronger relationships with customers, expand the number of subscribers, and capture recurring revenue by offering ongoing value over a mobile digital platform.

12. Condensed Consolidating Financial Information

Our convertible debentures, due in 2022, are jointly and severally, fully and unconditionally, guaranteed by our wholly-owned indirect subsidiary Best Buy Stores, L.P. Investments in subsidiaries of Best Buy Stores, L.P., which have not guaranteed the convertible debentures, are accounted for under the equity method. We reclassified certain prior-year amounts as described in Note 1, *Basis of Presentation*, in this Quarterly Report on Form 10-Q. The aggregate principal balance and carrying amount of our convertible debentures was $402 at August 30, 2008.

The convertible debentures may be converted into shares of our common stock by us at anytime or at the option of the holders if certain criteria are met, as described in Note 4, *Debt*, of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008. At August 30, 2008, the debentures were not convertible at the option of the holders.

We file a consolidated U.S. federal income tax return. We allocate income taxes in accordance with our tax allocation agreement. U.S. affiliates receive no tax benefit for taxable losses, but are allocated taxes at the required effective income tax rate if they have taxable income.

The following tables present condensed consolidating balance sheets as of August 30, 2008; March 1, 2008; and September 1, 2007; condensed consolidating statements of earnings for the three and six months ended August 30, 2008, and September 1, 2007; and condensed consolidating statements of cash flows for the six months ended August 30, 2008, and September 1, 2007:

$ in millions, except per share amounts

Condensed Consolidating Balance Sheets

At August 30, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 65	$ 69	$ 410	$	$ 544
Receivables	2	394	1,389		1,785
Merchandise inventories		4,581	1,939	(415)	6,105
Other current assets	4	181	755	(46)	894
Intercompany receivable			6,373	(6,373)	
Intercompany note receivable	524			(524)	
Total current assets	595	5,225	10,866	(7,358)	9,328
Net Property and Equipment	222	2,168	1,729		4,119
Goodwill		6	2,530		2,536
Tradenames			188		188
Equity and Other Investments	260	1	240		501
Other Assets	100	11	739		850
Investments in Subsidiaries	9,211	272	1,408	(10,891)	
Total Assets	$ 10,388	$ 7,683	$ 17,700	$ (18,249)	$ 17,522
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$	$	$ 5,924	$	$ 5,924
Unredeemed gift card liabilities		398	59		457
Accrued compensation and related expenses		214	332		546
Accrued liabilities	19	548	913	(25)	1,455
Accrued income taxes	44				44
Short-term debt	1,174		341		1,515
Current portion of long-term debt	2	21	16		39
Intercompany payable	2,966	3,407		(6,373)	
Intercompany note payable		500	24	(524)	
Total current liabilities	4,205	5,088	7,609	(6,922)	9,980
Long-Term Liabilities	68	1,025	405	(569)	929
Long-Term Debt	904	162	70		1,136
Minority Interests			725		725

Shareholders Equity	5,211	1,408	8,891	(10,758)	4,752
Total Liabilities and Shareholders Equity	$ 10,388	$ 7,683	$ 17,700	$ (18,249)	$ 17,522

$ in millions, except per share amounts

Condensed Consolidating Balance Sheets

At March 1, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 171	$ 70	$ 1,197	$	$ 1,438
Short-term investments			64		64
Receivables	3	340	206		549
Merchandise inventories		5,293	1,172	(1,757)	4,708
Other current assets	2	206	425	(50)	583
Intercompany receivable			7,097	(7,097)	
Intercompany note receivable	500		3	(503)	
Total current assets	676	5,909	10,164	(9,407)	7,342
Net Property and Equipment	225	2,030	1,051		3,306
Goodwill		6	1,082		1,088
Tradenames			97		97
Equity and Other Investments	278	2	325		605
Other Assets	104	11	205		320
Investments in Subsidiaries	9,108	280	1,358	(10,746)	
Total Assets	$ 10,391	$ 8,238	$ 14,282	$ (20,153)	$ 12,758
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$	$	$ 4,297	$	$ 4,297
Unredeemed gift card liabilities		471	60		531
Accrued compensation and related expenses		200	173		373
Accrued liabilities	7	499	519	(50)	975
Accrued income taxes	404				404
Short-term debt	120		36		156
Current portion of long-term debt	2	16	15		33
Intercompany payable	3,016	4,081		(7,097)	
Intercompany note payable	3	500		(503)	
Total current liabilities	3,552	5,767	5,100	(7,650)	6,769
Long-Term Liabilities	110	970	189	(431)	838
Long-Term Debt	405	143	79		627

Minority Interests			40		40
Shareholders Equity	6,324	1,358	8,874	(12,072)	4,484
Total Liabilities and Shareholders Equity	$ 10,391	$ 8,238	$ 14,282	$ (20,153)	$ 12,758

$ in millions, except per share amounts

Condensed Consolidating Balance Sheets

At September 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 219	$ 62	$ 1,109	$	$ 1,390
Short-term investments	101		20		121
Receivables	4	365	185		554
Merchandise inventories		3,793	1,148	(291)	4,650
Other current assets	18	211	529	(25)	733
Intercompany receivable			5,069	(5,069)	
Intercompany note receivable	500			(500)	
Total current assets	842	4,431	8,060	(5,885)	7,448
Net Property and Equipment	236	1,980	905	(3)	3,118
Goodwill		6	1,047		1,053
Tradenames			93		93
Equity and Other Investments	7		193		200
Other Assets	20	69	237	(1)	325
Investments in Subsidiaries	6,861	265	1,326	(8,452)	
Total Assets	$ 7,966	$ 6,751	$ 11,861	$ (14,341)	$ 12,237
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$	$	$ 4,312	$	$ 4,312
Unredeemed gift card liabilities		380	42		422
Accrued compensation and related expenses		184	103		287
Accrued liabilities	10	529	453	(22)	970
Accrued income taxes	99				99
Short-term debt	1,298		59		1,357
Current portion of long-term debt	3	14	3		20
Intercompany payable	2,247	2,822		(5,069)	
Intercompany note payable		500		(500)	
Total current liabilities	3,657	4,429	4,972	(5,591)	7,467
Long-Term Liabilities	99	859	235	(442)	751
Long-Term Debt	406	137	57		600

Minority Interests			38		38
Shareholders Equity	3,804	1,326	6,559	(8,308)	3,381
Total Liabilities and Shareholders Equity	$ 7,966	$ 6,751	$ 11,861	$ (14,341)	$ 12,237

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Three Months Ended August 30, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 7,574	$ 12,189	$ (9,966)	$ 9,801
Cost of goods sold		6,163	11,239	(9,982)	7,420
Gross profit	4	1,411	950	16	2,381
Selling, general and administrative expenses	38	1,350	651	3	2,042
Operating (loss) income	(34)	61	299	13	339
Other income (expense)					
Investment income and other	14		6	(11)	9
Interest expense	(17)	(7)	(8)	11	(21)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(37)	54	297	13	327
Equity in earnings (loss) of subsidiaries	316	(9)	33	(340)	
Earnings before income tax expense, minority interests and equity in loss of affiliates	279	45	330	(327)	327
Income tax expense	90	21	11		122
Minority interests			(3)		(3)
Equity in loss of affiliates					
Net earnings	$ 189	$ 24	$ 316	$ (327)	$ 202

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Six Months Ended August 30, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 8	$ 14,507	$ 17,761	$ (13,485)	$ 18,791
Cost of goods sold		11,827	17,359	(14,909)	14,277
Gross profit	8	2,680	402	1,424	4,514
Selling, general and administrative expenses	74	2,564	1,254	6	3,898
Operating (loss) income	(66)	116	(852)	1,418	616
Other income (expense)					
Investment income and other	27		23	(20)	30
Interest expense	(21)	(18)	(15)	20	(34)
(Loss) earnings before equity in (loss) earnings of subsidiaries	(60)	98	(844)	1,418	612
Equity in (loss) earnings of subsidiaries	(802)	(17)	59	760	
(Loss) earnings before income tax expense, minority interests and equity in loss of affiliates	(862)	81	(785)	2,178	612
Income tax expense	175	39	14		228
Minority interests			(2)		(2)
Equity in loss of affiliates			(1)		(1)
Net (loss) earnings	$ (1,037)	$ 42	$ (802)	$ 2,178	$ 381

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Three Months Ended September 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 6,772	$ 8,755	$ (6,781)	$ 8,750
Cost of goods sold		5,540	7,783	(6,712)	6,611
Gross profit	4	1,232	972	(69)	2,139
Selling, general and administrative expenses	34	1,167	533	4	1,738
Operating (loss) income	(30)	65	439	(73)	401
Other income (expense)					
Investment income and other	22		10	(10)	22
Interest expense	(19)	(9)	(6)	11	(23)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(27)	56	443	(72)	400
Equity in earnings (loss) of subsidiaries	359	(14)	35	(380)	
Earnings before income tax expense, minority interests and equity in loss of affiliates	332	42	478	(452)	400
Income tax expense	10	21	113		144
Minority interests			(5)		(5)
Equity in loss of affiliates			(1)		(1)
Net earnings	$ 322	$ 21	$ 359	$ (452)	$ 250

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Six Months Ended September 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 8	$ 13,042	$ 16,030	$ (12,403)	$ 16,677
Cost of goods sold		10,653	14,420	(12,427)	12,646
Gross profit	8	2,389	1,610	24	4,031
Selling, general and administrative expenses	73	2,265	1,017	9	3,364
Operating (loss) income	(65)	124	593	15	667
Other income (expense)					
Investment income and other	61		28	(23)	66
Interest expense	(21)	(20)	(13)	24	(30)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(25)	104	608	16	703
Equity in earnings (loss) of subsidiaries	495	(20)	65	(540)	
Earnings before income tax expense, minority interests and equity in loss of affiliates	470	84	673	(524)	703
Income tax expense	44	39	174		257
Minority interests			(3)		(3)
Equity in loss of affiliates			(1)		(1)
Net earnings	$ 426	$ 45	$ 495	$ (524)	$ 442

$ in millions, except per share amounts

Condensed Consolidating Statements of Cash Flows

Six Months Ended August 30, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (1,599)	$ 998	$ 651	$	$ 50
Investing activities					
Additions to property and equipment		(282)	(220)		(502)
Purchases of investments	(12)		(58)		(70)
Sales of investments	26		157		183
Acquisition of business, net of cash acquired			(2,089)		(2,089)
Change in restricted assets			(10)		(10)
Other, net		(12)			(12)
Total cash provided by (used in) investing activities	14	(294)	(2,220)		(2,500)
Financing activities					
Borrowings of debt	2,149	16	23		2,188
Repayments of debt	(592)	(10)	(12)		(614)
Dividends paid	(107)				(107)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	46				46
Excess tax benefits from stock-based compensation	4				4
Other, net			(12)		(12)
Change in intercompany receivable/payable	(21)	(711)	732		
Total cash provided by (used in) financing activities	1,479	(705)	731		1,505
Effect of exchange rate changes on cash			51		51
Decrease in cash and cash equivalents	(106)	(1)	(787)		(894)
Cash and cash equivalents at beginning of period	171	70	1,197		1,438
Cash and cash equivalents at end of period	$ 65	$ 69	$ 410	$	$ 544

$ in millions, except per share amounts

Condensed Consolidating Statements of Cash Flows

Six Months Ended September 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (221)	$ (155)	$ 507	$	$ 131
Investing activities					
Additions to property and equipment		(261)	(115)		(376)
Purchases of investments	(3,616)		(196)		(3,812)
Sales of investments	6,428		1		6,429
Acquisition of business, net of cash acquired			(89)		(89)
Change in restricted assets	(12)		3		(9)
Total cash provided by (used in) investing activities	2,800	(261)	(396)		2,143
Financing activities					
Borrowings of debt	2,770	10	81		2,861
Repayments of debt	(1,473)		(65)		(1,538)
Dividends paid	(93)				(93)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	59				59
Excess tax benefits from stock-based compensation	12				12
Repurchase of common stock	(3,461)				(3,461)
Change in intercompany receivable/payable	(409)	391	18		
Total cash (used in) provided by financing activities	(2,595)	401	34		(2,160)
Effect of exchange rate changes on cash			71		71
(Decrease) increase in cash and cash equivalents	(16)	(15)	216		185
Cash and cash equivalents at beginning of period	235	77	893		1,205
Cash and cash equivalents at end of period	$ 219	$ 62	$ 1,109	$	$ 1,390

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

Unless the context otherwise requires, the use of the terms Best Buy , we , us and our in the following refers to Best Buy Co., Inc. and its consolidated subsidiaries.

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in seven sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Significant Accounting Policies and Estimates
- New Accounting Standards
- Outlook

We consolidate the financial results of our China operations on a two-month lag and have also consolidated the financial results of our new acquisition, Best Buy Europe, on a two-month lag. In addition, we plan to reflect our Mexico and Turkey businesses on a two-month lag. Consistent with such consolidation, the financial and non-financial information presented in our MD&A relative to these operations is also presented on a two-month lag. No significant intervening event occurred that would have materially affected our financial condition, results of operations, liquidity or other factors had it been recorded during the three months ended August 30, 2008.

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, as well as our reports on Forms 10-Q and 8-K and other publicly available information.

Overview

We are a specialty retailer of consumer electronics, home office products, entertainment software, appliances and related services. We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all store, call center and online operations within the U.S. and its territories. The International segment is comprised of all store and online operations outside the U.S. and its territories. For additional information regarding our business segments, see Note 9, *Segments*, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Our business, like that of many U.S. retailers, is seasonal. 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. and Canada, than in any other fiscal quarter. The timing of new store openings, costs associated with the development of new businesses, as well as general economic conditions may also affect our future quarterly results.

Throughout this MD&A, we refer to comparable store sales. Comparable store sales is a measure commonly used in the retail industry, which indicates the performance of our existing stores by measuring the growth in sales for such stores for a particular period over the corresponding period in the prior year. Our comparable store sales is comprised of revenue at stores, call centers and Web sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of the acquisition. The portion of our calculation of the comparable store sales percentage change attributable to our International segment excludes the effect of fluctuations in foreign currency exchange rates. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers methods.

Financial Reporting Changes

To maintain consistency and comparability, we reclassified certain prior-year amounts to conform to the current-year presentation as described in Note 1, *Basis of Presentation*, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Highlights

- Net earnings in the second quarter of fiscal 2009 were $202 million, or $0.48 per diluted share, compared with $250 million, or $0.55 per diluted share, in the same period one year ago.

- Revenue in the second quarter of fiscal 2009 increased 12% to $9.8 billion, compared with $8.8 billion in the same period one year ago, driven primarily by the net addition of 154 new stores in the past 12 months, a 4.2% comparable store sales gain and favorable fluctuations in foreign currency exchange rates.

- Our gross profit rate in the second quarter of fiscal 2009 decreased to 24.3% of revenue, compared with 24.4% of revenue in the same period one year ago. The decrease was due primarily to a continued shift in our revenue mix driven by increased sales of lower-margin products, including notebook computers and video gaming hardware, partially offset by increased sales of higher-margin mobile phones.

- Our selling, general and administrative (SG&A) expense rate in the second quarter of fiscal 2009 was 20.8% of revenue, compared with 19.9% of revenue in the same period one year ago. The increase was due primarily to additional store labor and costs to support the Best Buy Mobile store-within-a-store experience, various store projects and continued expansion of our international businesses.

- During the second quarter of fiscal 2009, we completed the conversion of all of our U.S. Best Buy stores and now operate 973 Best Buy Mobile store-within-a-store locations in the U.S. Additionally, we opened three Best Buy Mobile store-within-a-store locations in Canada Best Buy stores during the fiscal quarter. In the future, we expect to roll-out additional Best Buy Mobile experiences in our Best Buy stores in Canada and similar experiences in our Best Buy stores in China, Mexico and Turkey.

- On June 30, 2008, we closed on our acquisition of a 50% interest in the retail and distribution business of The Carphone Warehouse Group PLC (CPW), a retailer of mobile phone products and services, for an aggregate purchase price of $2,196 million. We consolidate the financial results of the acquisition, now referred to as Best Buy Europe, on a two-month lag to align with CPW s quarterly reporting periods.

- On June 24, 2008, we sold $500 million principal amount of 6.75% notes due July 15, 2013. The proceeds were used to finance a portion of our acquisition of Best Buy Europe.

- Based on our results through the end of the fiscal second quarter, our expectations for the operating results of Best Buy Europe and our decision to suspend share repurchases for the remainder of fiscal 2009, we continue to project earnings for fiscal 2009 in the range of $3.25 to $3.40 per diluted share. This guidance assumes revenue of approximately $47 billion, reflecting the impact of new store openings and a projected comparable store sales gain of 2% to 3%. For additional information about our annual earnings guidance, see *Outlook* below.

Results of Operations

Consolidated Performance Summary

The following table presents unaudited selected consolidated financial data ($ in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Revenue	$ 9,801	$ 8,750	$ 18,791	$ 16,677
Revenue % gain	12%	15%	13%	15%
Comparable store sales % gain	4.2%	3.6%	4.0%	3.3%
Gross profit as % of revenue	24.3%	24.4%	24.0%	24.2%
SG&A as % of revenue	20.8%	19.9%	20.7%	20.2%
Operating income	$ 339	$ 401	$ 616	$ 667
Operating income as % of revenue	3.5%	4.6%	3.3%	4.0%
Net earnings	$ 202	$ 250	$ 381	$ 442
Diluted earnings per share	$ 0.48	$ 0.55	$ 0.91	$ 0.94

Net earnings were $202 million, or $0.48 per diluted share, in the second quarter of fiscal 2009, compared with $250 million, or $0.55 per diluted share, in the same period one year ago. In the first six months of fiscal 2009, net earnings were $381 million, or $0.91 per diluted share, compared with $442 million, or $0.94 per diluted share, in the same period one year ago.

In both the second quarter and first six months of fiscal 2009, the decrease in net earnings reflects an increase in our SG&A expense rate, a modest reduction in our gross profit rate and a decrease in investment income and other, partially offset by an increase in revenue.

Revenue in the second quarter of fiscal 2009 increased 12% to $9.8 billion, compared with $8.8 billion in the same period one year ago. In the first six months of fiscal 2009, revenue increased 13% to $18.8 billion, compared with $16.7 billion in the same period one year ago. In both the second quarter and the first six months of fiscal 2009, the net addition of new stores in the past 12 months accounted for approximately six-tenths of the revenue increase; the comparable store sales gain accounted for approximately three-tenths of the revenue increase; and the remainder of the increase was due to the favorable effect of fluctuations in foreign currency exchange rates.

The following table presents consolidated revenue mix percentages and comparable store sales percentage changes by revenue category in the second quarter of fiscal 2009:

	Revenue Mix Summary		Comparable Store Sales Summary	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Consumer electronics	38%	38%	2.2%	(1.6)%
Home office	33%	31%	11.9%	9.8%
Entertainment software	15%	16%	1.4%	9.3%
Appliances	8%	8%	(11.2)%	(7.1)%
Services	6%	6%	7.0%	5.3%
Other	<1%	1%	n/a	n/a
Total	100%	100%	4.2%	3.6%

Our comparable store sales in the second quarter of fiscal 2009 increased 4.2%, reflecting a higher average transaction amount, which was driven by continued growth in the sales of larger-ticket items. Also contributing to the fiscal second-quarter comparable store sales gain was an increase in online purchases of 27%, as we continued to add features and capabilities to our Web sites. In the second quarter of fiscal 2009, our largest comparable store sales gains were in flat-panel televisions, notebook computers, video gaming hardware and software, mobile phones and GPS navigation products. Growth in the sales of these product categories was partially offset by comparable store sales declines in tube and projection televisions, digital cameras, DVDs and CDs.

Our gross profit rate in the second quarter of fiscal 2009 decreased by 0.1% of revenue to 24.3% of revenue. In the first six months of fiscal 2009, our gross profit rate decreased from 24.2% of revenue to 24.0% of revenue. The gross profit rate decrease in both the second quarter and first six months of fiscal 2009 was due to a decrease in our Domestic segment s gross profit rate, partially offset by an increase in the gross profit rate in our International segment. For further discussion of each segment s gross profit rate changes, see the *Segment Performance Summary* for Domestic and International below.

Our SG&A expense rate in the second quarter of fiscal 2009 increased by 0.9% of revenue to 20.8% of revenue. In the first six months of fiscal 2009, our SG&A expense rate increased from 20.2% of revenue to 20.7% of revenue. The SG&A expense rate increase in both the second quarter and first six months of fiscal 2009 was due to increases in our Domestic and International segments SG&A expense rates. For further discussion of each segment s SG&A expense rate changes, see the *Segment Performance Summary* for Domestic and International below.

Other Income (Expense)

Our investment income and other in the second quarter of fiscal 2009 decreased to $9 million, compared with $22 million in the same period one year ago. Our investment income and other in the first six months of fiscal 2009 decreased to $30 million, compared with $66 million in the same period one year ago. In both the second quarter and first six months of fiscal 2009, the lower investment income and other was due primarily to lower average cash and investments balances related to $3.5 billion of share repurchases made in the prior fiscal year, as well as our purchase of Best Buy Europe in the second quarter of fiscal 2009.

Our interest expense in the second quarter of fiscal 2009 decreased $2 million to $21 million, compared with $23 million in the same period one year ago. The decrease was due primarily to lower interest rates, partially offset by higher debt balances in the second quarter of fiscal 2009. Our interest expense in the first six months of fiscal 2009 increased $4 million to $34 million, compared with $30 million in the same period one year ago. The increase was due primarily to higher debt balances in the first six months of fiscal 2009, partially offset by the benefit of lower interest rates.

Income Tax Expense

Our effective income tax rates in the second quarter and the first six months of fiscal 2009 were 37.3% and 37.2%, respectively, up from 36.3% and 36.7%, respectively, in the corresponding periods of fiscal 2008. The increase in our effective income tax rate for the second quarter of fiscal 2009 was due primarily to state income tax expense. For the first six months of fiscal 2009, the increase was due to lower tax-exempt interest income.

Segment Performance Summary

Domestic

The following table presents unaudited selected financial data for the Domestic segment ($ in millions):

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Revenue	$ 8,133	$ 7,234	$ 15,586	$ 13,938
Revenue % gain	12%	9%	12%	9%
Comparable stores sales % gain	5.3%	1.7%	4.4%	1.7%
Gross profit as % of revenue	24.9%	25.1%	24.7%	24.9%
SG&A as % of revenue	21.0%	20.2%	20.9%	20.4%
Operating income	$ 315	$ 358	$ 592	$ 628
Operating income as % of revenue	3.9%	5.0%	3.8%	4.5%

The following table reconciles Domestic stores open at the beginning and end of the second quarter of fiscal 2009:

	Total Stores at Beginning of Second Quarter Fiscal 2009	Stores Opened	Stores Closed	Total Stores at End of Second Quarter Fiscal 2009
U.S. Best Buy	949	24		973
Magnolia Audio Video	13			13
Pacific Sales	20	2		22
Best Buy Mobile	14	7		21
U.S. Geek Squad	7			7
Total	1,003	33		1,036

Note: No store in the Domestic segment was relocated during the second quarter of fiscal 2009.

The following table reconciles Domestic stores open at the beginning and end of the second quarter of fiscal 2008:

	Total Stores at Beginning of Second Quarter Fiscal 2008	Stores Opened	Stores Closed	Total Stores at End of Second Quarter Fiscal 2008
U.S. Best Buy	852	20		872
Magnolia Audio Video	19		(6)	13
Pacific Sales	14	1		15
Best Buy Mobile	5			5
U.S. Geek Squad	7			7
Total	897	21	(6)	912

Note: One U.S. Best Buy store in the Domestic segment was relocated during the second quarter of fiscal 2008. No other store in the Domestic segment was relocated during the second quarter of fiscal 2008.

Our Domestic segment s operating income in the second quarter of fiscal 2009 was $315 million, or 3.9% of revenue, compared with $358 million, or 5.0% of revenue, in the same period one year ago. In the first six months of fiscal 2009, our Domestic segment s operating income was $592 million, or 3.8% or revenue, compared with $628 million, or 4.5% of revenue, in the same period one year ago. In both the second quarter and first six months of fiscal 2009, the decrease in our Domestic segment s operating income reflected an increase in our SG&A expense rate and a decrease in our gross profit rate, partially offset by an increase in revenue.

Our Domestic segment s revenue in the second quarter of fiscal 2009 increased 12% to $8.1 billion, compared with $7.2 billion in the same period one year ago. In the first six months of fiscal 2009, our Domestic segment s revenue increased 12% to $15.6 billion, compared with $13.9 billion in the same period one year ago. In both the second quarter and the first six months of fiscal 2009, the net addition of 124 new stores in the past 12 months accounted for approximately six-tenths of the revenue increase, and the comparable store sales gain (5.3% for the second quarter of fiscal 2009 and 4.4% in the first six months of fiscal 2009) accounted for the remainder of the increase.

The following table presents revenue mix percentages and comparable store sales percentage changes for the Domestic segment by revenue category in the second quarter of fiscal 2009:

	Revenue Mix Summary Three Months Ended		Comparable Store Sales Summary Three Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Consumer electronics	38%	39%	2.0%	(3.3)%
Home office	34%	31%	15.1%	7.8%
Entertainment software	16%	17%	0.0%	7.0%
Appliances	5%	6%	(9.8)%	(7.4)%
Services	7%	7%	8.7%	3.2%
Other	<1%	<1%	n/a	n/a
Total	100%	100%	5.3%	1.7%

Our Domestic segment s comparable store sales gain in the second quarter of fiscal 2009 reflected an increase in the average transaction amount, driven by the continued growth in the sales of larger-ticket items, including flat-panel televisions and notebook computers. The products having the largest effect on our Domestic segment s comparable store sales gain in the fiscal second quarter were flat-panel televisions, notebook computers, mobile phones, video gaming hardware and software, and GPS navigation products. Strong sales in these product categories were offset by comparable store sales declines in tube and projection televisions, digital cameras, DVDs, CDs and major appliances.

In the second quarter of fiscal 2009, our Domestic segment s consumer electronics revenue category posted a 2.0% comparable store sales gain. The consumer electronics comparable store sales gain was driven primarily by increases in flat- panel televisions and GPS navigation products, partially offset by decreases in the sales of tube and projection televisions, digital cameras and MP3 players and accessories. Our home office revenue category posted a 15.1% comparable store sales gain, driven primarily by continued gains in notebook computers and mobile phones, the latter due to the roll-out of our Best Buy Mobile store-within-a-store locations. The entertainment software revenue category recorded flat comparable store sales, with gains in the sales of video gaming hardware and software being offset by declines in the sales of DVDs and CDs. Our appliances revenue category recorded a 9.8% decline in comparable store sales driven primarily by a decrease in the sales of major appliances, reflecting a continued industry-wide decline Our services revenue category recorded an 8.7% comparable store sales gain due primarily to increases in the sales of computer and home theater services and extended service contracts.

Our Domestic segment s gross profit rate in the second quarter of fiscal 2009 decreased by 0.2% of revenue to 24.9% of revenue. In the first six months of fiscal 2009, our Domestic segment s gross profit rate was 24.7% of revenue compared with 24.9% of revenue in the same period one year ago. In both the second quarter and the first six months of fiscal 2009, the decrease was due primarily to a shift in our revenue mix, which was driven by increased sales of lower-margin products such as notebook computers and video gaming hardware, partially offset by increased sales of higher-margin products within our mobile phones product category.

Our Domestic segment s SG&A expense rate in the second quarter of fiscal 2009 increased by 0.8% of revenue to 21.0% of revenue. In the first six months of fiscal 2009, our Domestic segment s SG&A rate was 20.9% of revenue, compared with 20.4% of revenue in the same period one year ago. The increase was due primarily to increased spending on investments, including the roll-out and staffing of the Best Buy Mobile store-within-a-store experience; store projects such as the reset of our GPS selling space, the addition of musical instruments rooms and

information technology enhancements to our point-of-sale systems; and increased spending on store labor. In addition, the SG&A expense rate for the second quarter of fiscal 2009 was impacted by higher-than-expected legal and travel expenses, though the additional leverage on strong revenue growth partially offset the increase.

International

The following table presents unaudited selected financial data for the International segment ($ in millions):

	Three Months Ended		Six Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Revenue	$ 1,668	$ 1,516	$ 3,205	$ 2,739
Revenue % gain	10%	54%	17%	54%
Comparable stores sales % gain (decline)	(1.0)%	16.3%	1.7%	14.7%
Gross profit as % of revenue	21.3%	21.2%	20.8%	20.6%
SG&A as % of revenue	19.9%	18.4%	20.1%	19.2%
Operating income	$ 24	$ 43	$ 24	$ 39
Operating income as % of revenue	1.4%	2.9%	0.7%	1.4%

The following table reconciles International stores open at the beginning and end of the second quarter of fiscal 2009:

	Total Stores at Beginning of Second Quarter Fiscal 2009	Stores Opened	Stores Closed	Total Stores at End of Second Quarter Fiscal 2009
Future Shop	133			133
Canada Best Buy	51	1		52
Five Star	161			161
China Best Buy	1			1
Total	346	1		347

Note: No store in the International segment was relocated during the second quarter of fiscal 2009.

The following table reconciles International stores open at the beginning and end of the second quarter of fiscal 2008:

	Total Stores at Beginning of Second Quarter Fiscal 2008	Stores Opened	Stores Closed	Total Stores at End of Second Quarter Fiscal 2008
Future Shop	122	4		126
Canada Best Buy	47	1		48
Five Star	137	7	(2)	142
China Best Buy	1			1
Total	307	12	(2)	317

Note: No store in the International segment was relocated during the second quarter of fiscal 2008.

Our International segment s operating income in the second quarter of fiscal 2009 was $24 million, or 1.4% of revenue, compared with $43 million, or 2.9% of revenue, in the same period one year ago. In the first six months of fiscal 2009, our International segment s operating income was $24 million, or 0.7% or revenue, compared with $39 million, or 1.4% of revenue, in the same period one year ago. In both the second quarter and first six months of fiscal 2009, the International segment s decrease in operating income resulted primarily from an increase in the SG&A expense rate, partially offset by a higher gross profit rate and an increase in revenue.

Our International segment s revenue in the second quarter of fiscal 2009 increased 10% to $1.7 billion, compared with $1.5 billion for the same period one year ago. In the first six months of fiscal 2009, our International segment s revenue increased 17% to $3.2 billion, compared with $2.7 billion in the same period one year ago. Excluding the favorable effect of fluctuations in foreign currency exchange rates, our International segment s revenue increased approximately 5% and 9% in the second quarter and the first six months of fiscal 2009, respectively, compared with the same period one year ago. In the second quarter of fiscal 2009, excluding the effect of fluctuations in foreign currency exchange rates, the net addition of 30 new stores fully accounted for the increase in revenue, partially offset by a 1.0% decline in our comparable store sales. The slight decline in comparable store sales was the result of a 7.3% decline in comparable store sales in China, consistent with the rest of the Chinese market as a result of the May earthquake which contributed to an economic and retail slow-down, partially offset by a 1.1% comparable store sales gain in Canada. In the first six months of fiscal 2009, excluding the effect of fluctuations in foreign currency exchange rates, the net addition of 30 new stores accounted for the eight-tenths of the

revenue increase, and the 1.7% comparable store sales gain accounted for the remainder.

The following table presents revenue mix percentages and comparable store sales percentage changes for the International segment by revenue category in the second quarter of fiscal 2009:

	Revenue Mix Summary Three Months Ended		Comparable Store Sales Summary Three Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Consumer electronics	36%	35%	3.7%	10.3%
Home office	30%	32%	(2.6)%	21.1%
Entertainment software	11%	10%	13.1%	30.9%
Appliances	18%	18%	(13.2)%	(3.8)%
Services	5%	5%	(2.6)%	19.4%
Other	<1%	<1%	n/a	n/a
Total	100%	100%	(1.0)%	16.3%

Our International segment s comparable store sales decline in the second quarter of fiscal 2009 reflected declines in the sales of appliances, projection and tube televisions, computer monitors and printers, partially offset by gains in the sales of video-gaming hardware and software, flat-panel televisions and GPS navigation products.

In the second quarter of fiscal 2009, our International segment s consumer electronics revenue category posted a 3.7% comparable store sales gain resulting primarily from comparable store sales gains in flat-panel televisions and GPS navigation products, partially offset by declines in the sales of tube and projection televisions and DVD players. The home office revenue category posted a 2.6% comparable store sales decline due primarily to declines in the sales of computer monitors, printers and notebook computers, partially offset by an increase in desktop computers. The entertainment software revenue category recorded a 13.1% comparable store sales gain due to gains in the sales of video gaming hardware and software, partially offset by an expected decline in the sales of CDs. Our appliances revenue category recorded a 13.2% comparable store sales decline resulting primarily from decreases in the sales of appliances in China and major appliances in Canada. Our services revenue category posted a 2.6% comparable store sales decline due primarily to a decrease in sales of extended service contracts, partially offset by an increase in our product repair business.

Our International segment s gross profit rate in the second quarter of fiscal 2009 increased by 0.1% of revenue to 21.3% of revenue. In the first six months of fiscal 2009, our International segment s gross profit rate was 20.8% of revenue, an improvement from 20.6% of revenue in the same period one year ago. In both the second quarter and first six month of fiscal 2009, the gross profit rate increase was primarily driven by improved promotion control and other gross profit optimization initiatives in China, which was offset partially by a shift in our revenue mix in Canada to lower-margin products, particularly video gaming hardware.

Our International segment s SG&A expense rate in the second quarter of fiscal 2009 increased by 1.5% of revenue to 19.9% of revenue. In the first six months of fiscal 2009, our International segment s SG&A expense rate was 20.1% of revenue, compared with 19.2% of revenue in the same period one year ago. In both the second quarter and first six months of fiscal 2009, the increase in the International segment s SG&A expense rate was primarily driven by planned investments in Best Buy China, Mexico and Turkey for future store expansion and new store start-up; information technology and customer analytic investments to support our international growth; and inflationary pressures on rent and other operating costs in China.

Liquidity and Capital Resources

Summary

The following table summarizes our cash and cash equivalents and short-term investments balances at August 30, 2008; March 1, 2008; and September 1, 2007 ($ in millions):

	August 30, 2008	March 1, 2008	September 1, 2007
Cash and cash equivalents	$ 544	$ 1,438	$ 1,390
Short-term investments		64	121
Total cash and cash equivalents and short-term investments	$ 544	$ 1,502	$ 1,511

We ended the second quarter of fiscal 2009 with $0.5 billion of cash and cash equivalents and short-term investments, compared with $1.5 billion at the end of fiscal 2008 and $1.5 billion at the end of the second quarter of fiscal 2008. The decrease in the balance of our cash and cash equivalents and short-term investments compared with the end of fiscal 2008 and the end of the second quarter of fiscal 2008 was due primarily to the liquidation of a substantial portion of our investment portfolio to fund, in part, our acquisition of Best Buy Europe.

Our current ratio, calculated as current assets divided by current liabilities, was 0.9 at the end of the second quarter of fiscal 2009, compared with 1.1 at the end of fiscal 2008 and 1.0 at the end of the second quarter of fiscal 2008. The decrease in our current ratio compared with the end of fiscal 2008 and the end of the second quarter of fiscal 2008 was due primarily to decreases in our cash and cash equivalents and short-term investments, partially offset by increases in merchandise inventories and accounts payable. The decreases in our cash and cash equivalents and short-term investments were due primarily to the liquidation of a substantial portion of our investment portfolio to fund the acquisition of Best Buy Europe. The increases in merchandise inventories and accounts payable were primarily driven by purposeful investments in high-demand products, such as flat-panel televisions, computing and mobile phones.

Our debt-to-capitalization ratio, which represents the ratio of total debt, including the current portion of long-term debt, to total capitalization (total debt plus total shareholders equity), increased to 36% at the end of the second quarter of fiscal 2009, compared with 15% at the end of fiscal 2008 and 37% at the end of the second quarter of fiscal 2008. We view our debt-to-capitalization ratio as an important indicator of our creditworthiness. The increase compared with the end of fiscal 2008 was driven primarily by increased borrowings in connection with our acquisition of Best Buy Europe.

Our adjusted debt-to-capitalization ratio, which includes capitalized operating lease obligations in its calculation, was 65% at the end of the second quarter of fiscal 2009, compared with 60% at the end of fiscal 2008 and 69% at the end of the second quarter of fiscal 2008. The increase compared with the end of fiscal 2008 was driven primarily by increased borrowings in connection with our acquisition of Best Buy Europe.

Our adjusted debt-to-capitalization ratio is considered a non-GAAP financial measure and is not in accordance with, or preferable to, the ratio determined pursuant to accounting principles generally accepted in the United States (GAAP). However, we have included this information as we believe that our adjusted debt-to-capitalization ratio contributes to an understanding of our operations and provides meaningful additional information about our ability to service our long-term debt and other fixed obligations and to fund our future growth. In addition, we believe our adjusted debt-to-capitalization ratio is relevant because it enables investors to compare our indebtedness to that of retailers who own, rather than lease, their stores. Our decision to own or lease real estate is based on an assessment of our financial liquidity, our capital structure, our desire to own or to lease the location, the owner s desire to own or to lease the location and the alternative that results in the highest return to our shareholders.

The most directly comparable GAAP financial measure to our adjusted debt-to-capitalization ratio is our debt-to-capitalization ratio. Our debt-to-capitalization ratio excludes capitalized operating lease obligations in both the numerator and the denominator. The following table presents a reconciliation of the numerators and denominators used in the calculation of our adjusted debt-to-capitalization ratios for the dates indicated ($ in millions):

	August 30, 2008	March 1, 2008	September 1, 2007
Debt (including current portion)	$ 2,690	$ 816	$ 1,977
Capitalized operating lease obligations (8 times rental expense)1	5,964	5,902	5,566
Total debt (including capitalized operating lease obligations)	$ 8,654	$ 6,718	$ 7,543
Debt (including current portion)	$ 2,690	$ 816	$ 1,977
Capitalized operating lease obligations (8 times rental expense)1	5,964	5,902	5,566

Total shareholders equity	4,752	4,484	3,381
Adjusted capitalization	$ 13,406	$ 11,202	$ 10,924
Debt-to-capitalization ratio	36%	15%	37%
Adjusted debt-to-capitalization ratio (including capitalized operating lease obligations)	65%	60%	69%

1 The multiple of eight times rental expense used to calculate our capitalized operating lease obligations total is the multiple used for the retail sector by one of the nationally recognized credit rating agencies that rate our creditworthiness.

Our liquidity is affected by restricted cash balances that are pledged as collateral or restricted to use for vendor payables, general liability insurance, workers compensation insurance and customer warranty and insurance programs. Restricted cash and cash equivalents, which is included in other current assets, totaled $440 million, $309 million and $385 million at August 30, 2008; March 1, 2008; and September 1, 2007, respectively. The increases in restricted cash compared with the end of fiscal 2008 and the end of the second quarter of fiscal 2008 were due primarily to $112 million of restricted cash acquired from Best Buy Europe.

Cash Flows

The following table summarizes our cash flows for the first six months of the current and prior fiscal years ($ in millions):

	Six Months Ended	
	August 30, 2008	September 1, 2007
Total cash provided by (used in):		
Operating activities	$ 50	$ 131
Investing activities	(2,500)	2,143
Financing activities	1,505	(2,160)
Effect of exchange rate changes on cash	51	71
(Decrease) increase in cash and cash equivalents	$ (894)	$ 185

Note: See consolidated statements of cash flows included in Item 1, *Consolidated Financial Statements*, of this Quarterly Report on Form 10-Q for additional information.

Cash provided by operating activities in the first six months of fiscal 2009 totaled $50 million, compared with $131 million in the first six months of fiscal 2008. The decrease in cash provided by operations was due primarily to a decrease in earnings and increases in merchandise inventories and income taxes, partially offset by an increase in accounts payable. The increase in cash used for merchandise inventories was due primarily to investments in high-demand products, including flat-panel televisions, computing and mobile phones. The increase in cash used for income taxes was due primarily to the timing of payments and a modestly higher effective income tax rate. The decrease in cash used for accounts payable was due primarily to the timing of scheduled vendor payments and higher average accounts payable balances.

Cash used in investing activities in the first six months of fiscal 2009 was $2.5 billion, compared with cash provided by investing activities of $2.1 billion in the first six months of fiscal 2008. The change was due primarily to a decrease in the net sales of investments of approximately $2.5 billion and an increase in cash used in acquisition activities. We invested $2.1 billion, net of cash acquired, to acquire Best Buy Europe in the second quarter of fiscal 2009, as compared to the acquisition of Speakeasy in the first quarter of fiscal 2008 for $89 million. In addition, our capital expenditures increased by $126 million to $502 million in the first six months of fiscal 2009, as compared to capital expenditures of $376 million in the first six months of fiscal 2008.

Cash provided by financing activities was $1.5 billion in the first six months of fiscal 2009, compared with cash used in financing activities of $2.2 billion for the first six months of fiscal 2008. The increase in cash provided by financing activities was primarily the result of a decrease in repurchases of common stock and an increase in net borrowings. During the first six months of fiscal 2009, we made no repurchases of our common stock, compared with $3.5 billion in purchases of our common stock during the first six months of fiscal 2008. Additionally, net borrowings were $1.6 billion in the first six months of fiscal 2009, compared with $1.3 billion in the first six months of fiscal 2008.

Share Repurchases and Dividends

For the three months ended August 30, 2008, we made no share repurchases under our June 2007 share repurchase program. For the three months ended September 1, 2007, we purchased and retired 1.1 million shares of our common stock at a cost of $49 million under our June 2006 share repurchase program and 55.7 million shares of our common stock through our $3.0 billion accelerated share repurchase under our June 2007 share repurchase program.

During the second quarter of fiscal 2009, we paid our regular quarterly cash dividend of $0.13 per common share, or $53 million in the aggregate. During the same period one year ago, we paid a regular quarterly cash dividend of $0.10 per common share, or $45 million in the aggregate. As announced on June 25, 2008, our Board increased our regular quarterly cash dividend by 8%, to $0.14 per common share. The change is effective with the quarterly dividend payable, which, as announced September 17, 2008, our Board has authorized, and is payable on October 28, 2008, to shareholders of record as of October 7, 2008.

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our credit facilities continue to be our most significant sources of liquidity. We believe funds generated from the expected results of operations and available cash and cash equivalents will be sufficient to finance anticipated expansion plans and strategic initiatives for the remainder of fiscal 2009. However, our credit facilities are available for additional working capital needs and investment opportunities as necessary, such as our $2.2 billion acquisition of Best Buy Europe that was consummated on June 30, 2008, and was financed through a combination of cash on hand, existing amounts available under our $2.5 billion unsecured revolving credit facility and proceeds from our $500 million private debt offering. There can be no assurance, however, that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our credit facilities.

We have a $2.5 billion five-year unsecured revolving credit facility, as amended (the Credit Agreement), with a syndicate of banks. The Credit Agreement permits borrowings up to $2.5 billion, and may be increased up to $3.0 billion at our option if the administrative agent under the Credit Agreement grants its consent and each of the banks provides an incremental credit commitment. The Credit Agreement has a $300 million letter of credit sub-limit and a $200 million foreign currency sub-limit. The Credit Agreement terminates in September 2012. For additional information regarding the Credit Agreement, see Note 4, *Debt,* of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008.

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. A subsidiary of Lehman, Lehman Commercial Paper Inc. (Lehman CPI) is one of the lenders under the Credit Agreement, representing a commitment of $180 million, of which $83 million was outstanding at October 6, 2008. Since September 22, 2008, however, Lehman CPI has declined requests for funding under our Credit Agreement, and it is not certain whether Lehman CPI will participate in any future requests for funding or whether another lender might assume its commitment. Based on the total amount outstanding under the Credit Agreement of $1.5 billion at October 6, 2008, and our anticipated future utilization, we believe we continue to have sufficient liquidity to meet our working capital needs, even if Lehman CPI is unable to participate in any future requests for funding.

We have inventory financing programs available to us totaling $28 million through which certain vendors receive payments from a designated finance company for amounts we owe to them. We have $806 million available from February through July, and $811 million available from August through January, of each year, under secured and unsecured revolving demand facilities related to our International segment operations, of which $324 million was outstanding at August 30, 2008.

At August 30, 2008, we had $354 million of auction-rate securities, which are recorded at par on our consolidated balance sheet, as we believe par approximates fair value. The majority of our auction-rate securities are AAA/Aaa-rated and collateralized by student loans, which are guaranteed 95% to 100% by the U.S. government. See Note 3, *Investments*, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for more information. Due to the auction failures that began in mid-February 2008, we have been unable to liquidate many of our auction-rate securities. The investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues, which range from 8 to 40 years. We intend to hold our auction-rate securities until we can recover the full principal amount through one of the means described above, and have the ability to do so based on our other sources of liquidity.

Our credit ratings and outlooks at October 6, 2008, are summarized below and are consistent with the ratings and outlooks reported in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, except for the outlook assigned by Standard & Poor s, who announced on June 10, 2008, that it had reaffirmed its BBB rating on our company, but that it had assigned a negative outlook to us due to our increased leverage and the operational risks associated with our acquisition of Best Buy Europe.

Rating Agency	Rating	Outlook
Fitch	BBB+	Stable
Moody s	Baa2	Stable
Standard & Poor s	BBB	Negative

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the retail and consumer electronics industries, our financial position, and changes in our business strategy. We do not

currently foresee any reasonable circumstances under which our credit ratings would be significantly downgraded. If a downgrade were to occur, it could adversely impact, among other things, our future borrowing costs, access to capital markets, vendor financing terms and future new-store occupancy costs. In addition, the conversion rights of the holders of our convertible debentures could be accelerated if our credit ratings were to be downgraded.

Debt and Capital

At August 30, 2008, we had debt outstanding under our Credit Agreement of $1.2 billion, an increase from $120 million at March 1, 2008, due primarily to increased borrowings in connection with our acquisition of Best Buy Europe and for normal working capital needs. See our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, for additional information regarding our debt and capital. In addition, we assumed $281 million of revolver debt as part of our acquisition of Best Buy Europe, which is available under a £350 million (or, $697 million using the exchange rate in effect two months prior to August 30, 2008) facility agreement between CPW, Best Buy Europe and us. CPW agreed to provide a revolving credit facility to Best Buy Europe for which we guarantee up to 50% of the amount outstanding.

On June 24, 2008, we sold $500 million principal amount of notes due July 15, 2013 (the Notes). The Notes bear interest at a fixed rate of 6.75% per year, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2009. See Note 6, *Debt*, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for more information.

Off-Balance-Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent on the use of off-balance sheet financing arrangements other than in connection with our operating leases.

Other than the issuance of the Notes and the assumption of Best Buy Europe debt, there has been no material change in our contractual obligations other than in the ordinary course of business since the end of fiscal 2008. See our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, for additional information regarding our off-balance-sheet arrangements and contractual obligations.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008. We discuss our critical accounting estimates in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of fiscal 2008.

New Accounting Standards

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first quarter of fiscal 2010, and this standard must be applied on a retrospective basis. We are evaluating the impact the adoption of FSP APB 14-1 will have on our consolidated financial position and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally*

Accepted Accounting Principles. We do not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, *an amendment of SFAS No. 133*. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effect these instruments and activities have on an entity s financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will adopt SFAS No. 161 beginning in the fourth quarter of fiscal 2009. We are evaluating the impact the adoption of SFAS No. 161 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* (141R). SFAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 141R beginning in the first quarter of fiscal 2010, which will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS No. 160 beginning in the first quarter of fiscal 2010. We are evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. We adopted SFAS No. 159 on March 2, 2008, and did not elect the fair value option for eligible items that existed at the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued FSPs No. 157-1 and No. 157-2, which, respectively, removed leasing transactions from the scope of SFAS No. 157 and deferred for one year the effective date for SFAS No. 157 as it applies to certain nonfinancial assets and liabilities. On March 2, 2008, we adopted, on a prospective basis, the SFAS No. 157 definition of fair value and became subject to the new disclosure requirements (excluding FSP 157-2) with respect to our fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in our financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. Our adoption did not impact our consolidated financial position or results of operations. The additional disclosures required by SFAS No. 157 are included in Note 4, *Fair Value Measurements.*

The deferral provided by FSP No. 157-2 applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. We are evaluating the impact FSP No. 157-2 will have on our nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis.

Outlook

In our September 16, 2008, announcement of our results of operations for the second quarter of fiscal 2009, we reiterated the earnings guidance for fiscal 2009 that we provided in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, of $3.25 to $3.40 per diluted share. Our announcement also provided updated estimates for other operating metrics, as well as the acquisition of Best Buy Europe and the suspension of our share repurchase activities, and the impact thereof on our estimated annual earnings.

We believe deteriorating economic conditions and heightened turmoil in the financial markets since our September 16, 2008, announcement have adversely impacted discretionary consumer spending. As a result, our Domestic comparable store sales for fiscal September declined approximately 2%, which was below our expectations. It is unclear the extent to which these conditions will persist and what overall impact they will have on future consumer spending as compared to our expectations. We will continue to monitor consumer spending behavior and, consistent with our practice, provide an update to our outlook if and when we determine that there is a material change in our expected annual results.

For additional information on our outlook for fiscal 2009, see the *Outlook for Fiscal 2009* section provided *in Management s Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, and the *Outlook* section provided in Management s *Discussion and Analysis of Financial Condition and Results of Operations* in our Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2008.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), provide 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 anticipate, believe, estimate, expect, intend plan, project, outlook, and other words and terms meaning. Such statements reflect our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause our future results to differ materially from the anticipated results expressed in such forward-looking statements. Readers should review Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended March 1, 2008, and our Current Report on Form 8-K filed on July 3, 2008, for a description of important factors that could cause future results to differ materially from those contemplated by the forward-looking statements made in this Quarterly Report on Form 10-Q. In addition, general economic conditions, acquisitions and development of new businesses, divestitures, product availability, sales volumes, pricing actions and promotional activities of our competitors, profit margins, weather, changes in law or regulations, foreign currency fluctuation, availability of suitable real estate locations, our ability to react to a disaster recovery situation, and the impact of labor markets and new product introductions on our overall profitability, among other things, could cause our future results to differ materially from those projected in any such forward-looking statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the risks inherent in our operations, we are exposed to certain market risks, including adverse changes in foreign currency exchange rates and interest rates.

Foreign Currency Exchange Rate Risk

We have market risk arising from changes in foreign currency exchange rates related to our International segment operations. We do not manage our foreign currency exchange rate risk through the use of any financial or derivative instruments, forward contracts or hedging activities.

Since calendar 2007, the U.S. dollar has been generally weaker relative to the currencies of the foreign countries in which we operate. The overall weakness of the U.S. dollar had a positive impact on our International segment s revenue and net earnings because the foreign denominations translated into more U.S. dollars.

It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net earnings can be estimated. We estimate that the overall weakness of the U.S. dollar had a favorable impact on revenue of approximately $74 million in the second quarter of fiscal 2009. In addition, we estimate that such weakness had a favorable impact of approximately $1 million on net earnings in the second quarter of fiscal 2009.

In August 2008, the U.S. dollar strengthened relative to the British pound, which is the functional currency of Best Buy Europe. The balance sheet of Best Buy Europe included in our consolidated balance sheet at August 30, 2008, was translated using the exchange rate in effect two months prior to August 30, 2008, as Best Buy Europe is reported on a two-month lag. If the balance sheet had been translated using the exchange rate in effect at August 30, 2008, the impact to would have been to decrease total assets and total liabilities by $415 million and $167 million, respectively.

Interest Rate Risk

Short-term and long-term debt

At August 30, 2008, our short-term and long-term debt was comprised primarily of credit facilities and convertible debentures. We do not manage the interest rate risk on our debt through the use of derivative instruments.

Our credit facilities are not subject to material interest rate risk. The credit facilities interest rates may be reset due to fluctuations in a market-based index, such as the federal funds rate, LIBOR, or the base rate or prime rate of our lenders. A hypothetical 100-basis-point change in the interest rates of our credit facilities would change our annual pre-tax earnings by $15 million.

Our convertible debentures are not subject to material interest rate risk. The interest rate on our debentures may be reset but not more than 100 basis points higher than the current rates. If the interest rate on the debentures at August 30, 2008, were to be reset 100 basis points higher, our annual pre-tax earnings would decrease by $4 million.

Short-term and long-term investments

At August 30, 2008, our short-term and long-term investments were comprised primarily of debt securities, specifically auction-rate securities. Our investments in debt securities are not subject to material interest rate risk. A hypothetical 100-basis-point change in the interest rate would change our annual pre-tax earnings by $4 million. We do not currently manage interest rate risk on our investments through the use of derivative instruments.

Other Market Risks

Investments in auction-rate securities

At August 30, 2008, we held $354 million (par value) in investments in auction-rate securities and concluded that no impairment exists on these securities. Given current conditions in the auction-rate securities market as described in Note 3, *Investments*, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, we may incur temporary unrealized losses or other-than-temporary realized losses in the future if market conditions persist and we are unable to recover the cost of our investments in auction-rate securities. A hypothetical 100-basis-point loss from the par value of these investments would result in a $4 million impairment.

Insurance relationships

We have various commercial insurance relationships with AIG Commercial Insurance Group, Inc. (AIG CI), a subsidiary of American International Group, Inc. (AIG), including our sale of extended service contracts on behalf of AIG CI. AIG CI has publicly stated as recently as October 8, 2008, that it remains well-capitalized and financially secure, with ample resources to pay policyholder claims and plans to continue to underwrite policies. Accordingly, we anticipate that we will continue to be able to sell extended service contracts on behalf of AIG CI, as well as maintain our other insurance relationships with AIG CI. We have no reason to believe that the current financial condition of AIG will have a material adverse effect on AIG CI.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a regular quarterly basis, and as needed.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at August 30, 2008. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at August 30, 2008, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the fiscal quarter ended August 30, 2008, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

We acquired Best Buy Europe during the second quarter of fiscal 2009. We have not fully evaluated changes in internal control over financial reporting associated with this acquisition and, therefore, any material changes that may result from this acquisition have not been disclosed in this report. We intend to disclose all material changes resulting from this acquisition within or prior to our first annual assessment of internal control over financial reporting required to include Best Buy Europe (fiscal 2010).

The operating results reported in this Quarterly Report on Form 10-Q do not include those of Best Buy Europe, as the results are being reported on a two-month lag.

PART II OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Stock Repurchases

The following table presents the total number of shares of our common stock that we purchased during the first quarter of fiscal 2009, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of shares that still could have been purchased at the end of the applicable fiscal period, pursuant to our June 2007 $5.5 billion share repurchase program:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs1	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs1
June 1, 2008, through July 5,2008		$		$ 2,500,000,000
July 6, 2008, through August 2, 2008				2,500,000,000
August 3, 2008, through August 30, 2008				2,500,000,000
Total Fiscal 2009 Second Quarter				2,500,000,000

1 Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs reflects our $5.5 billion share repurchase program announced on June 27, 2007, less $3.0 billion purchased in fiscal 2008. There is no stated expiration date for the June 2007 share repurchase program.

ITEM 4. SUBMISSION OF MATTERS OF A VOTE OF SECURITY HOLDERS

Our Regular Meeting of Shareholders was held on June 25, 2008.

a. The individuals named below were elected as Class 1 directors, each to serve for a term expiring with the election of directors at our 2010 Regular Meeting of Shareholders. Shares voted were as follows:

Bradbury H. Anderson	
Shares For	372,036,039
Shares Withheld	6,298,123
Kathy J. Higgins Victor	
Shares For	362,436,827
Shares Withheld	15,897,335
Allen U. Lenzmeier	
Shares For	372,097,684
Shares Withheld	6,236,478
Rogelio M. Robolledo	
Shares For	373,314,376
Shares Withheld	5,019,786
Frank D. Trestman	
Shares For	369,843,915
Shares Withheld	8,490,247

b. The appointment of the Class 2 director named below was ratified. The terms of the Class 2 directors expire with the election of directors at our 2009 Regular Meeting of Shareholders. Shares voted were as follows:

George L. Mikan III	
Shares For	372,794,757
Shares Withheld	5,539,405

c. The appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year beginning March 2, 2008, was ratified. There were 375,086,493 votes for, and 440,508 votes against, ratification. There were 2,807,161 abstentions.

d. A proposal to approve the Best Buy Co., Inc. 2008 Employee Stock Purchase Plan was approved. There were 323,638,317 votes for, and 10,678,995 votes against, approval. There were 2,813,078 abstentions and 43,297,378 broker non-votes.

e. A proposal to amend our Restated Articles of Incorporation was approved. There were 294,395,706 votes for, and 80,937,304 votes against, approval. There were 3,001,152 abstentions.

ITEM 6. EXHIBITS

31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: October 9, 2008	By:	/s/ BRADBURY H. ANDERSON Bradbury H. Anderson *Vice Chairman* *and Chief Executive Officer* *(duly authorized officer)*
Date: October 9, 2008	By:	/s/ JAMES L. MUEHLBAUER James L. Muehlbauer *Executive Vice President Finance* *and Chief Financial Officer* *(duly authorized and principal financial officer)*
Date: October 9, 2008	By:	/s/ SUSAN S. GRAFTON Susan S. Grafton *Vice President, Controller* *and Chief Accounting Officer* *(duly authorized and chief accounting officer)*