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

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 27, 2010

OR

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

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

Large accelerated filer 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 394,196,420 shares outstanding as of December 29, 2010.

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BEST BUY CO., INC.

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BEST BUY CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

($ in millions, except per share amounts)

(Unaudited)

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

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

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY

($ in millions, except per share amounts)

(Unaudited)

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

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

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

($ in millions, except per share amounts)

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE NINE MONTHS ENDED NOVEMBER 27, 2010, AND NOVEMBER 28, 2009

($ and shares in millions)

(Unaudited)

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

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

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)

(Unaudited)

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

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

See Notes to Condensed Consolidated Financial Statements.

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BEST BUY CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

($ in millions, except per share amounts)

(Unaudited)

1. Basis of Presentation

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

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

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

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

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

New Accounting Standards

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

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

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2. Investments

Investments were comprised of the following:

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

Debt Securities

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

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

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

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

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

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

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

At November 27, 2010, our ARS portfolio was 73% AAA/Aaa-rated, 20% AA/Aa-rated and 7% A/A-rated.

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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 are due according to the contractual maturities of the debt issuances, which range from six to 33 years. 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 of $141 (par value) for impairment at November 27, 2010, based primarily on the methodology described in Note 3, *Fair Value Measurements*. As a result of this review, we determined that the fair value of our ARS portfolio at November 27, 2010, was $131. Accordingly, a $10 pre-tax unrealized loss is recognized in accumulated other comprehensive income. This unrealized loss reflects a temporary impairment on all of our investments in ARS. The estimated fair value of our ARS portfolio could change significantly based on future market conditions. We will continue to assess the fair value of our ARS portfolio 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 additional unrealized holding loss or an impairment charge to earnings if we determine that our ARS portfolio has incurred a further decline in fair value that is temporary or other-than-temporary, respectively. Factors that we consider when assessing our ARS portfolio for other-than-temporary impairment include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the nature of the collateral or guarantees in place, as well as our intent and ability to hold an investment.

We had $(6), $(3) and $(5) of unrealized loss, net of tax, recorded in accumulated other comprehensive income at November 27, 2010, February 27, 2010, and November 28, 2009, respectively, related to our investments in debt securities.

Marketable Equity Securities

We invest in marketable equity securities and classify them as available-for-sale. Investments in marketable equity securities are classified as non-current assets within equity and other investments in our condensed consolidated balance sheets and are reported at fair value based on quoted market prices.

Our investments in marketable equity securities were as follows:

	November 27, 2010	February 27, 2010	November 28, 2009
Common stock of The Carphone Warehouse Group PLC	$	$ 74	$ 83
Common stock of TalkTalk Telecom Group PLC	63		
Common stock of Carphone Warehouse Group plc	78		
Other	4	3	3
Total	$ 145	$ 77	$ 86

We purchased shares of The Carphone Warehouse Group PLC (CPW) common stock in fiscal 2008, representing nearly 3% of CPW s then outstanding shares. In March 2010, CPW demerged into two new holding companies: TalkTalk Telecom Group PLC (TalkTalk), which is the holding company for the fixed line voice and broadband telecommunications business of the former CPW, and Carphone Warehouse Group plc (Carphone Warehouse), which includes the former CPW s 50% noncontrolling interest in Best Buy Europe Distributions Limited (Best Buy Europe). Accordingly, our investment in CPW was exchanged for equivalent levels of investment in TalkTalk and Carphone Warehouse. An $84 pre-tax unrealized gain is recorded in accumulated other comprehensive income related to these investments at November 27, 2010.

We review all investments for other-than-temporary impairment at least quarterly or as we observe indicators of impairment. 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.

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 Total Best Buy Co., Inc. shareholders equity. The total unrealized gain, net of tax, included in accumulated other comprehensive income was $75, $17 and $26 at November 27, 2010, February 27, 2010, and November 28, 2009, respectively.

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Other Investments

The aggregate carrying values of investments accounted for using either the cost method or the equity method, at November 27, 2010, February 27, 2010, and November 28, 2009, were $67, $55 and $51, respectively.

3. Fair Value Measurements

Fair value is 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. We use a three-tier valuation hierarchy based upon observable and non-observable inputs:

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

Level 2 Significant 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 Significant 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 tables set 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 27, 2010, February 27, 2010, and November 28, 2009, according to the valuation techniques we used to determine their fair values.

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at November 27, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Short-term investments				
Money market fund	$ 2	$	$ 2	$
Other current assets				
Money market funds (restricted assets)	66	66		
U.S. Treasury bills (restricted assets)	85	85		
Foreign currency derivative instruments	5		5	
Equity and other investments				
Auction-rate securities	131			131
Marketable equity securities	145	145		
Other assets				
Marketable securities that fund deferred compensation	80	80		
Foreign currency derivative instruments	4		4	
LIABILITIES				
Long-term liabilities				
Deferred compensation	67	67		

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	Fair Value at February 27, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using Inputs Considered as Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents				
Money market funds	$ 752	$ 752	$	$
U.S. Treasury bills	300	300		
Short-term investments				
Money market fund	2		2	
Auction-rate securities	88			88
Other current assets				
Money market funds (restricted assets)	123	123		
U.S. Treasury bills (restricted assets)	25	25		
Foreign currency derivative instruments	4		4	
Equity and other investments				
Auction-rate securities	192			192
Marketable equity securities	77	77		
Other assets				
Marketable securities that fund deferred compensation	75	75		
LIABILITIES				
Long-term liabilities				
Deferred compensation	61	61		

	Fair Value at November 28, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using Inputs Considered as Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents				
Money market funds	$ 28	$ 28	$	$
Short-term investments				
Money market fund	4		4	
Auction-rate securities	89			89
Other current assets				
Money market funds (restricted assets)	16	16		
U.S. Treasury bills (restricted assets)	55	55		
Foreign currency derivative instruments	4		4	
Equity and other investments				
Auction-rate securities	195			195
Marketable equity securities	86	86		
Other assets				
Marketable securities that fund deferred compensation	73	73		
LIABILITIES				
Accrued liabilities				
Foreign currency derivative instruments	1		1	
Long-term liabilities				

Deferred compensation	62	62

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The following tables provide a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the tables above that used significant unobservable inputs (Level 3) for the three and nine months ended November 27, 2010, and November 28, 2009.

	Student loan bonds	Debt securities-Auction-rate securities only Municipal revenue bonds	Total
Balances at August 28, 2010	$ 116	$ 18	$ 134
Changes in unrealized losses included in other comprehensive income			
Sales	(3)		(3)
Interest received			
Balances at November 27, 2010	$ 113	$ 18	$ 131

	Student loan bonds	Debt securities-Auction-rate securities only Municipal revenue bonds	Total
Balances at February 27, 2010	$ 261	$ 19	$ 280
Changes in unrealized losses included in other comprehensive income	(5)		(5)
Sales	(142)	(1)	(143)
Interest received	(1)		(1)
Balances at November 27, 2010	$ 113	$ 18	$ 131

	Debt securities-Auction-rate securities only Student loan bonds	Municipal revenue bonds	Auction preferred securities	Total
Balances at August 29, 2009	$ 278	$ 20	$	$ 298
Changes in unrealized gains included in other comprehensive income				
Sales	(14)			(14)
Balances at November 28, 2009	$ 264	$ 20	$	$ 284

	Debt securities-Auction-rate securities only Student loan bonds	Municipal revenue bonds	Auction preferred securities	Total
Balances at February 28, 2009	$ 276	$ 24	$ 14	$ 314
Changes in unrealized gains included in other comprehensive income	5		1	6
Sales	(17)	(4)	(15)	(36)
Balances at November 28, 2009	$ 264	$ 20	$	$ 284

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

Money Market Funds. Our money market fund investments were classified as Level 1 or 2. If a fund is not trading on a regular basis, and we have been unable to obtain pricing information on an ongoing basis, we classify the fund as Level 2.

U.S. Treasury Bills. Our U.S. Treasury notes were classified as Level 1 as they trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis.

Foreign Currency Derivative Instruments. Comprised primarily of foreign currency forward contracts and foreign currency swap contracts, our foreign currency derivative instruments were measured at fair value using readily observable market inputs, such as quotations on forward foreign exchange points and foreign interest rates. Our foreign currency derivative instruments were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

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Auction-Rate Securities. Our investments in ARS were classified as Level 3 as quoted prices were unavailable due to events described in Note 2, *Investments*. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value. The assumptions we 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 ARS.

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

Measurements to fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and other intangible assets and occur when the derived fair value is below carrying value on our condensed consolidated balance sheet. During the nine months ended November 27, 2010, and November 28, 2009, we had no significant remeasurements of such assets or liabilities to fair value.

Fair Value of Financial Instruments

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, other investments, accounts payable, other payables and short- and long-term debt. The fair values of cash, receivables, accounts payable, other payables and short-term debt approximated carrying values because of the short-term nature of these instruments. Fair values for other investments held at cost are not readily available, but we estimate that the carrying values for these investments approximate fair value. See Note 6, *Debt*, for information about the fair value of our long-term debt.

4. Goodwill and Intangible Assets

The changes in the carrying values of goodwill and indefinite-lived tradenames by segment were as follows in the nine months ended November 27, 2010, and November 28, 2009:

	Goodwill	Indefinite-lived Tradenames

	Domestic	International	Total	Domestic	International	Total
Balances at February 27, 2010	$ 434	$ 2,018	$ 2,452	$ 32	$ 80	$ 112
Sale of business(1)	(12)		(12)	(1)		(1)
Acquisition of noncontrolling interests		5	5			
Changes in foreign currency exchange rates		(4)	(4)		2	2
Balances at November 27, 2010	$ 422	$ 2,019	$ 2,441	$ 31	$ 82	$ 113

(1) As a result of the sale of our Speakeasy business in the second quarter of fiscal 2011, we wrote off the carrying value of the goodwill and indefinite-lived tradenames associated with such business as of the date of sale. See Note 13, *Sale of Business*, for additional information regarding the sale.

	Goodwill			Indefinite-lived Tradenames		
	Domestic	International	Total	Domestic	International	Total
Balances at February 28, 2009	$ 434	$ 1,769	$ 2,203	$ 32	$ 72	$ 104
Adjustments to purchase price allocation		43	43			
Changes in foreign currency exchange rates		175	175		8	8
Balances at November 28, 2009	$ 434	$ 1,987	$ 2,421	$ 32	$ 80	$ 112

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

	November 27, 2010		February 27, 2010		November 28, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tradenames	$ 74	$ (42)	$ 75	$ (28)	$ 74	$ (23)
Customer relationships	387	(167)	401	(122)	395	(103)
Total	$ 461	$ (209)	$ 476	$ (150)	$ 469	$ (126)

Total amortization expense was $20 and $24 for the three months ended November 27, 2010, and November 28, 2009, respectively, and was $63 and $66 for the nine months then ended, respectively. The estimated future amortization expense for identifiable intangible assets is as follows:

Fiscal Year	
Remainder of fiscal 2011	$ 19
2012	61
2013	44
2014	40
2015	35
Thereafter	53

5. Restructuring Charges

In the fourth quarter of fiscal 2009, we implemented a restructuring plan for our domestic and international businesses to support our long-term growth plans and, accordingly, we recorded charges of $78 related primarily to voluntary and involuntary separation plans at our corporate headquarters. In addition, in the first quarter of fiscal 2010, we incurred restructuring charges of $52 related to employee termination benefits and business reorganization costs at our U.S. Best Buy stores and Best Buy Europe. No restructuring charges were recorded in the remainder of fiscal 2010 or in the first nine months of fiscal 2011.

All charges related to our restructuring plan were presented as restructuring charges in our consolidated statements of earnings. The composition of our restructuring charges incurred in the nine months ended November 27, 2010, and November 28, 2009, as well as the cumulative amount incurred through November 27, 2010, for both the Domestic and International segments, were as follows:

	Domestic			International			Total		
	Nine months ended		Cumulative Amount through	Nine months ended		Cumulative Amount through	Nine months ended		Cumulative Amount through
	November 27, 2010	November 28, 2009	November 27, 2010	November 27, 2010	November 28, 2009	November 27, 2010	November 27, 2010	November 28, 2009	November 27, 2010
Termination benefits	$	$ 25	$ 94	$	$ 26	$ 32	$	$ 51	$ 126
Facility closure costs			1		1	1		1	2

Property and equipment write-downs			2						2
Total	$	$ 25	$ 97	$	$ 27	$ 33	$	$ 52	$ 130

The following table summarizes our restructuring activity in the nine months ended November 27, 2010, and November 28, 2009, related to termination benefits and facility closure costs:

	Termination Benefits	**Facility Closure Costs**	**Total**
Balances at February 27, 2010	$ 8	$ 1	$ 9
Charges			
Cash payments	(6)	(1)	(7)
Changes in foreign currency exchange rates			
Balances at November 27, 2010	$ 2	$	$ 2

	Termination Benefits	**Facility Closure Costs**	**Total**
Balances at February 28, 2009	$ 73	$ 1	$ 74
Charges	51	1	52
Cash payments	(116)	(1)	(117)
Changes in foreign currency exchange rates	3		3
Balances at November 28, 2009	$ 11	$ 1	$ 12

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6. Debt

Short-Term Debt

Short-term debt consisted of the following:

	November 27, 2010	February 27, 2010	November 28, 2009
J.P. Morgan revolving credit facility	$ 500	$	$ 350
ARS revolving credit line			
Europe receivables financing facility(1)	136	442	326
Europe revolving credit facility		206	30
Canada revolving demand facility			
China revolving demand facilities	54	15	35
Total short-term debt	$ 690	$ 663	$ 741

(1) This facility is secured by certain network carrier receivables of Best Buy Europe, which are included within receivables in our condensed consolidated balance sheet. Availability on this facility is based on a percentage of the available acceptable receivables, as defined in the agreement for the facility, and was £225 (or $356) at November 27, 2010.

ARS Revolving Credit Line

We previously had a revolving credit line with UBS secured by the par value of our UBS-brokered ARS. However, pursuant to the settlement described in Note 2, *Investments*, the revolving credit line expired by its terms during the second quarter of fiscal 2011 when UBS bought back all of our UBS-brokered ARS.

Long-Term Debt

Long-term debt consisted of the following:

	November 27, 2010	February 27, 2010	November 28, 2009
6.75% notes	$ 500	$ 500	$ 500
Convertible debentures	402	402	402
Financing lease obligations	173	186	191

Capital lease obligations		57		49		44
Other debt		2		2		3
Total long-term debt		1,134		1,139		1,140
Less: current portion		(33)		(35)		(36)
Total long-term debt, less current portion	$	1,101	$	1,104	$	1,104

The fair value of long-term debt approximated $1,235, $1,210 and $1,221 at November 27, 2010, February 27, 2010, and November 28, 2009, respectively, based primarily on the ask prices quoted from external sources, compared with carrying values of $1,134, $1,139 and $1,140, respectively.

See Note 6, *Debt*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 27, 2010, for additional information regarding the terms of our debt facilities and obligations.

7. Derivative Instruments

We manage our economic and transaction exposure to certain market-based risks through the use of foreign currency derivative instruments. Our objective in holding derivatives is to reduce the volatility of net earnings and cash flows associated with changes in foreign currency exchange rates. We do not hold or issue derivative financial instruments for trading or speculative purposes.

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We record all foreign currency derivative instruments on our condensed consolidated balance sheets at fair value and evaluate hedge effectiveness prospectively and retrospectively when electing to apply hedge accounting treatment. We formally document all hedging relationships at inception for all derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transactions. In addition, we have derivatives which are not designated as hedging instruments. We have no derivatives that have credit risk-related contingent features, and we mitigate our credit risk by engaging with major financial institutions as our counterparties.

Cash Flow Hedges

We enter into foreign exchange forward contracts to hedge against the effect of exchange rate fluctuations on certain revenue streams denominated in non-functional currencies. The contracts have terms of up to three years. We report the effective portion of the gain or loss on a cash flow hedge as a component of other comprehensive income, and it is subsequently reclassified into net earnings in the period in which the hedged transaction affects net earnings or the forecasted transaction is no longer probable of occurring. We report the ineffective portion, if any, of the gain or loss in net earnings.

Net Investment Hedges

Previously, we entered into foreign exchange swap contracts to hedge against the effect of euro and Swiss franc exchange rate fluctuations on net investments of certain foreign operations. For a net investment hedge, we recognized changes in the fair value of the derivative as a component of foreign currency translation within other comprehensive income to offset a portion of the change in the translated value of the net investment being hedged, until the investment was sold or liquidated. Subsequent to February 27, 2010, we discontinued this hedging strategy and no longer have contracts that hedge net investments of foreign operations.

Derivatives Not Designated as Hedging Instruments

Derivatives not designated as hedging instruments include foreign exchange forward contracts used to manage the impact of fluctuations in foreign currency exchange rates relative to recognized receivable and payable balances denominated in non-functional currencies and on certain forecasted inventory purchases denominated in non-functional currencies. The contracts have terms of up to six months. These derivative instruments are not designated in hedging relationships; therefore, we record gains and losses on these contracts directly in net earnings.

Summary of Derivative Balances

The following table presents the gross fair values for derivative instruments and the corresponding classification at November 27, 2010, February 27, 2010, and November 28, 2009:

Contract Type	November 27, 2010 Assets	November 27, 2010 Liabilities	February 27, 2010 Assets	February 27, 2010 Liabilities	November 28, 2009 Assets	November 28, 2009 Liabilities
Cash flow hedges (foreign exchange forward contracts)	$ 9	$ —	$ 2	$ (1)	$ 1	$ —
Net investment hedges (foreign exchange swap contracts)			4			
Total derivatives designated as hedging instruments	$ 9	$ —	$ 6	$ (1)	$ 1	$ —
No hedge designation (foreign exchange forward contracts)	1	(1)	1	(2)	3	(1)
Total	$ 10	$ (1)	$ 7	$ (3)	$ 4	$ (1)

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The following tables present the effects of derivative instruments on other comprehensive income (OCI) and on our consolidated statements of earnings for the three and nine months ended November 27, 2010 and November 28, 2009:

Contract Type	Three Months Ended November 27, 2010 Pre-tax Gain(Loss) Recognized in OCI (1)	Three Months Ended November 27, 2010 Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion) (2)	Nine Months Ended November 27, 2010 Pre-tax Gain(Loss) Recognized in OCI (1)	Nine Months Ended November 27, 2010 Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion) (2)
Cash flow hedges (foreign exchange forward contracts)	$ (1)	$ 2	$ 9	$ 3
Net investment hedges (foreign exchange swap contracts)			8	
Total	$ (1)	$ 2	$ 17	$ 3

Contract Type	Three Months Ended November 28, 2009 Pre-tax Gain(Loss) Recognized in OCI (1)	Three Months Ended November 28, 2009 Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion) (2)	Nine Months Ended November 28, 2009 Pre-tax Gain(Loss) Recognized in OCI (1)	Nine Months Ended November 28, 2009 Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion) (2)
Cash flow hedges (foreign exchange forward contracts)	$ (10)	$ 1	$ 1	$ 4
Net investment hedges (foreign exchange swap contracts)	(44)		28	
Total	$ (54)	$ 1	$ 29	$ 4

(1) Reflects the amount recognized in OCI prior to the reclassification of 50% to noncontrolling interests for the cash flow and net investment hedges, respectively.

(2) Gain reclassified from accumulated OCI is included within selling, general and administrative expenses (SG&A) in our consolidated statements of earnings.

The following table presents the effects of derivatives not designated as hedging instruments on our consolidated statements of earnings for the three and nine months ended November 27, 2010 and November 28, 2009:

	Gain (Loss) Recognized within SG&A			
Contract Type	Three months ended November 27, 2010	Nine months ended November 27, 2010	Three months ended November 28, 2009	Nine months ended November 28, 2009
No hedge designation (foreign exchange forward contracts)	$ (4)	$ 8	$ (3)	$ (4)

The following table presents the notional amounts of our foreign currency exchange contracts at November 27, 2010, February 27, 2010, and November 28, 2009:

	Notional Amount		
Contract Type	**November 27, 2010**	**February 27, 2010**	**November 28, 2009**
Derivatives designated as cash flow hedging instruments	$ 316	$ 203	$ 134
Derivatives designated as net investment hedging instruments		608	685
Derivatives not designated as hedging instruments	230	240	163
Total	$ 546	$ 1,051	$ 982

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8. Earnings per Share

We compute our basic earnings per share based on the weighted-average number of common shares outstanding and our diluted earnings per share 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, shares issuable under our employee stock purchase plan and 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 computation, 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 share awards and nonvested performance based share 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 attributable to Best Buy Co., Inc. (shares in millions):

	Three Months Ended		Nine Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Numerator				
Net earnings attributable to Best Buy Co., Inc., basic	$ 217	$ 227	$ 626	$ 538
Adjustment for assumed dilution				
Interest on convertible debentures, net of tax	2	2	4	5
Net earnings attributable to Best Buy Co., Inc., diluted	$ 219	$ 229	$ 630	$ 543
Denominator				
Weighted-average common shares outstanding	397.1	417.1	410.3	416.3
Effect of potentially dilutive securities				
Shares from assumed conversion of convertible debentures	8.8	8.8	8.8	8.8
Stock options and other	1.9	2.7	1.6	1.7
Weighted-average common shares outstanding, assuming dilution	407.8	428.6	420.7	426.8
Earnings per share attributable to Best Buy Co., Inc.				
Basic	$ 0.55	$ 0.54	$ 1.53	$ 1.29
Diluted	$ 0.54	$ 0.53	$ 1.50	$ 1.27

The computation of weighted-average common shares outstanding, assuming dilution, excluded options to purchase 16.1 million and 15.9 million shares of our common stock for the three months ended November 27, 2010, and November 28, 2009, respectively, and 18.6 million and 18.8 million shares of our common stock for the nine months ended November 27, 2010, and November 28, 2009, 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

The components of accumulated other comprehensive income, net of tax, attributable to Best Buy Co., Inc. were as follows:

	November 27, 2010	February 27, 2010	November 28, 2009
Foreign currency translation	$ 66	$ 26	$ (14)
Unrealized gains on available-for-sale investments	69	14	21
Unrealized gains on derivative instruments (cash flow hedges)	3		
Total	$ 138	$ 40	$ 7

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The components of comprehensive income for the three and nine months ended November 27, 2010, and November 28, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	November 27, 2010	**November 28, 2009**	**November 27, 2010**	**November 28, 2009**
Net earnings including noncontrolling interests	$ 240	$ 271	$ 678	$ 584
Other comprehensive income, net of tax				
Foreign currency translation adjustments	158	(59)	5	347
Cash flow hedging instruments unrealized (losses) gains	(2)	(8)	6	
Unrealized gains on available-for-sale investments	41	5	55	35
Comprehensive income including noncontrolling interests	437	209	744	966
Comprehensive (income) attributable to noncontrolling interests	(57)	(2)	(20)	(104)
Comprehensive income attributable to Best Buy Co., Inc.	$ 380	$ 207	$ 724	$ 862

10. Repurchase of Common Stock

In June 2007, our Board of Directors authorized a program to purchase up to $5,500 in shares of our common stock. There is no expiration date governing the period over which we can repurchase shares under this program, and at February 27, 2010, $2,500 remained available for future repurchases. We repurchased and retired 10.9 million shares at a cost of $423 for the three months ended November 27, 2010, and 30.7 million shares at a cost of $1,128 for the nine months ended November 27, 2010. We had $1,372 available for future repurchases at November 27, 2010, under the June 2007 share repurchase program. No repurchases were made during the three and nine months ended November 28, 2009. Repurchased shares constitute authorized but unissued shares.

11. Segments

We have organized our operations into two segments: Domestic and International. These segments are the primary areas of measurement and decision making by our chief operating decision maker. The Domestic reportable segment is comprised of all operations within the U.S. and its territories. The International reportable segment is comprised of all operations outside the U.S. and its territories. We rely on an internal management reporting process that provides segment information to the operating income level for purposes of making financial decisions and allocating resources. 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 February 27, 2010.

Revenue by reportable segment was as follows:

	Three Months Ended	Nine Months Ended

	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Domestic	$ 8,710	$ 8,931	$ 25,069	$ 24,730
International	3,180	3,093	8,947	8,411
Total	$ 11,890	$ 12,024	$ 34,016	$ 33,141

Operating income (loss) by reportable segment and the reconciliation to earnings before income tax expense were as follows:

	Three Months Ended		Nine Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Domestic	$ 340	$ 353	$ 1,045	$ 971
International	45	23	64	(19)
Total operating income	385	376	1,109	952
Other income (expense)				
Investment income and other	8	11	33	38
Interest expense	(20)	(23)	(64)	(68)
Earnings before income tax expense	$ 373	$ 364	$ 1,078	$ 922

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Assets by reportable segment were as follows:

		November 27, 2010		February 27, 2010		November 28, 2009
Domestic	$	13,949	$	10,431	$	13,332
International		8,403		7,871		7,768
Total	$	22,352	$	18,302	$	21,100

12. Contingencies

In December 2005, a purported class action lawsuit captioned, Jasmen Holloway, et al. v. Best Buy Co., Inc., was filed against us in the U.S. District Court for the Northern District of California. This federal court action alleges that we discriminate against women and minority individuals on the basis of gender, race, color and/or national origin in our stores with respect to our employment policies and practices. The action seeks an end to alleged discriminatory policies and practices, an award of back and front pay, punitive damages and injunctive relief, including rightful place relief for all class members. The Plaintiffs have filed a class certification motion which we have opposed. All proceedings have been stayed pending a decision by the U.S. Supreme Court in *Dukes, et al. v. Wal-Mart Stores, Inc.*, a gender discrimination class action lawsuit. Based on our assessment of the facts underlying the claim, the procedural history of the litigation (including the status of class certification), and the degree to which we intend to defend our company in the matter, we are unable to provide meaningful quantification of our exposure in this case.

We are involved in other various legal proceedings arising in the normal course of conducting business. We believe the amounts provided in our condensed consolidated financial statements, as prescribed by GAAP, are adequate in light of the probable and estimable liabilities. The resolution of those other proceedings is not expected to have a material impact on our results of operations or financial condition.

13. Sale of Business

During the second quarter of fiscal 2011, we completed the sale of our Speakeasy business to Covad Communications Group, Inc. (Covad). Prior to this sale, Covad had merged with Megapath Inc. The three combined businesses operate under the Megapath name. Upon closing of the Speakeasy sale, we received cash consideration and a minority equity interest in the combined company. Based upon the fair value of the consideration received and the carrying value of Speakeasy at closing, we recorded a pre-tax gain on sale of $7 in the second quarter of fiscal 2011, which is included within investment income and other in our consolidated statement of earnings.

14. Condensed Consolidating Financial Information

The rules of the Securities and Exchange Commission (SEC) require that condensed consolidating financial information be provided for a subsidiary that has guaranteed the debt of a registrant issued in a public offering, where the guarantee is full and unconditional and where the voting interest of the subsidiary is 100% owned by the registrant. Our convertible debentures, which had an aggregate principal balance and carrying amount of $402 at November 27, 2010, are jointly and severally guaranteed by our 100%-owned indirect subsidiary Best Buy Stores, L.P. (Guarantor Subsidiary). Investments in subsidiaries of Best Buy Stores, L.P., which have not guaranteed the convertible debentures (Non-Guarantor Subsidiaries), are required to be presented under the equity method, even though all such subsidiaries meet the requirements to be consolidated under GAAP.

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, and cash flows of (i) Best Buy Co., Inc., (ii) the Guarantor Subsidiary, (iii) the Non-Guarantor Subsidiaries, and (iv) the eliminations necessary to arrive at consolidated information for our company. The income statement eliminations relate primarily to the sale of inventory from a Non-Guarantor Subsidiary to the Guarantor Subsidiary. The balance sheet eliminations relate primarily to the elimination of intercompany profit in inventory held by the Guarantor Subsidiary and consolidating entries to eliminate intercompany receivables, payables and subsidiary investment accounts.

We file a consolidated U.S. federal income tax return. Income taxes are allocated 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 27, 2010, February 27, 2010, and November 28, 2009, condensed consolidating statements of earnings for the three and nine months ended November 27, 2010, and November 28, 2009, and condensed consolidating statements of cash flows for the nine months ended November 27, 2010, and November 28, 2009, and should be read in conjunction with the consolidated financial statements herein.

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Condensed Consolidating Balance Sheets

At November 27, 2010

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 144	$ 180	$ 601	$	$ 925
Short-term investments			2		2
Receivables		1,302	1,491		2,793
Merchandise inventories		7,161	3,010	(107)	10,064
Other current assets	243	90	766	(54)	1,045
Intercompany receivable			11,953	(11,953)	
Intercompany note receivable	1,578		2	(1,580)	
Total current assets	1,965	8,733	17,825	(13,694)	14,829
Property and Equipment, Net	202	1,836	1,956		3,994
Goodwill		6	2,435		2,441
Tradenames, Net			145		145
Customer Relationships, Net			220		220
Equity and Other Investments	168		175		343
Other Assets	132	39	258	(49)	380
Investments in Subsidiaries	12,405	195	2,371	(14,971)	
Total Assets	$ 14,872	$ 10,809	$ 25,385	$ (28,714)	$ 22,352
Liabilities and Equity					
Current Liabilities					
Accounts payable	$ 479	$ 54	$ 9,325	$	$ 9,858
Unredeemed gift card liabilities		359	65		424
Accrued compensation and related expenses		200	264		464
Accrued liabilities		843	1,130	(53)	1,920
Accrued income taxes	31				31
Short-term debt	500		190		690
Current portion of long-term debt		21	12		33
Intercompany payable	6,692	5,261		(11,953)	
Intercompany note payable	15	500	1,065	(1,580)	
Total current liabilities	7,717	7,238	12,051	(13,586)	13,420
Long-Term Liabilities	148	1,082	184	(248)	1,166
Long-Term Debt	902	118	81		1,101
Equity					

Shareholders equity		6,105		2,371		12,405		(14,880)		6,001
Non-controlling interests						664				664
Total equity		6,105		2,371		13,069		(14,880)		6,665
Total Liabilities and Equity	$	14,872	$	10,809	$	25,385	$	(28,714)	$	22,352

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Condensed Consolidating Balance Sheets

At February 27, 2010

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 1,170	$ 53	$ 603	$	$ 1,826
Short-term investments	88		2		90
Receivables		485	1,535		2,020
Merchandise inventories		3,662	1,873	(49)	5,486
Other current assets	221	149	775	(1)	1,144
Intercompany receivable			7,983	(7,983)	
Intercompany note receivable	833			(833)	
Total current assets	2,312	4,349	12,771	(8,866)	10,566
Property and Equipment, Net	214	1,864	1,992		4,070
Goodwill		6	2,446		2,452
Tradenames, Net			159		159
Customer Relationships, Net			279		279
Equity and Other Investments	216		108		324
Other Assets	103	34	362	(47)	452
Investments in Subsidiaries	12,246	287	2,296	(14,829)	
Total Assets	$ 15,091	$ 6,540	$ 20,413	$ (23,742)	$ 18,302
Liabilities and Equity					
Current Liabilities					
Accounts payable	$ 414	$ 26	$ 4,836	$	$ 5,276
Unredeemed gift card liabilities		401	62		463
Accrued compensation and related expenses	4	218	322		544
Accrued liabilities	25	652	1,004		1,681
Accrued income taxes	316				316
Short-term debt			663		663
Current portion of long-term debt	1	21	13		35
Intercompany payable	6,816	1,167		(7,983)	
Intercompany note payable		500	333	(833)	
Total current liabilities	7,576	2,985	7,233	(8,816)	8,978
Long-Term Liabilities	247	1,123	224	(338)	1,256
Long-Term Debt	902	136	66		1,104
Equity					

Shareholders equity		6,366		2,296		12,246		(14,588)		6,320
Non-controlling interests						644				644
Total equity		6,366		2,296		12,890		(14,588)		6,964
Total Liabilities and Equity	$	15,091	$	6,540	$	20,413	$	(23,742)	$	18,302

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Condensed Consolidating Balance Sheets

At November 28, 2009

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 85	$ 219	$ 260	$	$ 564
Short-term investments	89		4		93
Receivables		1,273	1,357		2,630
Merchandise inventories		6,401	2,639	(62)	8,978
Other current assets	125	125	766	(14)	1,002
Intercompany receivable			9,721	(9,721)	
Intercompany note receivable	819		2	(821)	
Total current assets	1,118	8,018	14,749	(10,618)	13,267
Property and Equipment, Net	216	1,904	2,003		4,123
Goodwill		6	2,415		2,421
Tradenames			163		163
Customer Relationships			292		292
Equity and Other Investments	209	4	119		332
Other Assets	88	55	405	(46)	502
Investments in Subsidiaries	10,853	147	2,206	(13,206)	
Total Assets	$ 12,484	$ 10,134	$ 22,352	$ (23,870)	$ 21,100
Liabilities and Equity					
Current Liabilities					
Accounts payable	$ 420	$ 71	$ 8,592	$	$ 9,083
Unredeemed gift card liabilities		366	59		425
Accrued compensation and related expenses	4	206	272		482
Accrued liabilities	27	821	1,019	(11)	1,856
Accrued income taxes	55				55
Short-term debt	350		391		741
Current portion of long-term debt	2	21	13		36
Intercompany payable	4,978	4,653	90	(9,721)	
Intercompany note payable	14	500	307	(821)	
Total current liabilities	5,850	6,638	10,743	(10,553)	12,678
Long-Term Liabilities	188	1,156	93	(243)	1,194
Long-Term Debt	903	134	67		1,104
Equity					

Shareholders equity		5,543		2,206		10,854		(13,074)		5,529
Non-controlling interests						595				595
Total equity		5,543		2,206		11,449		(13,074)		6,124
Total Liabilities and Equity	$	12,484	$	10,134	$	22,352	$	(23,870)	$	21,100

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Condensed Consolidating Statements of Earnings

Three Months Ended November 27, 2010

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 7,984	$ 13,469	$ (9,567)	$ 11,890
Cost of goods sold		5,962	11,994	(9,049)	8,907
Gross profit	4	2,022	1,475	(518)	2,983
Selling, general and administrative expenses	36	1,941	1,192	(571)	2,598
Operating (loss) income	(32)	81	283	53	385
Other income (expense)					
Investment income and other	12		8	(12)	8
Interest expense	(12)	(4)	(16)	12	(20)
(Loss) earnings before equity in earnings of subsidiaries	(32)	77	275	53	373
Equity in earnings of subsidiaries	202	7	51	(260)	
Earnings before income tax expense	170	84	326	(207)	373
Income tax expense	6	26	101		133
Net earnings including noncontrolling interests	164	58	225	(207)	240
Net (earnings) attributable to noncontrolling interests			(23)		(23)
Net earnings attributable to Best Buy Co., Inc.	$ 164	$ 58	$ 202	$ (207)	$ 217

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Condensed Consolidating Statements of Earnings

Nine Months Ended November 27, 2010

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 12	$ 23,059	$ 34,166	$ (23,221)	$ 34,016
Cost of goods sold		17,081	29,750	(21,509)	25,322
Gross profit	12	5,978	4,416	(1,712)	8,694
Selling, general and administrative expenses	107	5,747	3,584	(1,853)	7,585
Operating (loss) income	(95)	231	832	141	1,109
Other income (expense)					
Investment income and other	31		33	(31)	33
Interest expense	(35)	(10)	(50)	31	(64)
(Loss) earnings before equity in earnings of subsidiaries	(99)	221	815	141	1,078
Equity in earnings of subsidiaries	584	30	142	(756)	
Earnings before income tax expense	485	251	957	(615)	1,078
Income tax expense		79	321		400
Net earnings including noncontrolling interests	485	172	636	(615)	678
Net (earnings) attributable to noncontrolling interests			(52)		(52)
Net earnings attributable to Best Buy Co., Inc.	$ 485	$ 172	$ 584	$ (615)	$ 626

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Condensed Consolidating Statements of Earnings

Three Months Ended November 28, 2009

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 4	$ 8,252	$ 12,063	$ (8,295)	$ 12,024
Cost of goods sold		6,196	10,596	(7,710)	9,082
Gross profit	4	2,056	1,467	(585)	2,942
Selling, general and administrative expenses	42	1,959	1,229	(664)	2,566
Operating (loss) income	(38)	97	238	79	376
Other income (expense)					
Investment income and other	7		11	(7)	11
Interest expense	(12)	(3)	(14)	6	(23)
(Loss) earnings before equity in (loss) earnings of subsidiaries	(43)	94	235	78	364
Equity in (loss) earnings of subsidiaries	(594)	10	58	526	
(Loss) earnings before income tax (benefit) expense	(637)	104	293	604	364
Income tax (benefit) expense	(786)	36	843		93
Net earnings (loss) including noncontrolling interests	149	68	(550)	604	271
Net (earnings) attributable to noncontrolling interests			(44)		(44)
Net earnings (loss) attributable to Best Buy Co., Inc.	$ 149	$ 68	$ (594)	$ 604	$ 227

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Condensed Consolidating Statements of Earnings

Nine Months Ended November 28, 2009

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 12	$ 22,930	$ 27,901	$ (17,702)	$ 33,141
Cost of goods sold		17,183	26,080	(18,305)	24,958
Gross profit	12	5,747	1,821	603	8,183
Selling, general and administrative expenses	116	5,315	3,404	(1,656)	7,179
Restructuring charges		25	27		52
Operating (loss) income	(104)	407	(1,610)	2,259	952
Other income (expense)					
Investment income and other	26		30	(18)	38
Interest expense	(37)	(10)	(39)	18	(68)
(Loss) earnings before equity in (loss) earnings of subsidiaries	(115)	397	(1,619)	2,259	922
Equity in (loss) earnings of subsidiaries	(1,477)	5	255	1,217	
(Loss) earnings before income tax expense	(1,592)	402	(1,364)	3,476	922
Income tax expense	129	142	67		338
Net (loss) earnings including noncontrolling interests	(1,721)	260	(1,431)	3,476	584
Net (earnings) attributable to noncontrolling interests			(46)		(46)
Net (loss) earnings attributable to Best Buy Co., Inc.	$ (1,721)	$ 260	$ (1,477)	$ 3,476	$ 538

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Condensed Consolidating Statements of Cash Flows

Nine Months Ended November 27, 2010

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (410)	$ (3,758)	$ 4,713	$	$ 545
Investing activities					
Additions to property and equipment		(199)	(330)		(529)
Purchases of investments	(245)				(245)
Sales of investments	382		1		383
Proceeds from sale of business			21		21
Change in restricted assets			(1)		(1)
Settlement of net investment hedges			12		12
Other, net			(2)		(2)
Total cash provided by (used in) investing activities	137	(199)	(299)		(361)
Financing activities					
Repurchase of common stock	(1,128)				(1,128)
Borrowings of debt	500		1,425		1,925
Repayments of debt	(1)	(10)	(1,873)		(1,884)
Dividends paid	(178)				(178)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	171				171
Acquisition of noncontrolling interests			(21)		(21)
Excess tax benefits from stock-based compensation	13				13
Other, net			9		9
Change in intercompany activity	(130)	4,094	(3,964)		
Total cash (used in) provided by financing activities	(753)	4,084	(4,424)		(1,093)
Effect of exchange rate changes on cash			8		8
(Decrease) increase in cash and cash equivalents	(1,026)	127	(2)		(901)
Cash and cash equivalents at beginning of period	1,170	53	603		1,826
Cash and cash equivalents at end of period	$ 144	$ 180	$ 601	$	$ 925

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Condensed Consolidating Statements of Cash Flows

Nine Months Ended November 28, 2009

(Unaudited)

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash (used in) provided by operating activities	$ (964)	$ (438)	$ 2,081	$	$ 679
Investing activities					
Additions to property and equipment		(120)	(349)		(469)
Purchases of investments	(10)				(10)
Sales of investments	46				46
Change in restricted assets	(2)		21		19
Settlement of net investment hedges			27		27
Other, net		(5)	(13)		(18)
Total cash provided by (used in) investing activities	34	(125)	(314)		(405)
Financing activities					
Borrowings of debt	2,885		708		3,593
Repayments of debt	(2,698)	(23)	(982)		(3,703)
Dividends paid	(175)				(175)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	120				120
Acquisition of noncontrolling interests			(34)		(34)
Excess tax benefits from stock-based compensation	3				3
Other, net			(12)		(12)
Change in intercompany activity	730	757	(1,487)		
Total cash provided by (used in) financing activities	865	734	(1,807)		(208)
Effect of exchange rate changes on cash					
(Decrease) increase in cash and cash equivalents	(65)	171	(40)		66
Cash and cash equivalents at beginning of period	150	48	300		498
Cash and cash equivalents at end of period	$ 85	$ 219	$ 260	$	$ 564

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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. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. Our MD&A is presented in six sections:

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

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

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 27, 2010, as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Overview

We are a multinational 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 operations within the U.S. and its territories. The International segment is comprised of all operations outside the U.S. and its territories.

Our business, like that of many 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., Europe and Canada, than in any other fiscal quarter.

While some of the products and services we offer are viewed by consumers as essential, others continue to be viewed as discretionary purchases. Consequently, our results of operations are susceptible to changes in consumer confidence levels and macro-economic factors such as unemployment, consumer credit availability and the condition of the housing market. Consumers have maintained a cautious approach to discretionary spending due to continued economic pressures. Consequently, customer traffic and spending patterns continue to be difficult to predict. Other factors that directly impact our performance are product life-cycle shifts (including the adoption of new technology) and the competitive consumer electronics retail environment. As a result of these factors, predicting future revenues and earnings is difficult. Careful capital allocation and planning, monitoring of inventory levels and effective use of promotions remain key priorities for us as we navigate through the current economic environment. By providing access to a wide selection of hardware and applications, as well as helping our customers connect their devices, we can offer our customers end-to-end solutions.

Throughout this MD&A, we refer to comparable store sales. Comparable store sales is a measure commonly used in the retail industry, which indicates store performance by measuring the growth in revenue for certain stores for a particular period over the corresponding period in the prior year. Our comparable store sales is comprised of revenue from stores operating for at least 14 full months as well as revenue related to call centers, Web sites and our other comparable sales channels. Revenue we earn from sales of merchandise to wholesalers or dealers is not included within our comparable store sales calculation. Relocated, remodeled and expanded 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.

In discussions of the operating results of our consolidated business and our International segment, we sometimes refer to the impact of changes in foreign currency exchange rates. When we refer to changes in foreign currency exchange rates or currency exchange rate fluctuations, we are referring to the differences between the foreign currency exchange rates we use to convert the International

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segment s operating results from local currencies into U.S. dollars for reporting purposes. The impacts of foreign currency exchange rate fluctuations are typically calculated as the difference between current period activity translated using the current period s currency exchange rates and the comparable prior year period s currency exchange rates, respectively. We use this method for all countries where the functional currency is not the U.S. dollar.

Results of Operations

Consolidated Performance Summary

Throughout the fiscal year, the majority of markets in which we operate have generally continued to endure difficult and uncertain economic conditions, and this had a direct bearing on our revenues. We have responded to the current economic environment by closely managing our selling, general and administrative expenses (SG&A), as well as focusing on efforts to improve our gross profit.

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

	Three Months Ended		Nine Months Ended(2)	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Revenue	$ 11,890	$ 12,024	$ 34,016	$ 33,141
Revenue % (decline) growth	(1.1)%	4.6%	2.6%	9.4%
Comparable store sales % (decline) gain	(3.3)%	1.7%	(0.4)%	(2.5)%
Gross profit as % of revenue(1)	25.1%	24.5%	25.6%	24.7%
SG&A as % of revenue(1)	21.8%	21.3%	22.3%	21.7%
Operating income	$ 385	$ 376	$ 1,109	$ 952
Operating income as % of revenue	3.2%	3.1%	3.3%	2.9%
Net earnings attributable to Best Buy Co.,Inc.	$ 217	$ 227	$ 626	$ 538
Diluted earnings per share	$ 0.54	$ 0.53	$ 1.50	$ 1.27

(1) Because retailers vary in how they record certain costs between cost of goods sold and SG&A, our gross profit rate and SG&A rate may not be comparable to other retailers corresponding rates. For additional information regarding costs classified in cost of goods sold and SG&A, refer to 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 February 27, 2010.

(2) Included within our operating income and net earnings for the nine months ended November 28, 2009, is $52 million ($25 million net of taxes and noncontrolling interests) of restructuring charges recorded in the fiscal first quarter related primarily to updating our U.S. Best Buy store operating model, which included eliminating certain positions, as well as employee termination benefits and business reorganization costs in Best Buy Europe. These charges resulted in a decrease in our operating income rate of 0.1% of revenue for the first nine months of fiscal 2010. No restructuring charges were recorded in the first nine months of fiscal 2011.

The 1.1% revenue decrease in the third quarter of fiscal 2011 was due primarily to a 3.3% comparable store sales decline and the negative impact of foreign currency exchange rate fluctuations, partially offset by the impact of net new stores opened during the past 12 months. In the first nine months of fiscal 2011, net new stores and the favorable impact of foreign currency exchange rate fluctuations were the primary drivers of our 2.6% revenue increase, partially offset a comparable store sales decline of 0.4% and the negative impact of non-comparable sales channels. The components of the net revenue (decrease) increase for the three and nine months ended November 27, 2010, were as follows:

	Three months ended November 27, 2010	**Nine months ended November 27, 2010**
Comparable store sales impact	(3.1)%	(0.4)%
Impact of foreign currency exchange rate fluctuations	(0.4)%	0.7%
Non-comparable sales channels(1)	(0.1)%	(0.4)%
Net new stores	2.5%	2.9%
One less week of revenue(2)	n/a	(0.2)%
Total revenue (decrease) increase	(1.1)%	2.6%

(1) Non-comparable sales channels primarily reflects the impact from revenue we earn from sales of merchandise to wholesalers and dealers as well as other sales channels not included within our comparable store sales calculation.

(2) One less week of revenue reflects the incremental revenue associated with Best Buy Europe in the first quarter of fiscal 2010, which had 14 weeks of activity, compared to 13 weeks in the first quarter of fiscal 2011.

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The gross profit rate increased by 0.6% of revenue for the third quarter of fiscal 2011. Gross profit rate improvement in our Domestic segment accounted for an increase of 0.7% of revenue, partially offset by a gross profit rate decrease in our International segment, which accounted for a decrease of 0.1% of revenue. For the first nine months of fiscal 2011, the gross profit rate increased by 0.9% of revenue. Gross profit rate improvements in our Domestic and International segments accounted for increases of 0.8% of revenue and 0.1% of revenue, respectively. For further discussion of each segment s gross profit rate changes, see *Segment Performance Summary*, below.

The SG&A rate increased by 0.5% of revenue for the third quarter of fiscal 2011. Our Domestic segment s SG&A rate increased by 0.7% of revenue, while our International segment s SG&A rate decreased by 0.2% of revenue. For the first nine months of fiscal 2011, the SG&A rate increased 0.6% of revenue. Our Domestic segment s SG&A rate increased by 0.7% of revenue, which was partially offset by a SG&A rate decrease of 0.1% of revenue in our International segment. For further discussion of each segment s SG&A rate changes, see *Segment Performance Summary*, below.

Operating income increased $9 million, or 2.4%, to $385 million and the operating income rate remained relatively flat at 3.2% of revenue in the third quarter of fiscal 2011, compared to 3.1% of revenue in the prior-year period, as our gross profit rate grew faster than our SG&A rate. Operating income increased $157 million, or 16.5%, to $1.1 billion in the first nine months of fiscal 2011 compared to the prior-year period. The 0.4% of revenue operating income rate increase was driven by an increase in our gross profit rate, partially offset by an increase in our SG&A rate. In addition, we had no restructuring charges in the first nine months of fiscal 2011 as we did in the prior-year period.

Other Income (Expense)

Our investment income and other in the third quarter and first nine months of fiscal 2011 decreased to $8 million and $33 million, respectively, compared with $11 million and $38 million in the prior-year periods. The decrease in the third quarter was mainly due to a reduction in present-value adjustments to our long-term receivables in Europe as a result of lower average long-term receivable balances. The decrease in the first nine months of fiscal 2011 was principally the result of a gain on the sale of an equity investment in the second quarter of fiscal 2010 and lower returns on our deferred compensation assets compared to the prior-year period, partially offset by the $7 million gain on the sale of our Speakeasy business in the second quarter of fiscal 2011.

Interest expense in the third quarter and first nine months of fiscal 2011 of $20 million and $64 million, respectively, remained relatively flat compared with the same periods one year ago. Lower average short-term borrowings in the third quarter and first nine months of fiscal 2011 were offset by higher average interest rates on outstanding short-term borrowings.

Income Tax Expense

Our effective income tax rate in the third quarter of fiscal 2011 was 35.7%, compared to 25.6% in the third quarter of fiscal 2010. The change was due primarily to the net impact of the settlement of certain foreign tax matters in the comparable prior-year period. Our effective income tax rate in the first nine months of fiscal 2011 was 37.1%, compared to 36.7%, in the corresponding period of fiscal 2010. The increase in our effective income tax rate for the first nine months of fiscal 2011 was primarily caused by the previously noted impact of the settlement of certain foreign tax matters in the comparable prior-year period, partially offset by the timing impact of losses in certain foreign jurisdictions and tax benefits resulting from the sale of our Speakeasy business in the current fiscal year.

Noncontrolling Interest

The increase in noncontrolling interest during the third quarter and first nine months of fiscal 2011 compared to the prior-year periods was due to the higher net earnings of Best Buy Europe, in which Carphone Warehouse Group plc has a 50% noncontrolling interest.

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Segment Performance Summary

Domestic

Our Domestic segment s gross profit improved modestly in the third quarter of fiscal 2011, as compared to the prior-year period, with a continued rate improvement partially offset by a revenue decline. These factors, combined with an increase in SG&A, led to a modest decline in operating income.

We believe the revenue decline resulted primarily from a combination of weakness in several key consumer electronics industry product categories and a slight decline in our estimated domestic market share. Consumers continue to be highly selective and cautious about how and when they make consumer electronics purchases. As a specialty retailer in the consumer electronics industry, the adoption of new technology and the timing of product life-cycles continue to play an important part in revenue trends. For example, slower than anticipated adoption of new technology in televisions, the increased availability of LED televisions at mass-market retailers, and significant product introductions in the prior year in mobile computing operating systems contributed to industry declines in the fiscal third quarter.

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

	Three Months Ended		Nine Months Ended	
	November 27, 2010	**November 28, 2009**	**November 27, 2010**	**November 28, 2009**
Revenue	$ 8,710	$ 8,931	$ 25,069	$ 24,730
Revenue % (decline) growth	(2.5)%	9.0%	1.4%	4.0%
Comparable store sales % (decline) gain	(5.0)%	4.6%	(1.7)%	(1.0)%
Gross profit as % of revenue	25.0%	24.1%	25.5%	24.5%
SG&A as % of revenue	21.1%	20.2%	21.3%	20.5%
Operating income(1)	$ 340	$ 353	$ 1,045	$ 971
Operating income as % of revenue	3.9%	4.0%	4.2%	3.9%

(1) Included within our Domestic segment s operating income for the first nine months fiscal 2010 is $25 million of restructuring charges recorded in the fiscal first quarter related to measures we took to update our U.S. Best Buy store operating model, which resulted in the elimination of certain positions for which we incurred employee termination costs. These charges resulted in a decrease in our Domestic segment s operating income rate of 0.1% of revenue for the first nine months of fiscal 2010. No restructuring charges were recorded in the first nine months of fiscal 2011.

The decrease in our Domestic segment s operating income for the third quarter of fiscal 2011 was primarily due to decreased revenue and higher SG&A, partially offset by increased gross profit due to an improvement in the gross profit rate. The increase in our Domestic segment s operating income for first nine months of fiscal 2011 was due primarily to increased revenue and gross profit, partially offset by higher SG&A. In addition, the first nine months of fiscal 2011 had no restructuring charges, further contributing to the increase in operating income as compared to the prior-year period.

The 2.5% decrease in revenue for the third quarter of fiscal 2011 was due primarily to a 5.0% comparable store sales decline, partially offset by the impact of net new stores opened during the past 12 months. In the first nine months of fiscal 2011, the 1.4% increase in revenue was primarily due to the impact of net new stores opened in the past 12 months, partially offset by a comparable store sales decline of 1.7%. Non-comparable sales channels had minimal impact on total revenue in the third quarter and first nine months of fiscal 2011. The components of our Domestic segment s net revenue (decrease) increase for the three and nine months ended November 27, 2010, were as follows:

	Three months ended November 27, 2010	Nine months ended November 27, 2010
Comparable store sales impact	(4.8)%	(1.6)%
Non-comparable sales channels(1)	(0.3)%	(0.1)%
Net new stores	2.6%	3.1%
Total revenue (decrease) increase	(2.5)%	1.4%

(1) Non-comparable sales channels reflects the impact from revenue we earn from sales channels not included within our comparable store sales calculation.

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The following table reconciles the number of Domestic stores open at the beginning and end of the third quarters of fiscal 2011 and 2010:

	Fiscal 2011				Fiscal 2010			
	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter
Best Buy	1,091	8		1,099	1,044	24		1,068
Best Buy Mobile	109	48		157	48	21		69
Pacific Sales	35			35	35			35
Magnolia Audio Video	6			6	6			6
Geek Squad	5		(5)		6			6
Total Domestic segment stores	1,246	56	(5)	1,297	1,139	45		1,184

The following table presents the Domestic segment s revenue mix percentages and comparable store sales percentage changes by revenue category in the third quarters of fiscal 2011 and 2010:

	Revenue Mix Three Months Ended		Comparable Store Sales Three Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Consumer electronics	36%	39%	(10.6)%	8.0%
Home office	37%	33%	4.8%	10.0%
Entertainment software	15%	16%	(13.9)%	(10.9)%
Appliances	5%	5%	(0.1)%	10.0%
Services	6%	6%	(1.5)%	0.4%
Other	1%	1%	n/a	n/a
Total	100%	100%	(5.0)%	4.6%

The product categories having the largest effect on our comparable store sales decline were televisions and entertainment software, which includes video gaming hardware and software, CDs and DVDs. Comparable store sales gains in mobile phones and mobile computing (consisting of notebook computers, netbooks and tablets) partially offset these declines. Revenue from our Domestic segment s online operations increased 7% in the third quarter of fiscal 2011 and is incorporated in the table above.

The 10.6% comparable store sales decline in the consumer electronics revenue category was driven primarily by a decrease in the sales of televisions, as both unit sales and average selling prices declined during the third quarter of fiscal 2011. The 4.8% comparable store sales gain in the home office revenue category was primarily the result of increased sales of mobile phones due to the continued growth of Best Buy Mobile, as well as gains in mobile computing. The 13.9% comparable store sales decline in the entertainment software revenue category was mainly the result of declining sales in video gaming hardware and software, partially caused by industry-wide softness combined with a decline in our market share, as well as the continued decline in the sales of DVDs and CDs as consumers preferences shift to digital content. The 1.5% comparable store sales decline in the services revenue category was due primarily to a decline in repair and home theater installation services, due in part to the decrease in television sales described above.

Despite a 2.5% decline in revenue, our Domestic segment experienced gross profit growth of $26 million, or 1.2%, in the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010, due to gross profit rate improvement. The 0.9% of revenue increase in the gross profit rate was driven by favorable mix and rate impacts of 0.4% of revenue and 0.5% of revenue, respectively, and resulted primarily from the following factors:

- increased sales of higher-margin mobile phones as a result of the growth in Best Buy Mobile;
- improved promotional effectiveness due to lower costs in financing programs and improved pricing strategies, particularly in appliances; and
- a change in the form of vendor funding for fiscal 2011, shifting more dollars to gross profit than SG&A;
- partially offset by a more promotional environment in televisions.

In the first nine months of fiscal 2011, our Domestic segment improved its gross profit rate by 1.0% of revenue. The primary drivers of the rate increase were the growth of our Best Buy Mobile business; improved promotional effectiveness due to lower costs in financing programs, lower loyalty program costs and improved pricing strategies; and the change in the form of vendor funding. A more promotional environment in televisions partially offset these rate gains. Our Domestic segment s mix of revenue had no net effect on the segment s gross profit rate, as growth in sales at our higher-margin Best Buy Mobile business was offset by growth in sales of lower-margin mobile computing products.

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Our Domestic segment s SG&A grew $39 million, or 2.2%, in the third quarter of fiscal 2011 compared to the prior-year period. The increase in SG&A was principally driven by the opening of new stores and an increase in the Best Buy Mobile profit share-based management fee, partially offset by lower incentive compensation costs. The following factors collectively contributed to the Domestic segment s SG&A rate increase of 0.9% of revenue:

- deleverage due to the 2.5% revenue decline;
- continued growth of Best Buy Mobile (including the profit share-based management fee paid to Best Buy Europe, which is offset in the International segment SG&A results and therefore has no net impact on our consolidated operating income); and
- the change in the form of vendor funding as discussed above;
- partially offset by lower incentive compensation costs.

In the first nine months of fiscal 2011, our Domestic segment s SG&A grew $292 million, or 5.8%, and our SG&A rate increased by 0.8% of revenue. The increase in both SG&A and the SG&A rate was driven by the opening of new stores, the continued growth of Best Buy Mobile, increased spending for several key initiatives and the change in the form of vendor funding, partially offset by lower incentive compensation costs.

International

While challenging economic conditions persisted in many of the countries in which we operate, our International segment saw comparable store sales gains and improvements in operating income in the third quarter and first nine months of fiscal 2011. The key drivers behind these improvements included an increase in the sales of higher-margin post-pay mobile phone contracts in Europe, improved promotional effectiveness in key product categories in Canada and growth in consumer spending and temporary government stimulus programs in China. In addition, an increase in the Best Buy Mobile profit share-based management fee paid to Best Buy Europe had a positive impact on the segment s operating income. We have also experienced continued revenue growth through our expansion of large-format stores in Europe, China, Mexico and Turkey.

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

	Three Months Ended		Nine Months Ended	
	November 27, 2010	**November 28, 2009**	**November 27, 2010**	**November 28, 2009**
Revenue	$ 3,180	$ 3,093	$ 8,947	$ 8,411
Revenue % growth	2.8%	(6.4)%	6.4%	29.2%
Comparable store sales % gain (decline)	2.3%	(6.7)%	4.2%	(8.8)%
Gross profit as % of revenue	25.2%	25.4%	25.7%	25.3%
SG&A as % of revenue	23.8%	24.7%	25.0%	25.2%
Operating income (loss)(1)	$ 45	$ 23	$ 64	$ (19)

Operating income (loss) as % of revenue	1.4%	0.7%	0.7%	(0.2)%

(1) Included within our International segment s operating loss for the first nine months of fiscal 2010 is $27 million of restructuring charges recorded in the fiscal first quarter primarily related to employee termination benefits and business reorganization costs in Best Buy Europe. These charges resulted in a decrease in our International segment s operating income of 0.3% of revenue for the first nine months of fiscal 2010. No restructuring charges were recorded in the first nine months of fiscal 2011.

The increase in our International segment s operating income in the third quarter of fiscal 2011 resulted primarily from higher operating income in Europe and China, partially offset by costs associated with the operation of new stores in Mexico and Turkey. The increase in our International segment s operating income in the first nine months of fiscal 2011 resulted primarily from higher operating income in Europe, Canada and China, partially offset by costs associated with the operation of new stores in Mexico and Turkey. An increase in the Best Buy Mobile profit share-based management fee was a leading driver of the increased operating income in Europe in both the third quarter and first nine months of fiscal 2011. In addition, the first nine months of fiscal 2010 also included $27 million of restructuring charges compared to no restructuring charges in the first nine months of fiscal 2011, further contributing to the increase in operating income compared to the prior-year period.

The 2.8% increase in revenue for the third quarter of fiscal 2011 was due principally to the impact of new stores opened during the past 12 months and a 2.3% comparable store sales gain, partially offset by the negative impact of foreign currency exchange rate fluctuations. In the first nine months of fiscal 2011, the 6.4% increase in revenue was due to a 4.2% comparable store sales gain, the favorable impact of foreign currency exchange rate fluctuations and the impact of new stores opened in the past 12 months. Changes in revenue from non-comparable sales channels had a minimal impact on the revenue increase for the third quarter of fiscal 2011, but partially offset the revenue increase in the first nine months of fiscal 2011. The increase in comparable store sales in both the third quarter and the first nine months of fiscal 2011 was the result of gains in Europe and China, partially offset by declines in Canada. The components of our International segment s net revenue increase for the three and nine months ended November 27, 2010, were as follows:

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	Three months ended November 27, 2010	Nine months ended November 27, 2010
Net new stores	2.2%	2.4%
Comparable store sales impact	1.9%	3.5%
Non-comparable sales channels(1)	0.1%	(1.3)%
Impact of foreign currency exchange rate fluctuations	(1.4)%	2.6%
One less week of revenue(2)	n/a	(0.8)%
Total revenue increase	2.8%	6.4%

(1) Non-comparable sales channels primarily reflects the impact from revenue we earn from sales of merchandise to wholesalers and dealers as well as other sales channels not included within our comparable store sales calculation.

(2) One less week of revenue reflects the incremental revenue associated with Best Buy Europe in the first quarter of fiscal 2010, which had 14 weeks of activity, compared to 13 weeks in the first quarter of fiscal 2011.

The following table reconciles the number of International stores open at the beginning and end of the third quarters of fiscal 2011 and 2010:

	Fiscal 2011				Fiscal 2010			
	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter
Best Buy Europe small box(1)	2,436	14	(26)	2,424	2,450	29	(31)	2,448
Best Buy Europe big box(2)	3	1		4				
Canada								
Future Shop	145	1		146	142	1		143
Best Buy	70	1		71	60	4		64
Best Buy Mobile	6	4		10	3	1		4
China								
Five Star	159			159	165		(1)	164
Best Buy	8			8	6			6
Mexico								
Best Buy	5	1		6	1	1		2
Turkey								
Best Buy	2			2				
Total International segment stores	2,834	22	(26)	2,830	2,827	36	(32)	2,831

(1) Represents small-format The Carphone Warehouse and The Phone House stores.

(2) Represents Best Buy branded large-format stores in the U.K.

The following table presents revenue mix percentages and comparable store sales percentage changes for the International segment by revenue category in the third quarters of fiscal 2011 and 2010:

	Revenue Mix Three Months Ended		Comparable Store Sales Three Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Consumer electronics	19%	18%	(2.5)%	(18.3)%
Home office	57%	55%	3.0%	(3.3)%
Entertainment software	6%	7%	(14.8)%	(13.6)%
Appliances	9%	8%	26.5%	(6.8)%
Services	9%	12%	0.9%	5.3%
Other	<1%	<1%	n/a	n/a
Total	100%	100%	2.3%	(6.7)%

The product categories having the largest impact on our International segment s comparable store sales gain in the third quarter of fiscal 2011 were appliances, mobile phones and mobile computing. Increased sales in these product categories were partially offset by declines in the sales of entertainment hardware and software.

The 2.5% comparable store sales decline in the consumer electronics revenue category resulted primarily from decreases in the sales of televisions, MP3 players, and navigation products in Canada, similar to our Domestic segment. The 3.0% comparable store sales gain in the home office revenue category mainly resulted from comparable store sales gains in mobile phones and mobile computing.

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The 14.8% comparable store sales decline in the entertainment software revenue category reflected a decrease in the sales of video gaming hardware and software and continued decreases in the sales of DVDs and CDs. The 26.5% comparable store sales gain in the appliances revenue category resulted primarily from increases in the sales of appliances within our China operations, where growth in consumer spending and government stimulus programs continued to contribute to stronger sales. The 0.9% comparable store sales gain in the services revenue category was due primarily to increased sales of mobile phone warranty contracts in Europe as a result of an increase in the sales mix of higher-priced smartphones.

Our International segment experienced gross profit growth of $15 million, or 1.9%, in the third quarter of fiscal 2011 and $170 million, or 8.0%, in the first nine months of fiscal 2011. The increase in gross profit in the third quarter of fiscal 2011 was driven by increased revenue, as the gross profit rate decreased slightly. The 0.2% of revenue decline in the gross profit rate in the third quarter of fiscal 2011 reflects an unfavorable mix impact of 0.7% of revenue, partially offset by a favorable rate impact of 0.5% of revenue. The unfavorable mix impact resulted primarily from growth in our lower-margin China business and a decrease in the mix of our higher-margin Europe business, while the favorable rate impact was the result of gains in Canada driven by rate improvements in mobile computing.

In the first nine months of fiscal 2011, the 0.4% of revenue improvement in the gross profit rate reflects a favorable rate impact of 1.0% of revenue, partially offset by 0.6% of revenue unfavorable mix impact. The rate favorability was largely a result of improved promotional effectiveness in Canada, especially in mobile computing and video gaming, and an increase in the sales of higher-margin post-pay mobile phone contracts in Europe. The unfavorable mix impact resulted primarily from growth in our lower-margin China business, as well as decreased mix from our higher-margin Europe business in the first nine months of fiscal 2011.

In the third quarter of fiscal 2011, our International segment s SG&A decreased $7 million, or 0.9%, driven mainly by a decrease in Europe due to the higher Best Buy Mobile profit share-based management fee and the impact of foreign currency exchange rate fluctuations, partially offset by increased spending associated with new store openings across the segment and increased advertising costs. Excluding the impact of foreign currency rate fluctuations, our International segment s SG&A was flat in the third quarter of fiscal 2011. The 0.9% of revenue decrease in the SG&A rate was driven primarily by a rate decrease in Europe due to the higher Best Buy Mobile profit share-based management fee and the favorable mix impact from both growth in our lower-rate China business and a decrease in the sales mix of our higher-rate Europe business. These improvements were partially offset by rate increases in Canada primarily caused by the deleveraging impact of its comparable store sales decline and increased advertising costs.

In the first nine months of fiscal 2011, our International segment s SG&A grew $114, or 5.4%, due to the impact of foreign currency exchange rate fluctuations, increased spending related to new store openings and increased advertising costs. Excluding the impact of foreign currency exchange rate fluctuations, SG&A grew only 2.4%. The SG&A rate remained relatively flat in the first nine months of fiscal 2011, as the deleveraging impact of the comparable store sales decline and increased advertising costs in Canada were offset by the favorable mix impact from both growth in our lower-rate China business and a decrease in the sales mix of our higher-rate Europe business, as well a rate decrease in Europe due to the higher Best Buy Mobile profit share-based management fee.

Liquidity and Capital Resources

We continue to closely manage our liquidity and capital resources. The key variables we use to manage liquidity requirements and investments to support our growth strategies include variable SG&A spending, capital expenditures, credit facilities and short-term borrowing arrangements, working capital and our share repurchase program.

Capital expenditures, particularly with respect to opening new stores and remodeling existing stores, is a component of our cash flow and capital management strategy which, to a large extent, we can adjust in response to economic and other changes in our business environment. In fiscal 2010 and fiscal 2011, we have moderated our capital spending in response to the challenging economic environment.

Summary

The following table summarizes our cash and cash equivalents and short-term investments balances at November 27, 2010; February 27, 2010; and November 28, 2009 ($ in millions):

	November 27, 2010	February 27, 2010	November 28, 2009
Cash and cash equivalents	$ 925	$ 1,826	$ 564
Short-term investments	2	90	93
Total cash and cash equivalents and short-term investments	$ 927	$ 1,916	$ 657

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The increase in the balance of our cash and cash equivalents compared with the end of the third quarter of fiscal 2010 was due primarily to cash generated from operations and cash provided by the sale of investments, partially offset by cash used to repurchase common stock, cash used to reduce short-term debt and cash used for capital expenditures. The decrease in our short-term investments balance compared with the third quarter of fiscal 2010 was due to the sale of the remainder of our short-term investments in auction rate securities (ARS) marketed and sold to us by UBS AG and its affiliates.

Our current ratio, calculated as current assets divided by current liabilities, was 1.1 at the end of the third quarter of fiscal 2011, compared with 1.2 at the end of fiscal 2010 and 1.0 at the end of the third quarter of fiscal 2010. The increase in our current ratio from the third quarter of fiscal 2010 was due primarily to an increase in our merchandise inventories, partially offset by a corresponding increase in accounts payable.

Our adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent (EBITDAR) ratio decreased to 2.4 at the end of the third quarter of fiscal 2011, compared with 2.5 at the end of fiscal 2010 and 2.7 at the end of the third quarter of fiscal 2010, primarily due to increased net earnings.

Our adjusted debt to EBITDAR ratio, which includes capitalized operating lease obligations in its calculation, is considered a non-GAAP financial measure and should be considered in addition to, rather than as a substitute for, the most directly comparable ratio determined in accordance with GAAP. We have included this information as we view the adjusted debt to EBITDAR ratio as an important indicator of our creditworthiness. Furthermore, we believe that our adjusted debt to EBITDAR ratio is important for understanding our financial position and provides meaningful additional information about our ability to service our long-term debt and other fixed obligations and to fund our future growth. We also believe our adjusted debt to EBITDAR 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.

Our adjusted debt to EBITDAR ratio is calculated as follows:

$$\text{Adjusted debt to EBITDAR} = \frac{\text{Adjusted debt}}{\text{EBITDAR}}$$

The most directly comparable GAAP financial measure to our adjusted debt to EBITDAR ratio is our debt to net earnings ratio, which excludes capitalized operating lease obligations from debt in the numerator of the calculation and does not adjust net earnings in the denominator of the calculation. The debt to net earnings ratio decreased to 1.2 at the end of the third quarter of fiscal 2011, compared with 1.3 at the end of fiscal 2010 and 1.6 at the end of the third quarter of fiscal 2010.

The following table presents a reconciliation of our debt to net earnings ratio and our adjusted debt to EBITDAR ratio ($ in millions):

	November 27, 2010 (1)	**February 27, 2010 (1)**	**November 28, 2009 (1)**

Debt (including current portion)	$ 1,824	$ 1,802	$ 1,881
Capitalized operating lease obligations (8 times rental expense) (2)	9,196	9,013	8,978
Adjusted debt	$ 11,020	$ 10,815	$ 10,859
Net earnings including noncontrolling interests(3)	$ 1,488	$ 1,394	$ 1,171
Interest expense, net	41	40	47
Income tax expense	864	802	716
Depreciation and amortization expense (4)	981	930	977
Rental expense	1,149	1,127	1,122
EBITDAR	$ 4,523	$ 4,293	$ 4,033
Debt to net earnings ratio	1.2	1.3	1.6
Adjusted debt to EBITDAR ratio	2.4	2.5	2.7

(1) Debt is reflected as of the respective balance sheet dates, while rental expense and the other components of EBITDAR represent activity for the 12 months ended as of each of the respective dates.

(2) The multiple of eight times annual rental expense in the calculation of our capitalized operating lease obligations is the multiple used for the retail sector by one of the nationally recognized credit rating agencies that rate our creditworthiness, and we consider it to be an appropriate multiple for our lease portfolio.

(3) We utilize net earnings including noncontrolling interests within our calculation as the earnings and related cash flows attributable to noncontrolling interests are available to service our debt and operating lease commitments.

(4) Depreciation and amortization expense includes impairments of fixed assets, investments, goodwill and intangible assets.

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Cash Flows

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

	Nine Months Ended	
	November 27, 2010	**November 28, 2009**
Total cash provided by (used in):		
Operating activities	$ 545	$ 679
Investing activities	(361)	(405)
Financing activities	(1,093)	(208)
Effect of foreign currency exchange rate fluctuations on cash	8	
(Decrease) increase in cash and cash equivalents	$ (901)	$ 66

Cash provided by operating activities in the first nine months of fiscal 2011 was $545 million, compared with $679 million in the first nine months of fiscal 2010. The decrease was due primarily to higher incentive compensation payments made in fiscal 2011. An increased level of inventory at the end of the fiscal third quarter as compared to the prior-year period was largely offset by a corresponding increase in accounts payable.

Cash used in investing activities in the first nine months of fiscal 2011 was $361 million, compared with $405 million in the first nine months of fiscal 2010. The decrease was due primarily to our sale of ARS during the first nine months of fiscal 2011.

Cash used in financing activities in the first nine months of fiscal 2011 was $1.1 billion, compared with cash used of $208 million for the first nine months of fiscal 2010. The change was primarily the result of cash used to repurchase our common stock in the first nine months of fiscal 2011.

Share Repurchases and Dividends

We repurchased and retired 10.9 million shares at a cost of $423 million for the three months ended November 27, 2010, and 30.7 million shares at a cost of $1.1 billion for the nine months ended November 27, 2010. We have $1.4 billion available for future repurchases at November 27, 2010, under our June 2007 share repurchase program. No repurchases were made during the three and nine months ended November 28, 2009.

During the third quarter of fiscal 2011, we paid our regular quarterly cash dividend of $0.15 per common share, or $60 million in the aggregate. During the same period one year ago, we paid a regular quarterly cash dividend of $0.14 per common share, or $58 million in the aggregate. As announced on December 15, 2010, our Board authorized payment of our next regular quarterly cash dividend of $0.15 per common share, payable on January 25, 2011, to shareholders of record as of the close of business on January 4, 2011.

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 our sources of liquidity will be sufficient to sustain operations and to finance anticipated expansion plans and strategic initiatives for the remainder of fiscal 2011. However, in the event our liquidity is insufficient, we may be required to limit our capital expenditures related to future expansion plans or we may not be able to pursue business opportunities. There can be no assurance 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 existing credit facilities or obtain additional financing, if necessary, on favorable terms.

We have a $2.3 billion unsecured revolving credit facility, as amended (the Credit Facility), with a syndicate of banks, with $500 million of borrowings outstanding at November 27, 2010. The outstanding balance was fully paid off in the week following the end of our fiscal third quarter, and no borrowings were outstanding on the Credit Facility as of December 30, 2010. The Credit Facility expires in September 2012.

We have $788 million available under secured and unsecured revolving credit and demand facilities related to our International segment operations, of which $190 million was outstanding at November 27, 2010.

We previously had a revolving credit line with UBS AG and its affiliates (collectively, UBS) secured by the par value of our UBS-brokered ARS. However, pursuant to the settlement described in Note 2, *Investments*, of Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the revolving credit line expired by its terms during the second quarter of fiscal 2011 when UBS bought back all of our UBS-brokered ARS.

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Our ability to access our facilities is subject to our compliance with the terms and conditions of our facilities, including financial covenants. The financial covenants require us to maintain certain financial ratios. At November 27, 2010, we were in compliance with all such financial covenants. If an event of default were to occur with respect to one or more of our debt agreements, it could constitute an event of default under other agreements as well.

Our credit ratings and outlooks at December 30, 2010, are summarized below. In June 2010, Fitch Ratings Ltd. (Fitch) reaffirmed our BBB+ rating, and raised the outlook from negative to stable, citing our improvement in comparable store sales in the third and fourth quarters of fiscal 2010 and our ability to maintain steady operating margins and credit metrics in fiscal 2010. The ratings issued by Moody s Investors Service, Inc. (Moody s) and Standard & Poor s Rating Services (Standard & Poor s) are consistent with the ratings and outlooks reported in our Annual Report on Form 10-K for the fiscal year ended February 27, 2010.

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

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 are not aware of 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 leasing costs. In addition, the conversion rights of the holders of our convertible debentures could be accelerated if our credit ratings were to be downgraded.

Auction-Rate Securities and Restricted Cash and Short-Term Investments

At November 27, 2010, and November 28, 2009, we had $131 million and $284 million, respectively, invested in ARS recorded at fair value within short-term investments and equity and other investments (long-term) in our condensed consolidated balance sheet. Subsequent to November 27, 2010, and through December 30, 2010, we sold $8 million of ARS at par value. The majority of our ARS portfolio is AAA/Aaa-rated and collateralized by student loans, which are guaranteed 95% to 100% by the U.S. government. Since the auction failures that began in February 2008, we have been able to liquidate many of our ARS. However, the investment principal associated with our remaining ARS 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 are due according to the contractual maturities of the debt issues, which range from six to 33 years. 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.

Our liquidity also is affected by restricted cash and short-term investment 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 and short-term investments, which are included in other current assets, remained relatively flat at $484 million, $482 million and $480 million at November 27, 2010, February 27, 2010, and November 28, 2009, respectively.

Debt and Capital

At November 27, 2010, we had short-term debt outstanding under our various credit and demand facilities of $690 million, an increase from $663 million at February 27, 2010, and a decrease from $741 million at November 28, 2009. Over the past year, our short-term debt balance has decreased as a result of lower borrowings under our European facilities, partially offset by increased borrowing on our Credit Facility to fund seasonal working capital requirements. See Note 6, *Debt*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 27, 2010, for additional information regarding our debt.

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.

There has been no material change in our contractual obligations other than in the ordinary course of business since the end of fiscal 2010. See our Annual Report on Form 10-K for the fiscal year ended February 27, 2010, for additional information regarding our off-balance-sheet arrangements and contractual obligations.

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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 February 27, 2010. 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 February 27, 2010. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of fiscal 2010.

New Accounting Standards

See Note 1, *Basis of Presentation*, of Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a description of recently issued and adopted accounting pronouncements, including the dates of adoption and impacts on our results of operations, financial position and cash flows.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended (Securities Act), 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, foresee, plan, project, o other words and terms of similar 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 February 27, 2010, for a description of important factors that could cause our future results to differ materially from those contemplated by the forward looking statements made in this Quarterly Report on Form 10-Q. Among the factors that could cause our actual future results and outcomes to differ materially from those projected in such forward looking statements are the following: general economic conditions, changes in consumer preferences, credit market constraints, acquisitions and development of new businesses, divestitures, product availability, sales volumes, pricing actions and promotional activities of 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, the impact of labor markets and new product introductions on our overall profitability, failure to achieve anticipated benefits of announced transactions and integration challenges relating to new ventures.

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. On a limited basis, we utilize foreign exchange forward contracts to manage foreign currency exposure to certain forecasted inventory purchases, revenue streams and recognized receivable and payable balances. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. Our foreign currency risk management strategy includes cash flow hedges as well as derivatives that are not designated as hedging instruments. The contracts have terms of up to three years. The aggregate notional amount and fair value recorded on our condensed consolidated balance sheet related to our foreign exchange forward contracts outstanding was $546 million and $9 million, respectively, at November 27, 2010. The amount recorded in our consolidated statement of earnings related to all contracts settled and outstanding was a loss of $2 million in the third quarter of fiscal 2011. See Note 7, *Derivative Instruments*, of Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information regarding our derivative instruments.

The overall strength of the U.S. dollar (USD) to the Great Britain pound since the end of the third quarter of fiscal 2010 has had a negative overall impact on our revenue and net earnings. However, the weakness of the USD to the Canadian dollar has had a positive overall impact on our revenue and net earnings. It is not possible to determine the exact impact of foreign currency exchange rate fluctuations; however, the effect on reported revenue and net earnings can be estimated. We estimate that foreign currency exchange rate fluctuations had a net unfavorable impact on our revenue of approximately $43 million and a net favorable impact of $2 million on our net earnings in the third quarter of fiscal 2011.

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Interest Rate Risk

Short- and long-term debt

At November 27, 2010, our short- and long-term debt was comprised primarily of credit facilities, our convertible debentures and our 6.75% notes. We do not manage the interest rate risk on our debt through the use of derivative instruments.

Our credit facilities interest rates may be reset due to fluctuations in a market-based index, such as the federal funds rate, the London Interbank Offered Rate (LIBOR), or the base rate or prime rate of our lenders. A hypothetical 100-basis-point change in the interest rates on the outstanding balance of our credit facilities as of November 27, 2010, would change our annual pre-tax earnings by $7 million.

There is no interest rate risk associated with our convertible debentures or 6.75% notes, as the interest rates are fixed at 2.25% and 6.75%, respectively, per annum.

Long-term investments in debt securities

At November 27, 2010, our long-term investments in debt securities were comprised of ARS. These investments are not subject to material interest rate risk. A hypothetical 100-basis point change in the interest rates on our ARS investments as of November 27, 2010, would change our annual pre-tax earnings by $1 million. We do not manage interest rate risk on our investments in debt securities through the use of derivative instruments.

Other Market Risks

Investments in auction-rate securities

At November 27, 2010, we held $131 million in investments in ARS, which includes a $10 million pre-tax temporary impairment. Given current conditions in the ARS market, we may incur additional temporary unrealized losses or other-than-temporary realized losses in the future if market conditions were to persist and we were unable to recover the cost of our ARS investments. A hypothetical 100-basis point loss from the par value of these investments as of November 27, 2010, would result in a $1 million impairment.

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 November 27, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at November 27, 2010, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the fiscal quarter ended November 27, 2010, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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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 third quarter of fiscal 2011, the average price paid per share, the number of shares that we purchased as part of our 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 Programs (1)		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
September 29, 2010, through October 2, 2010	5,708,000	$	34.92	5,708,000	$	1,595,000,000
October 3, 2010, through October 30, 2010	2,838,700		42.16	2,838,700		1,476,000,000
October 31, 2010, through November 27, 2010	2,361,000		43.61	2,361,000		1,372,000,000
Total Fiscal 2011 Third Quarter	10,907,700		38.69	10,907,700		1,372,000,000

(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 the $3.0 billion we purchased in fiscal 2008 under our accelerated share repurchase program, the $111 million we purchased in the first quarter of fiscal 2011, the $594 million we purchased in the second quarter of fiscal 2011, and the $423 million we purchased in the third quarter of fiscal 2011. There is no stated expiration for the June 2007 share repurchase program.

ITEM 4. RESERVED

Not applicable.

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
101	The following financial information from our Quarterly Report on Form 10-Q for the third quarter of fiscal 2011, filed with the SEC on January 5, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the condensed consolidated balance sheets at November 27, 2010; February 27, 2010; and November 28, 2009, (ii) the consolidated statements of earnings for the three and nine months ended November 27, 2010, and November 28, 2009, (iii) the consolidated statements of cash flows for the nine months ended November 27, 2010, and November 28, 2009, (iv) the consolidated statements of changes in shareholders equity for the nine months ended November 27, 2010, and November 28, 2009, and (v) the Notes to Condensed Consolidated Financial Statements.(1)

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(1) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BEST BUY CO., INC.
(Registrant)

Date: January 5, 2011	By:	/s/ BRIAN J. DUNN Brian J. Dunn *Chief Executive Officer* *(duly authorized and principal executive officer)*
Date: January 5, 2011	By:	/s/ JAMES L. MUEHLBAUER James L. Muehlbauer *Executive Vice President Finance* *and Chief Financial Officer* *(duly authorized and principal financial officer)*
Date: January 5, 2011	By:	/s/ SUSAN S. GRAFTON Susan S. Grafton *Vice President, Controller* *and Chief Accounting Officer* *(duly authorized and principal accounting officer)*