BEST BUY CO INC
Form 10-K
April 30, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 1, 2008

OR

o

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

For the transition period from to

Commission file number **1-9595**

BEST BUY CO., INC.

(Exact name of registrant as specified in its charter)

Minnesota State or other jurisdiction of incorporation or organization	**41-0907483** (I.R.S. Employer Identification No.)
7601 Penn Avenue South **Richfield, Minnesota** (Address of principal executive offices)	**55423** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.10 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No

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 for 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. ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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. (Check one):

Large accelerated filer ý 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 Act) o Yes ý No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 31, 2007, was approximately $11.3 billion, computed by reference to the price of $43.95 per share, the price at which the common equity was last sold on August 31, 2007, as reported on the New York Stock Exchange-Composite Index. (For purposes of this calculation all of the registrant's directors and executive officers are deemed affiliates of the registrant.)

As of April 25, 2008, the registrant had 411,795,260 shares of its Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated May 12, 2008 (to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year-end of March 1, 2008), for the regular meeting of shareholders to be held on June 25, 2008 ("Proxy Statement"), are incorporated by reference into Part III.

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Annual Report on Form 10-K are forward-looking statements and may be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "foresee," "plan," "project," "outlook," and 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 this Annual Report on Form 10-K for a description of important factors that could cause future results to differ materially from those contemplated by the forward-looking statements made in this Annual Report on Form 10-K. In addition, general domestic and foreign economic conditions, acquisitions and development of new businesses, product availability, new product introductions, sales volumes, the promotional activity of our competitors, profit margins, weather, foreign currency fluctuation, availability of suitable real estate locations, disaster recovery response times, and the impact of labor markets on our overall profitability, among other things, could cause our future results to differ materially from those projected in any such forward-looking statements.

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PART I

Item 1. Business.

Description of Business

Unless the context otherwise requires, the use of the terms "Best Buy," "we," "us" and "our" in this Annual Report on Form 10-K refers to Best Buy Co., Inc. and its consolidated subsidiaries. Best Buy is a specialty retailer of consumer electronics, home office products, entertainment software, appliances and related services. We operate retail stores and Web sites under the brand names Best Buy (BestBuy.com, BestBuy.ca, BestBuy.com.cn, and BestBuyMobile.com), Five Star (Five-Star.cn), Future Shop (FutureShop.ca), Geek Squad (GeekSquad.com and GeekSquad.ca), Magnolia Audio Video (MagnoliaAV.com), Pacific Sales Kitchen and Bath Centers (PacificSales.com) and Speakeasy (Speakeasy.net). References to our Web site addresses do not constitute incorporation by reference of the information contained on the Web sites.

Our vision is to make life fun and easy for consumers. Our business strategy is to treat customers as unique individuals, meeting their needs with end-to-end solutions, and engaging and energizing our employees to serve them, while maximizing overall profitability. We believe we offer consumers meaningful advantages in store environment, product value, product selection, and a variety of in-store and in-home services related to the merchandise we offer, all of which advance our objectives of enhancing our business model, gaining market share and improving profitability.

Information About Our Segments

During fiscal 2008, we operated two reportable segments: Domestic and International. The Domestic segment is comprised of all states, districts and territories of the United States and includes store, call center and online operations, including Best Buy, Best Buy Mobile, Geek Squad, Magnolia Audio Video, Pacific Sales Kitchen and Bath Centers ("Pacific Sales") and Speakeasy. U.S. Best Buy stores offer a wide variety of consumer electronics, home office products, entertainment software, appliances and related services. Best Buy Mobile offers a wide selection of mobile phones, accessories and related services. Geek Squad provides residential and commercial computer repair, support and installation services. Magnolia Audio Video stores offer high-end audio and video products and related services. Pacific Sales stores offer high-end home-improvement products including appliances, consumer electronics and related services. Speakeasy provides broadband, voice, data and information technology services. The International segment is comprised of all Canada store, call center and online operations, including Best Buy, Future Shop and Geek Squad, as well as all China store, call center and online operations, including Best Buy, Geek Squad and Jiangsu Five Star Appliance Co. ("Five Star"). Our International segment offers products and services similar to that of our U.S. Best Buy stores. However, Canada Best Buy stores do not carry appliances. Further, our China Best Buy store and Five Star stores do not carry entertainment software.

Financial information about our segments is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 9, *Segment and Geographic Information*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Domestic Segment

We were incorporated in the state of Minnesota in 1966 as Sound of Music, Inc. We began as an audio components retailer and, with the introduction of the videocassette recorder in the early 1980s, expanded into video products. In 1983, we changed our name to Best Buy Co., Inc. and began using mass-merchandising techniques, which included offering a wider variety of products and operating stores under a "superstore" concept. In 1989, we dramatically changed our method of retailing by introducing a self-service, noncommissioned, discount-style store concept designed to give the customer more control over the purchasing process.

In fiscal 2000, we established our first online shopping site, BestBuy.com. Our "clicks-and-mortar" strategy is designed to empower consumers to research and purchase products seamlessly, either online or in our retail stores. Our online shopping sites offer expanded assortments in all of our principal revenue categories.

In fiscal 2001, we acquired Magnolia Hi-Fi, Inc.   a Seattle-based, high-end retailer of audio and video products and services   to access an upscale customer segment. During fiscal 2004, Magnolia Hi-Fi began doing business as Magnolia Audio Video.

In fiscal 2003, we acquired Geek Squad Inc. Geek Squad provides residential and commercial computer repair, support and installation services. We acquired Geek Squad to further our plans of providing technology support services to customers. Geek Squad service is available in all Best Buy stores, as well as in seven stand-alone stores in the U.S. Our goal is to build Geek Squad into one of the largest multi-national providers of residential and commercial computer repair and support and installation services.

In fiscal 2005, we opened our first Magnolia Home Theater store-within-a-store experience in a U.S. Best Buy store. We believe Magnolia Home Theater with its high-end brands, home-like displays and specially trained employees offers a unique solution for our customers. The Magnolia Home Theater store- within-a-store experience was in 346 U.S. Best Buy stores at the end of fiscal 2008.

In fiscal 2005, we also began converting U.S. Best Buy stores to our customer centricity operating model. Stores operating under the customer centricity model offer variations in product assortments, staffing, promotions and store design, and are focused on key customer segments. The segmented stores tailor their store merchandising, staffing, marketing and presentation to address specific customer groups. Originally, these customer groups included affluent professional males, young entertainment enthusiasts who appreciate a digital lifestyle, upscale suburban mothers, families who are practical technology adopters and small businesses.

In fiscal 2007, we completed the transition of all remaining U.S. Best Buy stores to the customer centricity operating model. Also in fiscal 2007, we evolved our customer centricity segmentation to address the needs of customer lifestyle groups, rather than specific customer groups. Our stores now focus on lifestyles such as affluent suburban families, trend-setting urban dwellers, and the closely knit families of Middle America.

In fiscal 2007, we acquired Pacific Sales. Pacific Sales specializes in the sale of high-end kitchen appliances, plumbing fixtures, home entertainment products and home furnishings, with a focus on builders and remodelers. We acquired Pacific Sales to enhance our ability to grow with an affluent customer base and premium brands using a proven and successful showroom format. Utilizing the existing store format, we expect to increase the number of stores in order to capitalize on the high-end segment of the U.S. appliance market.

In fiscal 2007, we developed the Best Buy Mobile concept through a management consulting agreement with The Carphone Warehouse Group PLC ("CPW") and test marketed five stand-alone stores located in New York. Best Buy Mobile seeks to satisfy the needs of all our customer lifestyle groups by providing a comprehensive assortment of mobile phones, accessories and related services offered by experienced sales personnel in 181 U.S. Best Buy stores, as well as nine stand-alone stores located in New York and North Carolina at the end of fiscal 2008. During the next 18 months, we plan to add the Best Buy Mobile store-within-a-store experience to the majority of U.S. Best Buy stores.

In fiscal 2008, we acquired Speakeasy. Speakeasy provides broadband, voice, data and information technology services. We believe our acquisition of Speakeasy will generate synergies by providing new technology solutions for our existing and future customers.

At March 1, 2008, we operated 923 U.S. Best Buy stores in 49 states, the District of Columbia and Puerto Rico that averaged approximately 39,700 retail square feet. Collectively, U.S. Best Buy stores totaled approximately 36.7 million retail square feet at the end of fiscal 2008, or about 76% of our total retail square footage. In fiscal 2008, our U.S. Best Buy stores generated average revenue of approximately $37.6 million per store.

At March 1, 2008, we operated 19 Pacific Sales stores in California that averaged approximately 34,000 retail square feet. Collectively, Pacific Sales stores totaled approximately 0.6 million retail square feet at the end of fiscal 2008, or about 1% of our total retail square footage. In fiscal 2008, our Pacific Sales stores generated average revenue of approximately $18.7 million per store.

At March 1, 2008, we operated 13 Magnolia Audio Video stores in California, Oregon and Washington that averaged approximately 11,600 retail square feet. Collectively, Magnolia Audio Video stores totaled approximately 0.2 million retail square feet at the end of fiscal 2008, or less than 1% of our total retail square footage. In fiscal 2008, our Magnolia Audio Video stores generated average revenue of approximately $7.2 million per store.

At March 1, 2008, we operated nine Best Buy Mobile stand-alone stores in New York and North Carolina that averaged approximately 1,400 retail square feet. Collectively, Best Buy Mobile stand-alone stores totaled approximately 13,000 retail square feet at the end of fiscal 2008, or less than 1% of our retail square footage.

At March 1, 2008, we operated seven Geek Squad stand-alone stores in California, Colorado, Georgia, Minnesota and Texas that averaged approximately 2,000 retail square feet. Collectively, Geek Squad stand-alone stores totaled approximately 14,000 retail square feet at the end of fiscal 2008, or less than 1% of our retail square footage.

International Segment

Our International segment was established in connection with our acquisition of Canada-based Future Shop Ltd. in fiscal 2002. The Future Shop acquisition provided us with an opportunity to increase revenue, gain market share and leverage our operational expertise in consumer electronics retailing. Since the acquisition, we have continued to build on Future Shop's position as the leading consumer electronics retailer in Canada.

During fiscal 2003, we launched our dual-branding strategy in Canada by introducing the Best Buy brand. The dual-branding strategy allows us to retain Future Shop's brand equity and attract more customers by offering a choice of store experiences. As we expand the presence of Best Buy stores in Canada, we expect to gain continued operating efficiencies by leveraging our capital investments, supply chain management, advertising, merchandising and administrative functions. Our goal is to reach differentiated customers with each brand by giving them the unique shopping experiences they desire. The primary differences between our two principal brands in Canada are:

In-store experience The customer's interaction with store employees is different at each of the two brands. Future Shop stores have predominantly commissioned sales associates who take a more proactive role in assisting customers. Through their expertise and attentiveness, the sales associate drives the transaction. In contrast, Canada Best Buy store employees, like employees in U.S. Best Buy stores, are noncommissioned, and the stores offer more interactive displays and grab-and-go merchandising. This design allows customers to drive the transaction as they experience the products themselves, with store employees available to demonstrate and explain product features.

Products and services Only Future Shop stores carry appliances. In addition, Geek Squad service is available in all Canada Best Buy stores, but is not available in Future Shop stores.

Store size At the end of fiscal 2008, the average Future Shop store was approximately 26,600 retail square feet, compared with an average of approximately 33,200 retail square feet for Canada Best Buy stores. Canada Best Buy stores generally have wider aisles, as well as more square footage devoted to entertainment software.

In fiscal 2007, we acquired a 75% interest in Five Star, one of China's largest appliance and consumer electronics retailers. We made the investment in Five Star to further our international growth plans, to increase our knowledge of Chinese customers and to obtain an immediate retail presence in China. We have a contractual commitment to acquire the remaining 25% interest in Five Star within the next several years, subject to Chinese government approval.

In fiscal 2007, we opened our first China Best Buy store in Shanghai. We plan to open five to eight additional Best Buy stores in China during fiscal 2009.

In fiscal 2008, we expanded Geek Squad to the United Kingdom through our relationship with CPW.

At March 1, 2008, we operated 131 Future Shop stores throughout all of Canada's provinces and 51 Canada Best Buy stores in seven provinces: Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan. Collectively, our stores in Canada totaled approximately 5.2 million retail square feet at the end of fiscal 2008, or about 11% of our total retail square footage. In fiscal 2008, our Canada stores generated average revenue of approximately $30.9 million per store.

At March 1, 2008, we operated 160 Five Star stores in seven of China's 34 provinces and one China Best Buy store in Shanghai. Collectively, our stores in China totaled approximately 5.9 million retail square feet at the end of fiscal 2008, or about 12% of our total retail square footage. In fiscal 2008, our China retail stores generated average revenue of approximately $8.8 million per store.

As previously announced, we plan to open two to five Best Buy stores in Mexico in the second half of fiscal 2009 and project that we will open one or two Best Buy stores in Turkey in the early part of fiscal 2010.

We consolidate the financial results of our China operations on a two-month lag. Consistent with such consolidation, the financial and non-financial information presented in this filing relative to our China operations is also presented on a two-month lag.

Operations

Domestic Segment

U.S. Best Buy store operations are organized into eight territories. Each territory is divided into districts and is under the management of a retail field officer who oversees store performance through district managers. District managers monitor store operations and meet regularly with store managers to discuss merchandising, new product introductions, sales promotions, customer loyalty programs, employee satisfaction surveys and store operating performance. Advertising, merchandise purchasing and pricing, as well as inventory policies, are generally controlled centrally.

U.S. Best Buy stores are generally open 80 hours per week, seven days a week, with extended holiday hours. A typical store is staffed by one general manager and four managers. The average staff per store in fiscal 2008 was approximately 110 employees, including full-time, part-time and seasonal employees, and varied by store depending on sales volumes.

U.S. Best Buy stores use a standardized and detailed operating procedure called our Standard Operating Platform ("SOP"). The SOP includes procedures for inventory management, transaction processing, customer relations, store administration, product sales and services, and merchandise display. All stores are intended to operate in the same manner under the SOP.

Pacific Sales stores are typically managed by a store manager who also sells appliances. Pacific Sales stores are generally open 40 hours per week, five days a week. Depending on an individual store's volume and product offerings, store staffing includes approximately 10 noncommissioned sales personnel and approximately four sales support personnel. Corporate management for Pacific Sales stores generally controls advertising, merchandise purchasing and pricing, as well as inventory policies.

Magnolia Audio Video stores are typically managed by a store manager and an audio/video sales manager. Magnolia Audio Video stores are generally open 72 hours per week, seven days a week. Depending on an individual store's volume and product offerings, store staffing includes eight to 20 commissioned sales personnel and one to three hourly personnel. Corporate management for Magnolia Audio Video stores generally controls advertising, merchandise purchasing and pricing, as well as inventory policies.

International Segment

Canada store operations are organized to support two brands, each headed by a senior vice president. Each senior vice president has national management that closely monitors store operations and meets regularly with store managers to review management and staff training programs, customer feedback and requests, store operating performance and other matters. Meetings involving store management, product managers, and advertising, financial and administrative staff, as well as senior management, are held quarterly to review operating results and to establish future objectives.

Canada stores are generally open 60 to 75 hours per week, seven days a week. An average Future Shop store is staffed by a general manager, an operations manager, one to four department managers and 50 to 150 sales associates, including full-time and part-time sales associates. An average Canada Best Buy store is staffed with a general manager; assistant managers for operations, merchandising, inventory, sales and services; and 80 to 110 sales associates, including full-time and part-time sales associates. The number of sales associates is dependent upon store size and sales volume.

Canada stores use a standardized operating system. The operating system includes procedures for inventory management, transaction processing, customer relations, store administration, staff training and performance appraisals, as well as merchandise display. Advertising, merchandise purchasing and pricing, and inventory policies are centrally controlled.

Five Star stores are generally open 77 to 84 hours per week, seven days a week. A typical Five Star store is staffed by a general manager; six to 10 department managers; 27 to 100 full-time sales associates; and 50 to 200 vendor employees who sell products. Corporate management at Five Star centrally controls advertising, merchandise purchasing and pricing and inventory policies for major brand products, while management for individual regions control these operations for local brands. Meetings involving store management and corporate management are held on a regular basis to review operating results and establish future objectives.

Our China Best Buy store employs an operating model similar to our U.S. Best Buy and Canada Best Buy stores. Our China Best Buy store is staffed with a general manager; assistant managers for operations, merchandising, inventory and sales; and approximately 260 sales associates, including full-time and part-time sales associates. Advertising, merchandise purchasing and pricing, and inventory policies for our China Best Buy store are centrally controlled by corporate management. Meetings involving store management and corporate management are held on a regular basis to review operating results and to establish future objectives.

Merchandise

Domestic Segment

U.S. Best Buy stores have offerings in six revenue categories: consumer electronics, home office, entertainment software, appliances, services and other. Consumer electronics consists of video and audio products. Video products include televisions, digital cameras and accessories, digital camcorders and accessories and DVD players. Audio products include MP3 players and accessories, navigation products, home theater audio systems and components, and mobile electronics including car stereo and satellite radio products. The home office revenue category includes notebook and desktop computers, monitors, mobile phones, hard drives, networking and accessories. The entertainment software revenue category includes video gaming hardware and software, DVD movies, CDs and computer software. The appliances revenue category includes major appliances as well as small electrics. The services revenue category consists primarily of commissions from the sale of extended service contracts; revenue from computer-related services; product repair revenue; and delivery and installation revenue derived from home theater, mobile audio and appliances. The other revenue category includes non-core offerings such as snacks and beverages.

Pacific Sales stores have offerings in three revenue categories: appliances including plumbing, consumer electronics and services. Appliances consists of major appliances evenly split between high end and mass premium brands. Plumbing consists of kitchen and bath fixtures which include faucets, sinks, toilets and bath tubs. Consumer electronics consists of video and audio products, including televisions and home theater systems. The services revenue category consists primarily of repair services.

Magnolia Audio Video stores have offerings in three revenue categories: consumer electronics, home office and services. Consumer electronics consists of video and audio products. Video products include televisions, DVD players and accessories. Audio products include home theater audio systems and components, mobile electronics and accessories. The home office revenue category consists primarily of home theater furniture. The services revenue category consists primarily of home theater system installation and repair services as well as commissions from the sale of extended service contracts.

International Segment

Canada Best Buy and Future Shop stores have offerings in five revenue categories: consumer electronics, home office, entertainment software, services, other and, for Future Shop only, a sixth revenue category, appliances. Consumer electronics consists of video and audio products. Video products include televisions, digital cameras and accessories, DVD players, digital camcorders and accessories. Audio products include MP3 players, home theater audio systems and components, navigation products, mobile electronics and accessories. The home office revenue category includes desktop and notebook computers and their respective accessories, monitors, hard drives, printers and mobile phones. The entertainment software revenue category includes video game hardware and software, DVDs, CDs and computer software. The appliances revenue category includes major appliances as well as small electrics. The services revenue category includes commissions from the sale of extended service contracts, repair, delivery, computer services and home theater installation. The other revenue category includes non-core offerings.

Although Canada Best Buy and Future Shop stores offer similar revenue categories (except for appliances), there are differences in product brands and depth of selection within revenue categories. On average, approximately 35% of the product assortment (excluding entertainment software) overlaps between the two store brands.

China Best Buy and Five Star stores have offerings in four revenue categories: appliances, consumer electronics, home office and services. Our China stores do not carry entertainment software. Appliances includes major appliances, air conditioners, small electrics and housewares. The consumer electronics revenue category consists of video and audio products, including televisions, digital cameras, MP3 players and accessories. The home office revenue category includes desktop and notebook computers, mobile phones, traditional telephones and accessories. The services revenue category includes computer support services.

Distribution

Domestic Segment

Generally, U.S. Best Buy stores' merchandise, except for major appliances and large-screen televisions, is shipped directly from manufacturers to our distribution centers located in California, Georgia, Indiana, Minnesota, New York, Ohio, Oklahoma and Virginia. Major appliances and large-screen televisions are shipped to satellite warehouses in each major market. U.S. Best Buy stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our stores from manufacturers and distributors. All inventory is bar-coded and scanned to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. On average, U.S. Best Buy stores receive product shipments two or three times per week, with additional shipments during periods of high sales volume. Contract carriers ship merchandise from the distribution centers to stores. Generally, online merchandise sales are either picked up at U.S. Best Buy stores or fulfilled directly to customers through our distribution centers.

We receive and warehouse Pacific Sales stores' merchandise at a distribution center in California. All inventory is bar-coded or marked with vendor serial numbers to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. Most merchandise is fulfilled directly to customers through our distribution center.

We receive and warehouse Magnolia Audio Video stores' merchandise at either Magnolia Audio Video distribution centers in Washington and California or the U.S. Best Buy distribution center in California. All inventory is bar-coded and scanned to ensure accurate tracking. Merchandise is delivered to stores an average of three times per week pursuant to an in-house distribution system.

International Segment

Our Canada stores' merchandise is shipped directly from our suppliers to our distribution centers in British Columbia and Ontario. Our Canada stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our stores from manufacturers and distributors. All inventory is bar-coded and scanned to ensure accurate tracking. In addition, a computerized inventory replenishment program is used to manage inventory levels at each store. Our Canada stores typically receive product shipments twice per week, with additional shipments during periods of high sales volume. Contract carriers ship merchandise from the distribution centers to stores.

We receive our Five Star stores' merchandise at more than 50 distribution centers and warehouses located throughout the Five Star retail chain, the largest of which is located in Nanjing, Jiangsu province. Our Five Star stores are dependent upon the distribution centers for inventory storage and shipment of most merchandise. Most merchandise is fulfilled directly to customers through our distribution centers and warehouses.

Our China Best Buy store's merchandise is shipped directly from our suppliers to our distribution center in Shanghai. Our China Best Buy store is dependent upon the distribution center for inventory storage and shipment of most merchandise. However, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to our store from manufacturers and distributors. In certain circumstances, merchandise is shipped directly to our customers from manufacturers and distributors. Our China Best Buy store typically receives product shipments three to four times per week, with additional shipments during periods of high sales volume.

Suppliers

Our strategy depends, in part, upon our ability to offer customers a broad selection of name-brand products and, therefore, our success is dependent upon satisfactory and stable supplier relationships. In fiscal 2008, our 20 largest suppliers accounted for just over 60% of the merchandise we purchased, with five suppliers Sony, Hewlett-Packard, Samsung, Apple, and Toshiba representing just over one-third of total merchandise purchased. The loss of or disruption in supply from any one of these major suppliers could have a material adverse effect on our revenue and earnings. We generally do not have long-term written contracts with our major suppliers that would require them to continue supplying us with merchandise. We have no indication that any of our suppliers plan to discontinue selling us merchandise. We have not experienced significant difficulty in maintaining satisfactory sources of supply, and we generally expect that adequate sources of supply will continue to exist for the types of merchandise we sell.

We operate global sourcing offices in China in order to purchase products directly from manufacturers in Asia. These offices have improved our product sourcing efficiency and provide us with the capability to offer private-label products that complement our existing product assortment. In the future, we expect purchases from our global sourcing offices to increase as a percentage of total purchases. We also believe that the expected increase in our global sourcing volumes will help drive gross profit rate improvements by lowering our overall product cost. At March 1, 2008, we operated three of these offices, but subsequently closed our sourcing office in Beijing.

Store Development

The addition of new stores has played, and we believe will continue to play, a significant role in our growth and success. Our store development program has historically focused on entering new markets; adding stores within existing markets; and relocating, remodeling and expanding existing stores in order to offer new products and services to our customers. During fiscal 2008, we opened 155 new stores, relocated nine stores and closed 18 stores. We offer Geek Squad support services in all Best Buy stores. At March 1, 2008, we offered the Apple store-within-a-store experience in 357 U.S. Best Buy stores, the Magnolia Home Theater store-within-a-store experience in 346 U.S. Best Buy stores and the Best Buy Mobile store-within-a-store experience in 181 U.S. Best Buy stores.

The following table reconciles U.S. Best Buy stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	548
2004	60		608
2005	61	(1)	668
2006	74		742
2007	80		822
2008	101		923

The following table reconciles Pacific Sales stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward[(1)]	NA	NA	14
2007			14
2008	5		19

(1) As of the March 7, 2006, date of acquisition

The following table reconciles Magnolia Audio Video stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	19
2004	3		22
2005		(2)	20
2006			20
2007			20
2008		(7)	13

The following table reconciles Best Buy Mobile stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2007[1]	5		5
2008	4		9

(1) The Best Buy Mobile stand-alone store concept was test marketed in fiscal 2007.

The following table reconciles U.S. Geek Squad stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2004	1		1
2005	5		6
2006	7	(1)	12
2007			12
2008		(5)	7

The following table reconciles Future Shop stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	104
2004	4		108
2005	6		114
2006	5	(1)	118
2007	3		121
2008	10		131

The following table reconciles Canada Best Buy stores open at the beginning and end of each of the last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	8
2004	11		19
2005	11		30

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
2006	14		44
2007	3		47
2008	4		51

The following table reconciles Five Star stores open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward[(1)]	NA	NA	131
2007	8	(4)	135
2008	31	(6)	160

(1) As of the June 8, 2006, date of acquisition

The following table reconciles the China Best Buy store open at the beginning and end of each of the last two fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance forward	NA	NA	NA
2007	1		1
2008			1

During fiscal 2009, we expect to open approximately 140 new stores in the U.S., Canada, China and Mexico. Most of the new stores will be opened in markets where we already have stores, leveraging our infrastructure and making shopping more convenient for our customers. In the U.S., we anticipate opening 85 to 100 new Best Buy stores, as well as relocating four existing Best Buy stores. We also expect to open five to ten Pacific Sales stores in western states. Additionally, we are extending our Best Buy Mobile experience to the majority of our U.S. Best Buy stores in the next 18 months. We will also look to improve the customer experience in the computing space by expanding our collaborative relationships with Dell, Hewlett-Packard and Toshiba, as well as adding Apple products and services to approximately 250 more U.S. Best Buy stores. In Canada, we expect to open approximately six Future Shop stores and six Best Buy stores, as well as close one Future Shop store and relocate six existing Future Shop stores. In China, we plan to open 20 to 25 Five Star stores. We also expect to open five to eight additional Best Buy stores in China in fiscal 2009. Finally, we anticipate extending our international presence by opening our first two to five stores in Mexico in the second half of fiscal 2009 and our first one or two stores in Turkey in the early part of fiscal 2010.

Additional information regarding our outlook for fiscal 2009 is included in the *Outlook for Fiscal 2009* section of Item 7, *Management's Discussion and Analysis of*

Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

Intellectual Property

We believe we own valuable intellectual property including trademarks, service marks and tradenames, some of which are of material importance to our business, and include "Best Buy," the "Yellow Tag" logo, "Best Buy Mobile," "Dynex," "Five Star," "Future Shop," "Geek Squad," "Insignia," "Magnolia Audio Video," "Pacific Sales," "Rocketfish" and "Speakeasy." Some of our intellectual property is the subject of numerous U.S. and foreign trademark and service mark registrations. Our trademark and service mark registrations in the U.S. generally have 10 year renewable terms. We believe our intellectual property has significant value and is an important factor in the marketing of our company, our stores and our Web sites. We also believe we own valuable intellectual property for which we have patents pending. We are not aware of any facts that could negatively impact our continuing use of any of our intellectual property.

In accordance with accounting principles generally accepted in the United States ("GAAP"), our balance sheets include the cost of acquired intellectual property only. The only material acquired intellectual properties presently included in our balance sheets are the Future Shop, Five Star, Pacific Sales and Speakeasy tradenames, which had a total carrying value of $97 million at the end of fiscal 2008. The values of these tradenames are based on the continuation of the Future Shop, Five Star, Pacific Sales and Speakeasy brands. We currently classify these tradenames as indefinite-lived intangible assets. If we were to abandon the Future Shop, Five Star, Pacific Sales or Speakeasy brand, we would incur an impairment charge based on the then-carrying value of the associated tradename.

Seasonality

Our business, like that of many U.S. retailers, is seasonal. Historically, we have realized more of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S. and Canada, than in any other fiscal quarter.

Working Capital

We fund our business operations through a combination of available cash and cash equivalents, short-term investments and cash flows generated from operations. In addition, our revolving credit facilities are available for additional working capital needs or investment opportunities.

Customers

We do not have a significant concentration of sales with any individual customer and, therefore, the loss of any one customer would not have a material impact on our business. No single customer has accounted for 10% or more of our total revenue.

Backlog

Our stores, call centers and online shopping sites do not have a material amount of backlog orders.

Government Contracts

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government or government agencies or affiliates.

Competition

Our stores compete against other consumer electronics retailers, specialty home office retailers, mass merchants, home-improvement superstores and a number of direct-to-consumer alternatives. Our stores also compete against independent dealers, regional chain discount stores, wholesale clubs, video rental stores and other specialty retail stores. Mass merchants continue to increase their assortment of consumer electronics products, primarily those that are less complex to sell, install and operate, and have been expanding their product offerings into higher-end categories. Similarly, large home-improvement retailers are expanding their assortment of appliances. In addition, consumers are increasingly downloading entertainment and computer software directly via the Internet.

We compete principally on the basis of customer service; installation and support services; store environment, location and convenience; product assortment and availability; value pricing; and financing alternatives.

We believe our store experience, broad product assortment, store formats and brand marketing strategies differentiate us from most competitors by positioning our stores as the preferred destination for new technology and entertainment products in a fun and informative shopping environment. Our stores compete by aggressively advertising and emphasizing a complete product and service solution, value pricing and financing alternatives. In addition, our trained and knowledgeable sales and service staffs allow us to tailor the offerings to meet the needs of our customers.

Research and Development

We have not engaged in any material research and development activities during the past three fiscal years.

Environmental Matters

We are not aware of any federal, state or local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, that have materially affected, or will materially affect, our net earnings or competitive position, or have resulted or will result in material capital expenditures. During fiscal 2008, we had no material capital expenditures for environmental control facilities and no such material expenditures are anticipated in the foreseeable future.

Number of Employees

At the end of fiscal 2008, we employed approximately 150,000 full-time, part-time and seasonal employees worldwide. We consider our employee relations to be good. In the U.S., we offer our employees a wide array of company-paid benefits. We believe our benefits are competitive relative to others in our industry. In our operations outside the U.S., we have certain benefits that vary from those offered to our U.S. employees based on customary local practices and statutory requirements.

Financial Information About Geographic Areas

We operate two reportable segments: Domestic and International. Financial information regarding the Domestic and International geographic areas is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 9, *Segment and Geographic Information*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Available Information

We are subject to the reporting requirements of the Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room
100 F Street N.E.
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains a Web site that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's Web site at *http://www.sec.gov*.

We make available, free of charge on our Web site, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our Web site at *www.BestBuy.com* select the "For Our Investors" link and then the "SEC Filings" link.

We also make available, free of charge on our Web site, the charters of the Audit Committee, the Compensation and Human Resources Committee, the Finance and Investment Policy Committee and the Nominating, Corporate Governance and Public Policy Committee, as well as the Corporate Governance Principles of our Board of Directors ("Board") and our Code of Business Ethics (including any amendment to, or waiver from, a provision of our Code of Business Ethics) adopted by our Board. These documents are posted on our Web site at *www.BestBuy.com* select the "For Our Investors" link and then the "Corporate Governance" link.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to:

Best Buy Co., Inc.
Investor Relations Department
7601 Penn Avenue South
Richfield, MN 55423-3645

Item 1A. Risk Factors.

Described below are certain risks that our management believes are applicable to our business and the industry in which we operate. There may be additional risks that are not presently material or known. You should carefully consider each of the following risks and all other information set forth in this Annual Report on Form 10-K.

If any of the events described below occur, our business, financial condition, results of operations, liquidity or access to the capital markets could be materially adversely affected. The following risks could cause our actual results to differ materially from our historical experience and from results predicted by forward-looking statements made by us or on our behalf related to conditions or events that we anticipate may occur in the future. All forward-looking statements made by us or on our behalf are qualified by the risks described below.

If we do not anticipate and respond to changing consumer preferences in a timely manner, our operating results could materially suffer.

Our business depends, in large part, on our ability to introduce successfully new products, services and technologies to consumers, the frequency of such introductions, the level of consumer acceptance, and the related impact on the demand for existing products, services and technologies. Failure to predict accurately constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions, or to address effectively consumer concerns, could have a material adverse effect on our revenue, results of operations and standing with our customers.

Our growth is dependent on the success of our strategies.

Our growth is dependent on our ability to identify, develop and execute strategies. While we believe customer centricity and the pursuit of international growth opportunities will enable us to grow our business, misjudgments could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations could materially deteriorate if we fail to attract, develop and retain qualified employees.

Our performance is dependent on attracting and retaining a large and growing number of employees. We believe our competitive advantage is providing unique end-to-end solutions for each individual customer, which requires us to have highly trained and engaged employees. Our success depends in part upon our ability to attract, develop and retain a sufficient number of qualified employees, including store, service and administrative personnel. The turnover rate in the retail industry is high, and qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas. Competition for such qualified individuals could require us to pay higher wages to attract a sufficient number of employees. Our inability to recruit a sufficient number of qualified individuals in the future may delay planned openings of new stores or affect the speed with which we expand initiatives such as Best Buy Mobile, services and our international operations. Delayed store openings, significant increases in employee turnover rates or significant increases in labor costs could have a material adverse effect on our business, financial condition and results of operations.

We face strong competition from traditional store-based retailers, Internet businesses and other forms of retail commerce, which could materially adversely affect our revenue and profitability.

The retail business is highly competitive. We compete for customers, employees, locations, products and other important aspects of our business with many other local, regional, national and international retailers. Pressure from our competitors, some of which have a greater market presence and financial resources than we do, could require us to reduce our prices or increase our costs of doing business. As a result of this competition, we may experience lower revenue and/or higher operating costs, which could materially adversely affect our results of operations.

General economic conditions, a decline in consumer discretionary spending or other conditions may materially adversely impact our sales in a disproportionate fashion.

We sell products and services that consumers tend to view as conveniences rather than necessities. As a result, our results of operations are more sensitive to changes in general economic conditions that impact consumer spending, including discretionary spending. Future economic conditions and other factors including consumer confidence, employment levels, interest rates, tax rates, consumer debt levels, fuel and energy costs and the availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the U.S. economy or in the global economy, or an uncertain economic outlook, could materially adversely affect consumer spending habits and our operating results.

The domestic and international political situation also affects consumer confidence. The outcomes of political races and the threat or outbreak of terrorism or other hostilities could lead to a decrease in consumer spending. Any of these events and factors could cause a decrease in revenue or an increase in inventory markdowns or certain operating expenses, which could materially adversely affect our results of operations.

Our growth strategy includes expanding our business, both in existing markets and by opening stores in new markets.

Our future growth is dependent, in part, on our ability to build, buy or lease new stores. We compete with other retailers and businesses for suitable locations for our stores. Local land use, local zoning issues, environmental regulations and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations, and also influence the cost of building, buying and leasing our stores. We also may have difficulty negotiating real estate purchase agreements and leases on acceptable terms. Failure to manage effectively these and other similar factors will affect our ability to build, buy and lease new stores, which may have a material adverse effect on our future profitability.

We seek to expand our business in existing markets in order to attain a greater overall market share. Because our stores typically draw customers from their local areas, a new store may draw customers away from our nearby existing stores and may cause customer traffic and comparable store sales performance to decline at those existing stores.

We also intend to open stores in new markets. The risks associated with entering a new market include difficulties in attracting customers due to a lack of customer familiarity with our brand, our lack of familiarity with local customer preferences, seasonal differences in the market and our ability to obtain the necessary governmental approvals. In addition, entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence. We cannot ensure that our new stores will be profitably deployed; as a result, our future profitability may be materially adversely affected.

Risks associated with the vendors from whom our products are sourced could materially adversely affect our revenue and gross profit.

The products we sell are sourced from a wide variety of domestic and international vendors. Global sourcing has become an increasingly important part of our business and positively affects our financial performance. Our 20 largest suppliers account for just over 60% of the merchandise we purchase. If any of our key vendors fails to supply us with products, we may not be able to meet the demands of our customers and our revenue could materially decline. We require all of our vendors to comply with applicable laws, including labor and environmental laws, and otherwise be certified as meeting our required vendor standards of conduct. Our ability to find qualified vendors who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, outbreak of pandemics and other factors relating to foreign trade are beyond our control. These and other issues affecting our vendors could materially adversely affect our revenue and gross profit.

We are subject to certain regulatory and legal developments which could have a material adverse impact on our business.

Our regulatory and legal environment exposes us to complex compliance and litigation risks that could materially adversely affect our operations and financial results. The most significant compliance and litigation risks we face are:

- The difficulty in complying with sometimes conflicting regulations in local, national or international jurisdictions and new or changing regulations that affect how we operate;
- The impact of changes in tax laws (or interpretations thereof) and accounting standards; and
- The impact of litigation trends, including class action lawsuits involving consumers and shareholders, and labor and employment matters.

Defending against lawsuits and other proceedings may involve significant expense and divert management's attention and resources from other matters.

Our International activities subject us to risks associated with the legislative, judicial, accounting, regulatory, political and economic conditions specific to the countries or regions in which we operate, which could materially adversely affect our financial performance.

We have a presence in various foreign countries including Bermuda, Canada, China, Luxembourg, Mexico, the Republic of Mauritius, Turkey, Turks and Caicos, and the United Kingdom. During fiscal 2008, our International operations generated 17% of our revenue. Our growth strategy includes expansion into new or existing international markets, and we expect that our International operations will account for a larger portion of our revenue in the future. Our future operating results in these countries and in other countries or regions throughout the world where we may operate in the future could be materially adversely affected by a variety of factors, many of which are beyond our control including political conditions, economic conditions, legal and regulatory constraints and foreign currency regulations.

In addition, foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our International operations, and could materially adversely affect our financial performance. Moreover, the economies of some of the countries in which we have operations have in the past suffered from high rates of inflation and currency devaluations, which, if they occurred again, could materially adversely affect our financial performance. Other factors which may materially adversely impact our International operations include foreign trade, monetary, tax and fiscal policies both of the U.S. and of other countries; laws, regulations and other activities of foreign governments, agencies and similar organizations; and maintaining facilities in countries which have historically been less stable than the U.S..

Additional risks inherent in our International operations generally include, among others, the costs and difficulties of managing international operations, adverse tax consequences and greater difficulty in enforcing intellectual property rights in countries other than the U.S.. The various risks inherent in doing business in the U.S. generally also exist when doing business outside of the U.S., and may be exaggerated by the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws and regulations.

We rely heavily on our management information systems for inventory management, distribution and other functions. If our systems fail to perform these functions adequately or if we experience an interruption in their operation, our business and results of operations could be materially adversely affected.

The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to manage our order entry, order fulfillment, pricing, point-of-sale and inventory replenishment processes. The failure of our management information systems to perform as we anticipate could disrupt our business and could result in decreased revenue, increased overhead costs and excess or out-of-stock inventory levels, causing our business and results of operations to suffer materially.

A disruption in our relationship with Accenture, who manages our information technology and human resources operations and conducts certain procurement activities, could materially adversely affect our business and results of operations.

We have engaged Accenture LLP ("Accenture"), a global management consulting, technology services and outsourcing company, to manage significant portions of our information technology and human resources operations as well as to conduct certain procurement activities. We rely heavily on our management information systems for inventory management, distribution and other functions. We also rely heavily on human resources support to attract, develop and retain a sufficient number of qualified employees. We also use Accenture to provide procurement support to research and purchase certain non-merchandise products and services. Any disruption in our relationship with Accenture could result in decreased revenue and increased overhead costs, causing our business and results of operations to suffer materially.

Failure to protect the integrity and security of our customers' information could expose us to litigation and materially damage our standing with our customers.

The use of individually identifiable data by our business and our business associates is regulated at the state, federal and international levels. Increasing costs associated with information security such as increased investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud could cause our business and results of operations to suffer materially. Additionally, the success of our online operations depends upon the secure transmission of confidential information over public networks, including the use of cashless payments. While we are taking significant steps to protect customer and confidential information, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. If any such compromise of our security were to occur, it could have a material adverse effect on our reputation, operating results and financial condition. Any such compromise may materially increase the costs we incur to protect against such information security breaches and could subject us to additional legal risk.

Failure in our pursuit or execution of new business ventures, strategic alliances and acquisitions could have a material adverse impact on our business.

Our growth strategy includes expansion via new business ventures, strategic alliances and acquisitions. Assessing a potential growth opportunity involves extensive due diligence. However, the amount of information we can obtain about a potential growth opportunity may be limited, and we can give no assurance that new business ventures, strategic alliances and acquisitions will positively affect our financial performance or will perform as planned. Integrating new stores and concepts can be a difficult task. Cultural differences in some markets into which we expand or into which we introduce new retail concepts may result in customers in those markets being less receptive than originally anticipated. These types of transactions may divert our capital and our management's attention from other business issues and opportunities. We may not be able to successfully assimilate or integrate companies that we acquire, including their personnel, financial systems, distribution, operations and general operating procedures. We may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company. If we fail to assimilate or integrate acquired companies successfully, our business and operating results could suffer materially.

We are highly dependent on the cash flows and net earnings we generate during our fourth fiscal quarter, which includes the majority of the holiday selling season.

Approximately one-third of our revenue and more than one-half of our net earnings are generated in our fourth fiscal quarter, which includes the majority of the holiday shopping season in the U.S. and Canada. Unexpected events or developments such as natural or man-made disasters, product sourcing issues or adverse economic conditions in our fourth quarter could have a material adverse effect on our revenue and earnings.

The foregoing should not be construed as an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Stores, Distribution Centers and Corporate Facilities

Domestic Segment

The following table summarizes the geographic location of our Domestic segment stores at the end of fiscal 2008:

	U.S. Best Buy Stores	Pacific Sales Stores	Magnolia Audio Video Stores	Best Buy Mobile Stores(1)	U.S. Geek Squad Stores
Alabama	12				
Alaska	1				
Arizona	24				
Arkansas	6				
California	103	19	8		2
Colorado	18				1
Connecticut	10				
Delaware	4				
District of Columbia	1				
Florida	50				
Georgia	28				1
Hawaii	2				
Idaho	5				
Illinois	54				
Indiana	19				
Iowa	12				
Kansas	8				
Kentucky	9				
Louisiana	12				
Maine	6				
Maryland	22				
Massachusetts	25				
Michigan	32				
Minnesota	25				2
Mississippi	7				
Missouri	19				
Montana	3				
Nebraska	5				
Nevada	9				
New Hampshire	6				
New Jersey	21				
New Mexico	5				
New York	43			5	
North Carolina	27			4	
North Dakota	4				
Ohio	37				
Oklahoma	9				
Oregon	9		1		
Pennsylvania	30				
Puerto Rico	1				
Rhode Island	1				
South Carolina	14				
South Dakota	2				
Tennessee	14				
Texas	89				1

	U.S. Best Buy Stores	Pacific Sales Stores	Magnolia Audio Video Stores	Best Buy Mobile Stores(1)	U.S. Geek Squad Stores
Utah	9				
Vermont	1				
Virginia	28				
Washington	20		4		
West Virginia	2				
Wisconsin	20				
Total	923	19	13	9	7

(1)
Store counts have been adjusted to reflect Best Buy Mobile stand-alone stores test marketed in New York in fiscal 2007.

Note: At the end of fiscal 2008, we owned 24 of our U.S. Best Buy locations. Also at the end of fiscal 2008, we operated 32 U.S. Best Buy stores with owned improvements on leased land. All other stores in the Domestic segment at the end of fiscal 2008 were leased.

At the end of fiscal 2008, we operated 923 U.S. Best Buy stores, 19 Pacific Sales stores, 13 Magnolia Audio Video stores, nine Best Buy Mobile stand-alone stores and seven Geek Squad stand-alone stores, totaling approximately 37.5 million retail square feet.

We service the operations of the Domestic segment primarily with the following distribution centers:

Location	Square Footage	Owned or Leased
Dinuba, California	1,028,000	Owned
Findlay, Ohio	1,010,000	Leased
Nichols, New York	720,000	Owned
Ardmore, Oklahoma	720,000	Owned
Franklin, Indiana	714,000	Owned
Staunton, Virginia	709,000	Leased
Dublin, Georgia	700,000	Leased
Bloomington, Minnesota	425,000	Leased
Whittier, California	305,000	Leased
Total	6,331,000	

We also lease approximately 3.0 million square feet of space in 13 satellite warehouses in metropolitan markets for home delivery of major appliances and large-screen televisions. We also lease approximately 0.2 million square feet of space in Louisville, Kentucky, that is used by our Geek Squad operations to service notebook and desktop computers.

Our principal corporate office is located in Richfield, Minnesota, and is an owned facility consisting of four interconnected buildings totaling approximately 1.5 million square feet. Accenture, who manages our information technology and human resources operations and conducts certain procurement activities for us, and certain other of our vendors who provide us with a variety of additional corporate services, occupy a portion of our principal corporate office. We also lease an aggregate of approximately 0.1 million square feet of corporate office space in California for our Pacific Sales operations and in Washington for both our Magnolia Audio Video and Speakeasy operations.

International Segment

The following table summarizes the geographic location of our International segment stores at the end of fiscal 2008:

	Canada		China	
	Canada Best Buy Stores	Future Shop Stores	China Best Buy Stores	Five Star Stores
Alberta	7	15		
British Columbia	7	21		
Manitoba	2	5		
New Brunswick		3		
Newfoundland		1		
Nova Scotia	1	3		
Ontario	25	55		
Prince Edward Island		1		
Quebec	8	24		
Saskatchewan	1	3		
Anhui				12
Henan				9
Jiangsu				99
Shandong				9
Shanghai			1	
Sichuan				6
Yunnan				4
Zhejiang				21

	Canada		China	
Total	51	131	1	160

Note: At the end of fiscal 2008, we owned three of our Canada Best Buy stores, six of our Five Star stores and our China Best Buy store. All other stores in the International segment at the end of fiscal 2008 were leased.

At the end of fiscal 2008, we operated 131 Future Shop stores, 51 Canada Best Buy stores, 160 Five Star stores and one China Best Buy store, totaling approximately 11.1 million retail square feet.

We lease approximately 1.1 million square feet of distribution center space in Brampton, Ontario, and approximately 0.4 million square feet of distribution center space in Vancouver, British Columbia, to service our Canada operations.

We also lease approximately 1.0 million square feet of distribution center space in Jiangsu province, and an additional approximately 0.6 million square feet of distribution center space throughout the Five Star retail chain to support our Five Star distribution network. We lease less than 0.1 million square feet of distribution center space in Shanghai to service our Best Buy China operations.

The principal office for our Canada operations is located in a 141,000-square-foot leased facility in Burnaby, British Columbia. The principal office for our Five Star operations is located in a 46,000-square-foot owned facility in Nanjing, Jiangsu. The principal office for our China Best Buy operations is located in a 27,000-square-foot leased facility in Shanghai. In addition, our International operations lease a 4,000-square foot facility in Vancouver, British Columbia.

Global Sourcing

In support of our global sourcing initiative, we lease office space in China totaling approximately 45,000 square feet at the end of fiscal 2008.

Operating Leases

Almost all of our stores and a majority of our distribution facilities are leased. Terms of the lease agreements generally range from 10 to 20 years. Most of the leases contain renewal options and rent escalation clauses.

Additional information regarding our operating leases is available in Note 6, *Leases*, of the Notes to Consolidated Financial Statements, included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

On December 8, 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 discriminatory policies and practices, an award of back and front pay, punitive damages and injunctive relief, including rightful place relief for all class members. We believe the allegations are without merit and intend to defend this action vigorously.

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

Executive Officers of the Registrant

(As of March 1, 2008)

Name	Age	Position With the Company	Years With the Company
Richard M. Schulze	67	Founder and Chairman of the Board	42
Bradbury H. Anderson	58	Vice Chairman and Chief Executive Officer	35
Allen U. Lenzmeier	64	Vice Chairman	24
Brian J. Dunn	47	President and Chief Operating Officer	23
James L. Muehlbauer(1)	46	Enterprise Chief Financial Officer (Interim)	6
Robert A. Willett	61	Chief Executive Officer Best Buy International and Chief Information Officer	4
Shari L. Ballard	41	Executive Vice President Retail Channel Management	15
David P. Berg	46	Executive Vice President International Strategy and Corporate Development	6
Thomas C. Healy(2)	46	Executive Vice President Best Buy For Business	18
Kevin T. Layden	47	Chief Operating Officer Best Buy International	11
Timothy D. McGeehan	41	Executive Vice President Best Buy Mobile Worldwide	20
David J. Morrish	50	Executive Vice President Connected Digital Solutions	10
Kalendu Patel	44	Executive Vice President Emerging Business	5
Jonathan E. Pershing	37	Executive Vice President Human Capital	19
Michael J. Pratt	40	President Best Buy Canada	17
Michael A. Vitelli	52	Executive Vice President Customer Operating Groups	4
Joseph M. Joyce	56	Senior Vice President, General Counsel and Assistant Secretary	17
John Noble	49	Senior Vice President and Chief Financial Officer Best Buy International	6
Ryan D. Robinson	42	Senior Vice President, U.S. SBU CFO and Treasurer	6
Susan S. Grafton	51	Vice President, Controller and Chief Accounting Officer	7

(1) Effective April 18, 2008, our Board appointed Mr. Muehlbauer, Executive Vice President Finance and Chief Financial Officer.

(2) Effective April 26, 2008, Mr. Healy resigned from Best Buy.

Richard M. Schulze is a founder of Best Buy. He has been an officer and director from our inception in 1966 and currently is Chairman of the Board. Effective in June 2002, he relinquished the duties of Chief Executive Officer. He had been our principal executive officer for more than 30 years. He is on the board of the University of St. Thomas, chairman of its Executive and Institutional Advancement Committee, and a member of its Board Affairs Committee. Mr. Schulze is also chairman of the board of the University of St. Thomas Business School.

Bradbury H. Anderson has been a director since August 1986 and is currently our Vice Chairman and Chief Executive Officer. He assumed the responsibility of Chief Executive Officer in June 2002, having previously served as President and Chief Operating Officer since April 1991. He has been employed in various capacities with us since 1973. In addition, he serves on the board of General Mills, Inc. and the Retail Industry Leaders Association, as well as on the boards of the American Film Institute, Minnesota Early Learning Foundation, The Best Buy Children's Foundation, Minnesota Public Radio and Waldorf College.

Allen U. Lenzmeier has been a director since February 2001 and is currently our Vice Chairman, serving on a part-time basis to support our international expansion. Prior to his promotion to his current position in 2004, he served in various capacities since joining us in 1984, including as President and Chief Operating Officer from 2002 to 2004, and as President of Best Buy Retail Stores from 2001 to 2002. He serves on the board of UTStarcom, Inc. He is also a national trustee for the Boys and Girls Clubs of America and serves on its Twin Cities board.

Brian J. Dunn was named President and Chief Operating Officer in February 2006. Prior to his promotion to his current position, he served as President Retail, North America since December 2004. Mr. Dunn joined us in 1985 and has held positions as Executive Vice President, Senior Vice President, Regional Vice President, regional manager, district manager and store manager. He serves on the board of Dick's Sporting Goods, Inc.

James L. Muehlbauer was named Executive Vice President Finance and Chief Financial Officer in April 2008. Previously, he served as Enterprise Chief Financial Officer (Interim), Chief Financial Officer Best Buy U.S., Senior Vice President Finance, and Vice President and Chief Financial Officer Musicland. Prior to joining us, Mr. Muehlbauer spent 10 years with The Pillsbury Company, a consumer packaged goods company, where he held various senior-level finance management positions, including Vice President and Worldwide Controller, Vice President of Operations, divisional finance director, director of mergers and acquisitions, and director of internal audit. A certified public accountant (inactive), Mr. Muehlbauer spent eight years with Coopers & Lybrand LLP and most recently served as a senior manager in the firm's audit and consulting practice.

Robert A. Willett is our Chief Executive Officer Best Buy International and Chief Information Officer. He previously served as Executive Vice President Operations from 2004 to 2006. In 2002, we engaged Mr. Willett as a consultant and special advisor to our Board on matters relating to operational efficiency and excellence. Prior to that, he was the global managing partner for the retail practice at Accenture LLP, a global management consulting, technology services and outsourcing company, and was also a member of its Executive Committee. Mr. Willett launched his career in store management at Marks & Spencer P.L.C., a leading British department store chain, and has held executive positions of managing director and group CEO at other retailers in Europe.

Shari L. Ballard was named Executive Vice President Retail Channel Management in September 2007. Previously, she served as Executive Vice President Human Resources and Legal since December 2004. Ms. Ballard joined us in 1993 and has held positions as Senior Vice President, Vice President, and general and assistant store manager.

David P. Berg was named Executive Vice President International Strategy and Corporate Development in March 2008. Prior to his strategy and development role, he was Senior Vice President and Chief Operating Officer of Best Buy International. Mr. Berg joined Best Buy in 2002 as Vice President and Associate General Counsel.

Thomas C. Healy resigned from Best Buy in April 2008. He had been Executive Vice President Best Buy For Business since December 2004. Mr. Healy joined us in 1990 and held positions as President Best Buy International, Senior Vice President, Regional Vice President, district manager and store manager.

Kevin T. Layden was named Chief Operating Officer Best Buy International in January 2008. He previously served as President and Chief Operating Officer Best Buy Canada (formerly Future Shop Ltd.) with responsibility for both our Future Shop and Canada Best Buy operations. Mr. Layden joined us in 1997 as Vice President Merchandising. Before joining Best Buy, he spent approximately 17 years with Circuit City Stores, Inc., a retailer of consumer electronics, serving in positions of increasing responsibility, including most recently as assistant vice president and general manager for New York. Mr. Layden also serves on the board of the Business Council of British Columbia and is the chairman of the Retail Council of Canada. He is a trustee, board member and audit committee member of Tree Island Industries, Inc. and serves as a cabinet member of the United Way for Lower Mainland Vancouver.

Timothy D. McGeehan was named Executive Vice President Best Buy Mobile Worldwide in October 2007. Mr. McGeehan joined us in 1988 and has held positions as Executive Vice President Retail Sales, Senior Vice President, Regional Vice President, regional manager, district manager and store manager.

David J. Morrish became Executive Vice President Connected Digital Solutions in March 2008. Mr. Morrish joined us in 1998 as Vice President, Merchandising and most recently served as a Senior Vice President PC Mobility Solutions. Prior to joining us, he spent 17 years with Sears Canada Inc., where he held a variety of positions of increasingly responsibility including as vice president/general merchandising manager.

Kalendu Patel was named Executive Vice President Emerging Business in September 2007. Mr. Patel joined us in 2003 and has held positions as Executive Vice President Strategy and International, Senior Vice President and Vice President. Prior to joining us, Mr. Patel was a partner at Strategos, a strategic consulting firm.

Prior to that, he held various positions with KPMG Consulting Inc. and Courtaulds PLC in the U.K.

Jonathan E. Pershing was named Executive Vice President Human Capital in December 2007. Mr. Pershing joined us in 1989 as a retail manager. He has held various positions, including Divisional Manager Loss Prevention, Vice President Retail Operations for Musicland and Vice President Organizational Alignment. He serves as a member of the board of directors for Project Success in theTwin Cities.

Michael J. Pratt became President Best Buy Canada in January 2008. Prior to his new role, Mr. Pratt was a Senior Vice President of Best Buy Canada. He has held numerous roles in his 17 years with Future Shop and Best Buy Canada, most recently responsible for Best Buy stores, marketing, advertising, store design and Canada's Commercial Sales Group.

Michael A. Vitelli became Executive Vice President Customer Operating Groups in March 2008. Mr. Vitelli joined us in February 2004 and has held positions such as Senior Vice President and General Manager Home Solutions. Prior to joining us, his professional career included 23 years at Sony Electronics, Inc., serving in positions of increasing responsibility, including executive vice president of Sony's Visual Products Company. Mr. Vitelli serves on the boards of the National Consumer Technology Industry chapter of the Anti-Defamation League where he serves as the industry chair and the National Multiple Sclerosis Society's Minnesota Chapter.

Joseph M. Joyce was named Senior Vice President, General Counsel and Assistant Secretary in 1997. Mr. Joyce joined us in 1991 as Vice President Human Resources and General Counsel. Prior to joining us, Mr. Joyce was with Tonka Corporation, a toy maker, having most recently served as vice president, secretary and general counsel.

John Noble was named Senior Vice President and Chief Financial Officer Best Buy International in May 2006. Mr. Noble joined us in 2002 and has held positions as Senior Vice President and Chief Financial Officer Best Buy Canada, and Vice President Finance. Prior to joining us, Mr. Noble spent 10 years with The Pillsbury Company, and most recently served as vice president finance for operations.

Ryan D. Robinson was named Senior Vice President, U.S. SBU CFO and Treasurer in December 2007. Mr. Robinson joined us in 2002 and has held positions as Senior Vice President and Chief Financial Officer New Growth Platforms, Senior Vice President Finance and Treasurer, and Vice President Finance and Treasurer. Prior to joining us, he spent 15 years at ABN AMRO Holding N.V., an international bank, and most recently served as senior vice president and director of that financial institution's North American private-equity activities. Mr. Robinson also held management positions in ABN AMRO Holding N.V.'s corporate finance, finance advisory, acquisitions and asset securitization divisions.

Susan S. Grafton was named Vice President, Controller and Chief Accounting Officer in December 2006. Ms. Grafton joined us in 2000 and has held positions as Vice President Financial Operations and Controller, Vice President Planning and Performance Management, senior director, and director. Prior to joining us, she was with The Pillsbury Company and Pitney Bowes, Inc. in numerous finance and accounting positions. Ms. Grafton serves on the Finance Leaders Council for the National Retail Industry Leaders Association and the Financial Executive Council for the National Retail Federation.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the New York Stock Exchange under the ticker symbol BBY. The table below sets forth the high and low sales prices of our common stock as reported on the New York Stock Exchange Composite Index during the periods indicated.

	Sales Price	
	High	**Low**
Fiscal 2008		
First Quarter	$ 50.19	$ 44.70
Second Quarter	49.44	41.85
Third Quarter	51.98	42.39
Fourth Quarter	53.90	41.92
Fiscal 2007		
First Quarter	$ 59.50	$ 50.49
Second Quarter	55.51	43.51
Third Quarter	58.49	44.53
Fourth Quarter	56.69	45.08

Holders

As of April 25, 2008, there were 3,540 holders of record of Best Buy common stock.

Dividends

In fiscal 2004, our Board initiated the payment of a regular quarterly cash dividend. A quarterly cash dividend has been paid in each subsequent quarter and have historically increased each year. Effective with the quarterly cash dividend paid in the third quarter of fiscal 2007, we increased our quarterly cash dividend per common share by 25% to $0.10 per common share per quarter. Effective with the quarterly cash dividend paid in the third quarter of fiscal 2008, we increased our quarterly cash dividend per common share by 30% to $0.13 per common share per quarter. The payment of cash dividends is subject to customary legal and contractual restrictions.

Future dividend payments will depend on our earnings, capital requirements, financial condition and other factors considered relevant by our Board.

Purchases of Equity Securities by t