BEST BUY CO INC
Form 10-Q
January 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 29, 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 413,429,000 shares outstanding as of November 29, 2008.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 29, 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)

	November 29, 2008	March 1, 2008	December 1, 2007
CURRENT ASSETS			
Cash and cash equivalents	$ 569	$ 1,438	$ 1,319
Short-term investments	25	64	295
Receivables	2,638	549	739
Merchandise inventories	8,207	4,708	7,451
Other current assets	879	583	673
Total current assets	12,318	7,342	10,477
PROPERTY AND EQUIPMENT			
Property and equipment	7,513	5,608	5,498
Less accumulated depreciation	3,245	2,302	2,238
Net property and equipment	4,268	3,306	3,260
GOODWILL	2,414	1,088	1,086
TRADENAMES	182	97	96
EQUITY AND OTHER INVESTMENTS	435	605	230
OTHER ASSETS	1,030	320	325
TOTAL ASSETS	$ 20,647	$ 12,758	$ 15,474

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)

	November 29, 2008	March 1, 2008	December 1, 2007
CURRENT LIABILITIES			
Accounts payable	$ 8,219	$ 4,297	$ 7,597
Unredeemed gift card liabilities	468	531	471
Accrued compensation and related expenses	410	373	339
Accrued liabilities	1,749	975	1,337
Accrued income taxes	148	404	146
Short-term debt	2,153	156	326
Current portion of long-term debt	48	33	20
Total current liabilities	13,195	6,769	10,236
LONG-TERM LIABILITIES	1,093	838	811
LONG-TERM DEBT	1,125	627	642
MINORITY INTERESTS	674	40	39
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 413,429,000, 410,578,000 and 419,484,000 shares, respectively	41	41	42
Additional paid-in capital	172	8	74
Prepaid stock repurchase			(200)
Retained earnings	4,202	3,933	3,320
Accumulated other comprehensive income	145	502	510
Total shareholders equity	4,560	4,484	3,746
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 20,647	$ 12,758	$ 15,474

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		Nine Months Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
Revenue	$ 11,500	$ 9,928	$ 30,291	$ 26,605
Cost of goods sold	8,639	7,591	22,916	20,237
Gross profit	2,861	2,337	7,375	6,368
Selling, general and administrative expenses	2,587	1,986	6,485	5,350
Operating income	274	351	890	1,018
Other (expense) income				
Investment income and other	(3)	32	27	98
Investment impairment	(111)		(111)	
Interest expense	(35)	(23)	(69)	(53)
Earnings before income tax expense, minority interests and equity in income (loss) of affiliates	125	360	737	1,063
Income tax expense	68	129	296	386
Minority interests	(11)	(1)	(13)	(4)
Equity in income (loss) of affiliates	6	(2)	5	(3)
Net earnings	$ 52	$ 228	$ 433	$ 670
Earnings per share				
Basic	$ 0.13	$ 0.55	$ 1.05	$ 1.50
Diluted	$ 0.13	$ 0.53	$ 1.04	$ 1.47
Dividends declared per common share	$ 0.14	$ 0.13	$ 0.40	$ 0.33
Weighted average common shares outstanding (in millions)				
Basic	412.9	418.7	412.1	447.2
Diluted	422.6	430.8	422.7	459.5

See Notes to Condensed Consolidated Financial Statements.

BEST BUY CO., INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 29, 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, nine months ended November 29, 2008				433		433
Other comprehensive loss, net of tax						
Foreign currency translation adjustments					(383)	(383)
Unrealized losses on available-for-sale securities (net of tax of $3)					(4)	(4)
Reclassification adjustment for impairment loss on available-for-sale security included in net earnings (net of tax of $6)					30	30
Total comprehensive income						76
Stock-based compensation			82			82
Issuance of common stock under employee stock purchase plan	1		48			48
Stock options exercised	1		30			30
Tax benefit from stock options exercised and employee stock purchase plan			4			4
Common stock dividends, $0.40 per share				(164)		(164)
Balances at November 29, 2008	413	$ 41	$ 172	$ 4,202	$ 145	$ 4,560

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)

(Unaudited)

	Nine Months Ended	
	November 29, 2008	December 1, 2007
OPERATING ACTIVITIES		
Net earnings	$ 433	$ 670
Adjustments to reconcile net earnings to total cash (used in) provided by operating activities		
Depreciation	520	419
Investment impairment charge	111	
Stock-based compensation	82	84
Deferred income taxes	(66)	2
Amortization of long-lived assets	42	1
Excess tax benefits from stock-based compensation	(5)	(17)
Other, net	16	(3)
Changes in operating assets and liabilities, net of acquired assets and liabilities		
Receivables	(1,032)	(177)
Merchandise inventories	(3,210)	(3,295)
Other assets	(117)	11
Accounts payable	3,285	3,498
Other liabilities	152	176
Accrued income taxes	(291)	(123)
Total cash (used in) provided by operating activities	(80)	1,246
INVESTING ACTIVITIES		
Additions to property and equipment, net of $160 and $89 non-cash capital expenditures in the nine months ended November 29, 2008, and December 1, 2007	(927)	(584)
Purchases of investments	(95)	(5,147)
Sales of investments	255	7,734
Acquisition of businesses, net of cash acquired	(2,167)	(89)
Change in restricted assets	(17)	(13)
Other, net	(18)	2
Total cash (used in) provided by investing activities	(2,969)	1,903
FINANCING ACTIVITIES		
Borrowings of debt	4,314	4,288
Repayments of debt	(2,082)	(3,986)
Dividends paid	(165)	(148)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	78	110
Excess tax benefits from stock-based compensation	5	17
Repurchase of common stock		(3,461)

Other, net		(9)		41
Total cash provided by (used in) financing activities		2,141		(3,139)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		39		104
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(869)		114
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		1,438		1,205
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	569	$	1,319

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 November 29, 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 purchases of investments, $385, and to sales of investments, $407, for the nine months ended December 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, cash flows from investing activities 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 do not believe our adoption of FSP APB 14-1 beginning in the first quarter of fiscal 2010 will have an impact 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 reporting 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, which are recognized or disclosed at fair value on a nonrecurring basis.

2. Acquisitions

Napster

On September 14, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Napster, Inc. (Napster). The transaction was consummated on October 25, 2008. The effective acquisition date for accounting purposes was the close of business October 31, 2008, the end of Napster s October month-end. We acquired Napster for $120 (or $99 net of cash acquired), pursuant to a cash tender offer whereby all issued and outstanding shares of Napster common stock, and all stock purchase rights associated with such shares, were acquired by us at a price of $2.65 per share. Of the $120 purchase price, $4 represented our ownership interest in Napster common shares prior to the date of the Merger Agreement.

We entered into this transaction as we believe Napster has one of the most comprehensive and easy-to-use digital music offerings in the industry. The amount we paid in excess of the fair value of the net assets acquired was 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, such as bundling the sale of hardware with digital services. We believe the combined capabilities of our two companies will allow us to build stronger relationships with customers and expand the number of subscribers.

We have consolidated Napster in our financial results as part of our Domestic segment from the date of acquisition. 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 third 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 acquisition. None of the goodwill is deductible for tax purposes.

The preliminary purchase price allocation was as follows:

Cash and cash equivalents	$	21
Short term investments		28
Receivables		3
Other current assets		2
Property and equipment		9
Goodwill		43
Tradenames		13
Customer relationships		3
Equity and other investments		3
Other assets		37
Total assets		162

Accounts payable		(3)
Other current liabilities		(39)
Total liabilities		(42)
Purchase price allocated to assets and liabilities acquired	$	120

Best Buy Europe

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 on 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.

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 we 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) the expected synergies our 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 product and service 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 beginning in fiscal 2010.

We have consolidated Best Buy Europe in our financial results as part of our International segment from the date of acquisition. We consolidate the financial results of Best Buy Europe on a two-month lag to align with CPW s quarterly reporting periods. 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 the third quarter of fiscal 2009, 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 November 29, 2008, was translated using the exchange rate in effect two months prior to November 29, 2008. If the balance sheet had been translated using the exchange rate in effect at November 29, 2008, the impact would have been to decrease total assets and total liabilities by $766 and $327, 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	$	125
Restricted cash		112
Receivables		1,186
Merchandise inventories		533
Other current assets		123
Property and equipment		548
Goodwill		1,501

Tradenames		94
Customer relationships		484
Other assets		149
Total assets		4,855
Accounts payable		(800)
Other current liabilities		(738)
Short-term debt		(299)
Long-term liabilities		(153)
Total liabilities		(1,990)
Minority interest[1]		(669)
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 $669 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 $19 has been recorded and reflects the accrued restructuring costs incurred at the date of acquisition, primarily for store closure costs and agreement termination fees, which are expected to be utilized primarily in fiscal 2010. The restructuring accrual was not utilized in the third quarter of fiscal 2009.

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

Pro Forma Financial Results

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

	Three months ended		**Nine months ended**	
	November 29, 2008	**December 1, 2007**	**November 29, 2008**	**December 1, 2007**
Pro forma revenue	$ 11,518	$ 11,470	$ 33,260	$ 31,031
Pro forma net earnings	60	214	411	598
Pro forma earnings per common share				
Basic	$ 0.14	$ 0.51	$ 1.00	$ 1.34
Diluted	0.14	0.50	0.98	1.31

Weighted average common shares outstanding				
Basic	412.9	418.7	412.1	447.2
Diluted	422.6	430.8	422.7	459.5

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 these acquisitions or for costs that are not expected to recur as a result of the acquisitions. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred at the beginning of each period presented, or of future results of the consolidated entities.

3. Investments

Investments were comprised of the following:

	November 29, 2008		March 1, 2008		December 1, 2007	
Short-term investments						
Money market fund	$	25	$		$	
Debt securities				64		295
Total short-term investments	$	25	$	64	$	295
Equity and other investments						
Debt securities	$	339	$	417	$	
Marketable equity securities		49		172		214
Other investments		47		16		16
Total equity and other investments	$	435	$	605	$	230

Money Market Fund

We have $25 invested in one money market fund, The Reserve International Liquidity Fund, Ltd. (the RILF). On September 15, 2008, we issued a redemption request for the entire $25. On September 17, 2008, we received a letter from the RILF stating that we would receive par for our investment. At the end of the third quarter of fiscal 2009, the RILF has not yet honored our redemption request and, accordingly, we have reclassified the $25 from cash equivalents to short-term investments on our consolidated balance sheet at November 29, 2008. We have determined that fair value approximates par for this investment.

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:

	November 29, 2008			March 1, 2008			December 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%	$	295	6.91%
Long-term investments		339	3.61%		417	7.60%			N/A
Total	$	339		$	481		$	295	
Auction-rate securities	$	339		$	417		$	208	
Commercial paper					64			87	
Total	$	339		$	481		$	295	

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 (ARS) and commercial paper. We classify investments in ARS and other investments in debt securities as available-for-sale and carry them at fair value. ARS 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 ARS portfolio consisted of the following at November 29, 2008, and March 1, 2008:

Description	Nature of collateral or guarantee	November 29, 2008	March 1, 2008
Student loan bonds	Student loans guaranteed 95% to 100% by the U.S. government	$ 296	$ 297
Municipal revenue bonds	96% and 89% insured by AAA/Aaa-rated bond insurers at November 29, 2008, and March 1, 2008, respectively	28	97
Auction preferred securities	Underlying investments of closed-end funds	15	23
Total par value (includes accrued interest)		$ 339	$ 417

At November 29, 2008, our ARS portfolio was 96% AAA/Aaa-rated and 4% was below AAA/Aaa-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 November 29, 2008, our entire ARS portfolio, consisting of 57 investments in ARS, was subject to failed auctions; however, we had sold at par $82 in ARS during the first nine months of fiscal 2009. Subsequent to November 29, 2008, and through January 5, 2009, we sold $6 in ARS at par and held $330 (par value) at January 5, 2009. To date, we have collected all interest due on our ARS 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 ARS as non-current assets within equity and other investments in our consolidated balance sheet at November 29, 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 ARS 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 ARS portfolio for temporary or other-than-temporary impairment at November 29, 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 ARS portfolio at November 29, 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 ARS 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.

Of our ARS portfolio, $90 was marketed and sold by UBS AG and its affiliates (collectively, UBS). On October 29, 2008, we accepted a settlement with UBS pursuant to which UBS issued to us Series C-2 Auction Rate Securities Rights (the ARS Rights). The ARS Rights provide us the right to receive the par value of our UBS-brokered ARS plus accrued but unpaid interest. The settlement provides that we may require UBS to purchase our UBS-brokered ARS at par value at any time between June 30, 2010 and July 2, 2012. The ARS Rights are not transferable, tradable or marginable, and will not be listed or quoted on any securities exchange or any electronic communications network.

As part of the settlement, UBS Bank USA or an affiliate (collectively, UBS Bank) agreed to establish a revolving credit line in an amount up to 100% of the par value of the UBS-brokered ARS that we pledge as collateral, subject to us entering into a credit agreement with UBS Bank (see Note 6, *Debt)*.

There were no unrealized holding gains or losses recorded in accumulated other comprehensive income at November 29, 2008; March 1, 2008; and December 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:

	November 29, 2008	March 1, 2008	December 1, 2007
Common stock of CPW	$ 47	$ 160	$ 198
Other	2	12	16
Total	$ 49	$ 172	$ 214

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 incurred an other-than-temporary impairment at November 29, 2008. Accordingly, at November 29, 2008, we recorded a $111 impairment charge on our investment in CPW common stock, which is reflected within investment impairment in our consolidated statement of earnings, to reflect the market price of £1.175 per share for CPW s stock at November 29, 2008. Consequently, there was no temporary impairment recorded in accumulated other comprehensive income in shareholders equity related to this investment at November 29, 2008. The remaining change in the carrying value of this investment of $25 from the original $183 cost basis was recognized as cumulative translation adjustment as our investment in CPW common stock was made by one of our Canadian subsidiaries.

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 gain (loss), net of tax, included in accumulated other comprehensive income was $1, $(25) and $11 at November 29, 2008; March 1, 2008; and December 1, 2007, respectively.

4. <u>Fair Value Measurements</u>

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 November 29, 2008, according to the valuation techniques we used to determine their fair values.

	Fair Value at November 29, 2008	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
ASSETS				
Short-term investments				
Money market fund	$ 25	$	$ 25	$
Other current assets (restricted assets)				
U.S. Treasury bills	60	60		
Equity and other investments				
Auction rate securities	339			339
Marketable equity securities	49	49		
Other assets				
Assets that fund deferred compensation	67	67		
LIABILITIES				
Long-term liabilities				
Deferred compensation	59	59		

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 August 30, 2008	$ 295	$ 44	$ 15	$ 354
Realized gain (loss) included in earnings				
Unrealized gain (loss) included in other comprehensive income				
Purchases, sales and settlements, net	(1)	(16)		(17)
Interest accrued (received), net	2			2
Transfers in and/or (out) of Level 3				
Balances at November 29, 2008	$ 296	$ 28	$ 15	$ 339

	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	(2)	(69)	(8)	(79)
Interest accrued (received), net	1			1
Transfers in and/or (out) of Level 3				
Balances at November 29, 2008	$ 296	$ 28	$ 15	$ 339

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

Money Market Fund. The fair value of our money market fund investment was classified as Level 2. As described in Note 3, *Investments*, the fund is not trading on a regular basis and we have been unable to obtain pricing information on an ongoing basis.

U.S. Treasury Bills. The fair value of our U.S. Treasury notes was classified as Level 1 as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis.

Auction Rate Securities. Our investments in auction-rate securities were 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 November 29, 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. Our marketable equity securities were measured at fair value using quoted market prices. They were classified as Level 1 as they trade 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 were 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 nine months ended November 29, 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 nine 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 acquisitions discussed in Note 2, *Acquisitions*.

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and tradenames by segment were as follows in the nine months ended November 29, 2008:

	Goodwill			Tradenames		
	Domestic	International	Total	Domestic	International	Total
Balances at March 1, 2008	$ 450	$ 638	$ 1,088	$ 23	$ 74	$ 97
Acquisitions	43	1,501	1,544	13	94	107
Amortization					(6)	(6)
Changes resulting from tax adjustment [1]		19	19			
Changes in foreign currency exchange rates		(237)	(237)		(16)	(16)
Balances at November 29, 2008	$ 493	$ 1,921	$ 2,414	$ 36	$ 146	$ 182

[1] Adjustment related to the resolution of certain tax matters associated with our acquisition of Jiangsu Five Star Appliance Co. in fiscal 2007.

The following table provides the gross carrying amount and related accumulated amortization of definite-lived intangible assets:

	November 29, 2008		March 1, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tradenames	$ 87	$ (6)	$	$
Customer relationships	457	(37)	6	(1)
Total	$ 544	$ (43)	$ 6	$ (1)

Total amortization expense for the three and nine months ended November 29, 2008 was $41 and $42, respectively. 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	$ 25
2010	100
2011	100
2012	75
2013	52
2014	47

6. Debt

Short-term debt consisted of the following:

	November 29, 2008	March 1, 2008	December 1, 2007
2007 and 2008 credit agreements	$ 1,733	$ 120	$ 275

ARS revolving credit line	19		
Europe revolving credit facility	358		
Canada revolving demand facility			
China revolving demand facilities	43	36	51
Total short-term debt	$ 2,153	$ 156	$ 326

2007 and 2008 Credit Agreements

On September 19, 2007, we entered into a $2,500 five-year unsecured revolving credit agreement (the 2007 Credit Agreement), as amended, with JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent, and a syndication of banks (collectively, the 2007 Lenders). The 2007 Credit Agreement permits borrowings up to $2,500, which may be increased up to $3,000 at our option and upon the consent of JPMorgan and each of the 2007 Lenders providing an

incremental credit commitment. The 2007 Credit Agreement includes a $300 letter of credit sub-limit and a $200 foreign currency sub-limit. The 2007 Credit Agreement expires in September 2012.

Interest rates under the 2007 Credit Agreement are variable and are determined at our option at: (i) the greater of the federal funds rate plus 0.5% or JPMorgan s prime rate, or (ii) the London Interbank Offered Rate (LIBOR) plus an applicable LIBOR margin. A facility fee is assessed on the commitment amount. Both the LIBOR margin and the facility fee are based upon our then current senior unsecured debt rating. The LIBOR margin ranges from 0.32% to 0.60%, and the facility fee ranges from 0.08% to 0.15%.

The 2007 Credit Agreement is guaranteed by certain of our subsidiaries and contains customary affirmative and negative covenants. Among other things, these covenants restrict or prohibit our ability to incur certain types or amounts of indebtedness, incur liens on certain assets, make material changes to our corporate structure or the nature of our business, dispose of material assets, allow non-material subsidiaries to make guarantees, engage in a change in control transaction, or engage in certain transactions with our affiliates. The 2007 Credit Agreement also contains covenants that require us to maintain a maximum quarterly cash flow leverage ratio and a minimum quarterly interest coverage ratio. We were in compliance with all such covenants at November 29, 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 2007 Credit Agreement who represents a commitment of $180. Lehman CPI has declined requests for funding under our 2007 Credit Agreement, and it is not certain whether another lender might assume its commitment. As a result, our borrowing base of $2,500 has been effectively reduced by $180.

On November 7, 2008, we entered into an unsecured credit agreement (the 2008 Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, and a syndication of banks (collectively, the 2008 Lenders). The 2008 Credit Agreement expired on December 17, 2008, and permitted borrowings up to $150. The 2008 Lenders and/or their affiliates are lenders under our 2007 Credit Agreement. We were not permitted to borrow under the 2008 Credit Agreement unless all amounts available under the 2007 Credit Agreement were borrowed and outstanding. We did not borrow under the 2008 Credit Agreement during its term.

ARS Revolving Credit Line

As disclosed in Note 3, *Investments*, we entered into an agreement with UBS (the UBS Credit Agreement) for a $90 revolving credit line that is secured by the $90 par value of our UBS-brokered ARS. Interest rates under the UBS Credit Agreement are variable based on the weighted-average rate of interest we earn on our UBS-brokered ARS. The UBS Credit Agreement will terminate at the time UBS buys back our UBS-brokered ARS pursuant to the settlement agreement described in Note 3, *Investments*, which will be no later than July 2, 2012. If we sell any of the UBS-brokered ARS at par during the term of the UBS Credit Agreement, the amount available to us will be reduced accordingly.

Europe Revolving Credit Facility

We have a revolving credit facility available to our Europe operations, of which $876 (or £475) was available to us at November 29, 2008. The facility is among Best Buy Europe, Best Buy Co., Inc. and CPW as the lender. Best Buy Co., Inc. is named as the guarantor under the facility

agreement, limited to 50% of the amount outstanding. The facility terminates in March 2013. Borrowings bear interest at LIBOR plus 0.75%. The facility contains one financial covenant that requires us to maintain a minimum net debt to EBITDA ratio, to be computed semi-annually beginning March 31, 2009.

Canada Revolving Demand Facility

We have a revolving demand facility available to our Canada operations, of which $81 was available to us at November 29, 2008. There is no set expiration date for the facility. Of the $81 available, $41 reflected a seasonal increase under the facility available only through December 31, 2008, though it was not utilized. All borrowings under this facility are made available at the sole discretion of the lender and are payable on demand. Borrowings under this facility bear interest at rates specified in the credit agreement. Borrowings are secured by a guarantee of Best Buy Co., Inc.

China Revolving Demand Facilities

We have revolving demand facilities available to our China operations, of which $78 was available to us at November 29, 2008. The facilities are renewed annually with the respective banks. All borrowings under these facilities bear interest at rates specified in the credit agreements, are made available at the sole discretion of the respective lender and are payable on demand. Certain borrowings are secured by a guarantee of Best Buy Co., Inc.

Long-term debt consisted of the following:

	November 29, 2008	March 1, 2008	December 1, 2007
Convertible subordinated debentures	$ 402	$ 402	$ 402
6.75% notes	500		
Financing lease obligations	204	197	196
Capital lease obligations	54	51	54
Other debt	13	10	10
Total long-term debt	1,173	660	662
Less: current portion	(48)	(33)	(20)
Total long-term debt, less current portion	$ 1,125	$ 627	$ 642

6.75% Notes

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.

In October 2008, we filed 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 registration statement was declared effective on December 15, 2008.

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. Income Taxes

Our effective tax rates were as follows:

	Three Months Ended		Nine Months Ended	
	November 29, 2008	**December 1, 2007**	**November 29, 2008**	**December 1, 2007**
Effective tax rate	54.6%	35.6%	40.2%	36.3%

The increase for our effective tax rate (ETR) in the three and nine months ended November 29, 2008, as compared to the prior year periods was primarily due to the $111 other-than-temporary impairment charge discussed in Note 3, *Investments,* related to our investment in CPW common stock. The impact of the investment impairment for the three and nine months ended November 29, 2008, was to increase our ETR by 18.1% and 3.2%, respectively. The investment is owned by one of our Canadian subsidiaries and, under Canadian tax law, only 50% of capital gains and losses may be included in taxable income. However, the carryforward period for taxable losses is indefinite. We did

not record a valuation allowance on the deferred tax asset related to the impairment charge as we believe we have tax planning strategies available if a capital loss is recognized in the future.

8. 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		Nine Months Ended	
	November 29, 2008	**December 1, 2007**	**November 29, 2008**	**December 1, 2007**
Numerator				
Net earnings, basic	$ 52	$ 228	$ 433	$ 670
Adjustment for assumed dilution				
Interest on convertible debentures, net of tax	2	2	5	5
Net earnings, diluted	$ 54	$ 230	$ 438	$ 675
Denominator				
Weighted-average common shares outstanding	412.9	418.7	412.1	447.2
Effect of potentially dilutive securities				
Shares from assumed conversion of convertible debentures	8.8	8.8	8.8	8.8
Stock options and other	0.9	3.3	1.8	3.5
Weighted-average common shares outstanding, assuming dilution	422.6	430.8	422.7	459.5
Earnings per share				
Basic	$ 0.13	$ 0.55	$ 1.05	$ 1.50
Diluted	$ 0.13	$ 0.53	$ 1.04	$ 1.47

The computation of average dilutive shares outstanding excluded options to purchase 29.2 million and 10.0 million shares of our common stock for the three months ended November 29, 2008, and December 1, 2007, respectively, and 23.6 million and 10.0 million shares of our common stock for the nine months ended November 29, 2008, and December 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).

9. 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 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 (loss) income was ($197) and $346 for the three months ended November 29, 2008, and December 1, 2007, respectively, and $76 and $964 for the nine months ended November 29, 2008, and December 1, 2007, respectively.

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

	November 29, 2008	March 1, 2008	December 1, 2007
Foreign currency translation	$ 144	$ 527	$ 499
Unrealized gains (losses) on available-for-sale investments	1	(25)	11
Total	$ 145	$ 502	$ 510

10. 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		Nine Months Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
Domestic	$ 8,196	$ 8,206	$ 23,782	$ 22,144
International	3,304	1,722	6,509	4,461
Total revenue	$ 11,500	$ 9,928	$ 30,291	$ 26,605

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		Nine Months Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
Domestic	$ 283	$ 329	$ 875	$ 957
International	(9)	22	15	61
Total operating income	274	351	890	1,018
Other (expense) income				
Investment income and other	(3)	32	27	98
Investment impairment	(111)		(111)	
Interest expense	(35)	(23)	(69)	(53)
Earnings before income tax expense, minority interests and equity in income (loss) of affiliates	$ 125	$ 360	$ 737	$ 1,063

Assets by reportable segment were as follows:

	November 29, 2008		March 1, 2008		December 1, 2007	
Domestic	$	12,741	$	8,194	$	11,237
International		7,906		4,564		4,237
Total assets	$	20,647	$	12,758	$	15,474

Goodwill by reportable segment was as follows:

	November 29, 2008		March 1, 2008		December 1, 2007	
Domestic	$	493	$	450	$	452
International		1,921		638		634
Total goodwill	$	2,414	$	1,088	$	1,086

Tradenames by reportable segment were as follows:

	November 29, 2008	March 1, 2008	December 1, 2007
Domestic	$ 36	$ 23	$ 23
International	146	74	73
Total tradenames	$ 182	$ 97	$ 96

11. 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.

12. Subsequent Event

On December 15, 2008, we announced a voluntary separation package available to nearly all of our corporate employees in order to reduce future corporate expenses. Employees had until January 5, 2009 to accept the package, but have the option to revoke their acceptance until January 16, 2009. Based on the employees who accepted the offer at January 5, 2009, we estimate the cost related to these termination benefits will be approximately $60, which will be recognized in our fiscal fourth quarter. This estimate is limited to the cost of the voluntary separation package and excludes the cost of future involuntary workforce reductions, if any.

13. 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 November 29, 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 November 29, 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 November 29, 2008; March 1, 2008; and December 1, 2007; condensed consolidating statements of earnings for the three and nine months ended November 29, 2008, and December 1, 2007; and condensed consolidating statements of cash flows for the nine months ended November 29, 2008, and December 1, 2007:

$ in millions, except per share amounts

Condensed Consolidating Balance Sheets

At November 29, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 59	$ 201	$ 309	$	$ 569
Short-term investments			25		25
Receivables	6	1,022	1,610		2,638
Merchandise inventories		6,445	2,370	(608)	8,207
Other current assets	24	163	704	(12)	879
Intercompany receivable			8,886	(8,886)	
Intercompany note receivable	835			(835)	
Total current assets	924	7,831	13,904	(10,341)	12,318
Net Property and Equipment	221	2,285	1,762		4,268
Goodwill		6	2,408		2,414
Tradenames			182		182
Equity and Other Investments	332		103		435
Other Assets	102	17	911		1,030
Investments in Subsidiaries	9,483	271	1,415	(11,169)	
Total Assets	$ 11,062	$ 10,410	$ 20,685	$ (21,510)	$ 20,647
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$	$	$ 8,219	$	$ 8,219
Unredeemed gift card liabilities		410	58		468
Accrued compensation and related expenses		198	212		410
Accrued liabilities	26	680	1,055	(12)	1,749
Accrued income taxes	148				148
Short-term debt	1,752		401		2,153
Current portion of long-term debt	2	22	24		48
Intercompany payable	2,919	5,967		(8,886)	
Intercompany note payable		500	335	(835)	
Total current liabilities	4,847	7,777	10,304	(9,733)	13,195
Long-Term Liabilities	66	1,059	240	(272)	1,093

Long-Term Debt		905		159		61				1,125
Minority Interests						674				674
Shareholders Equity		5,244		1,415		9,406		(11,505)		4,560
Total Liabilities and Shareholders Equity	$	11,062	$	10,410	$	20,685	$	(21,510)	$	20,647

$ 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 December 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 282	$ 76	$ 961	$	$ 1,319
Short-term investments	201		94		295
Receivables	2	483	254		739
Merchandise inventories		5,960	1,882	(391)	7,451
Other current assets	3	136	545	(11)	673
Intercompany receivable			8,026	(8,026)	
Intercompany note receivable	500			(500)	
Total current assets	988	6,655	11,762	(8,928)	10,477
Net Property and Equipment	234	2,050	976		3,260
Goodwill		6	1,080		1,086
Tradenames			96		96
Equity and Other Investments	19	3	212	(4)	230
Other Assets	35	59	231		325
Investments in Subsidiaries	7,346	265	1,346	(8,957)	
Total Assets	$ 8,622	$ 9,038	$ 15,703	$ (17,889)	$ 15,474
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	$	$	$ 7,597	$	$ 7,597
Unredeemed gift card liabilities		418	53		471
Accrued compensation and related expenses		219	120		339
Accrued liabilities	130	653	562	(8)	1,337
Accrued income taxes	146				146
Short-term debt	275		51		326
Current portion of long-term debt	2	13	5		20
Intercompany payable	3,206	4,820		(8,026)	
Intercompany note payable		500		(500)	
Total current liabilities	3,759	6,623	8,388	(8,534)	10,236
Long-Term Liabilities	115	895	150	(349)	811

Long-Term Debt	406	174	62		642
Minority Interests			39		39
Shareholders Equity	4,342	1,346	7,064	(9,006)	3,746
Total Liabilities and Shareholders Equity	$ 8,622	$ 9,038	$ 15,703	$ (17,889)	$ 15,474

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Three Months Ended November 29, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 7,597	$ 14,714	$ (10,815)	$ 11,500
Cost of goods sold		6,155	13,109	(10,625)	8,639
Gross profit	4	1,442	1,605	(190)	2,861
Selling, general and administrative expenses	38	1,381	1,171	(3)	2,587
Operating (loss) income	(34)	61	434	(187)	274
Other income (expense)					
Investment income and other	14		(6)	(11)	(3)
Investment impairment			(111)		(111)
Interest expense	(25)	(8)	(13)	11	(35)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(45)	53	304	(187)	125
Equity in earnings (loss) of subsidiaries	338	(12)	20	(346)	
Earnings before income tax expense (benefit), minority interests and equity in income of affiliates	293	41	324	(533)	125
Income tax expense (benefit)	54	33	(19)		68
Minority interests			(11)		(11)
Equity in income of affiliates			6		6
Net earnings	$ 239	$ 8	$ 338	$ (533)	$ 52

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Nine Months Ended November 29, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 12	$ 22,104	$ 32,475	$ (24,300)	$ 30,291
Cost of goods sold		17,982	30,468	(25,534)	22,916
Gross profit	12	4,122	2,007	1,234	7,375
Selling, general and administrative expenses	112	3,945	2,425	3	6,485
Operating (loss) income	(100)	177	(418)	1,231	890
Other income (expense)					
Investment income and other	41		17	(31)	27
Investment impairment			(111)		(111)
Interest expense	(46)	(26)	(28)	31	(69)
(Loss) earnings before equity in (loss) earnings of subsidiaries	(105)	151	(540)	1,231	737
Equity in (loss) earnings of subsidiaries	(464)	(29)	79	414	
(Loss) earnings before income tax expense (benefit), minority interests and equity in income of affiliates	(569)	122	(461)	1,645	737
Income tax expense (benefit)	229	72	(5)		296
Minority interests			(13)		(13)
Equity in income of affiliates			5		5
Net (loss) earnings	$ (798)	$ 50	$ (464)	$ 1,645	$ 433

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Three Months Ended December 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 7,629	$ 12,148	$ (9,853)	$ 9,928
Cost of goods sold		6,247	11,038	(9,694)	7,591
Gross profit	4	1,382	1,110	(159)	2,337
Selling, general and administrative expenses	35	1,328	613	10	1,986
Operating (loss) income	(31)	54	497	(169)	351
Other income (expense)					
Investment income and other	26	(1)	22	(15)	32
Interest expense	(17)	(11)	(9)	14	(23)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(22)	42	510	(170)	360
Equity in earnings (loss) of subsidiaries	375	(3)	29	(401)	
Earnings before income tax (benefit) expense, minority interests and equity in loss of affiliates	353	39	539	(571)	360
Income tax (benefit) expense	(45)	13	161		129
Minority interests			(1)		(1)
Equity in loss of affiliates			(2)		(2)
Net earnings	$ 398	$ 26	$ 375	$ (571)	$ 228

$ in millions, except per share amounts

Condensed Consolidating Statements of Earnings

Nine Months Ended December 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 12	$ 20,671	$ 28,178	$ (22,256)	$ 26,605
Cost of goods sold		16,900	25,458	(22,121)	20,237
Gross profit	12	3,771	2,720	(135)	6,368
Selling, general and administrative expenses	108	3,593	1,630	19	5,350
Operating (loss) income	(96)	178	1,090	(154)	1,018
Other income (expense)					
Investment income and other	87	(1)	50	(38)	98
Interest expense	(38)	(31)	(22)	38	(53)
(Loss) earnings before equity in earnings (loss) of subsidiaries	(47)	146	1,118	(154)	1,063
Equity in earnings (loss) of subsidiaries	870	(23)	94	(941)	
Earnings before income tax (benefit) expense, minority interests and equity in loss of affiliates	823	123	1,212	(1,095)	1,063
Income tax (benefit) expense	(1)	52	335		386
Minority interests			(4)		(4)
Equity in loss of affiliates			(3)		(3)
Net earnings	$ 824	$ 71	$ 870	$ (1,095)	$ 670

$ in millions, except per share amounts

Condensed Consolidating Statements of Cash Flows

Nine Months Ended November 29, 2008

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (1,725)	$ (1,218)	$ 2,863	$	$ (80)
Investing activities					
Additions to property and equipment		(514)	(413)		(927)
Purchases of investments	(40)		(55)		(95)
Sales of investments	84		171		255
Acquisition of businesses, net of cash acquired			(2,167)		(2,167)
Change in restricted assets			(17)		(17)
Other, net		(9)	(9)		(18)
Total cash provided by (used in) investing activities	44	(523)	(2,490)		(2,969)
Financing activities					
Borrowings of debt	3,340	20	954		4,314
Repayments of debt	(1,210)	(15)	(857)		(2,082)
Dividends paid	(165)				(165)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	78				78
Excess tax benefits from stock-based compensation	5				5
Other, net			(9)		(9)
Change in intercompany receivable/payable	(479)	1,867	(1,388)		
Total cash provided by (used in) financing activities	1,569	1,872	(1,300)		2,141
Effect of exchange rate changes on cash			39		39
(Decrease) increase in cash and cash equivalents	(112)	131	(888)		(869)
Cash and cash equivalents at beginning of period	171	70	1,197		1,438
Cash and cash equivalents at end of period	$ 59	$ 201	$ 309	$	$ 569

$ in millions, except per share amounts

Condensed Consolidating Statements of Cash Flows

Nine Months Ended December 1, 2007

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (146)	$ (2,030)	$ 3,422	$	$ 1,246
Investing activities					
Additions to property and equipment		(386)	(198)		(584)
Purchases of investments	(4,491)		(656)		(5,147)
Sales of investments	7,325		409		7,734
Acquisition of business, net of cash acquired			(89)		(89)
Change in restricted assets	17		(30)		(13)
Other, net		2			2
Total cash provided by (used in) investing activities	2,851	(384)	(564)		1,903
Financing activities					
Borrowings of debt	4,170	31	87		4,288
Repayments of debt	(3,896)	(7)	(83)		(3,986)
Dividends paid	(148)				(148)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	110				110
Excess tax benefits from stock-based compensation	17				17
Repurchase of common stock	(3,461)				(3,461)
Other, net			41		41
Change in intercompany receivable/payable	550	2,389	(2,939)		
Total cash (used in) provided by financing activities	(2,658)	2,413	(2,894)		(3,139)
Effect of exchange rate changes on cash			104		104
Increase (decrease) in cash and cash equivalents	47	(1)	68		114