

Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview

Best Buy Co., Inc. (the Company) is the nation's largest volume specialty retailer of name-brand consumer electronics, home office equipment, entertainment software and appliances. During the fourth quarter of fiscal 2001, the Company acquired Musicland Stores Corporation (Musicland) and Magnolia Hi-Fi, Inc. (Magnolia Hi-Fi). Musicland is primarily a mall-based retailer of pre-recorded music and movies. Magnolia Hi-Fi is a retailer of top-of-the-line audio and video products. Both acquisitions were accounted for using the purchase method. Under this method, the net assets and results of operations of those businesses are included in the consolidated financial statements of the Company from their dates of acquisition. For additional information, refer to Note 2 of the Notes to Consolidated Financial Statements on page 44 and the "Musicland Acquisition" section of Management's Discussion and Analysis of Results of Operations and Financial Condition on page 31.

The Company's fiscal year ended March 3, 2001, contained 53 weeks. Fiscal 2000 and fiscal 1999 contained 52 weeks.

Results of Operations

The Company generated record earnings for the fourth consecutive year. For fiscal 2001, net earnings were \$395.8 million, compared to \$347.1 million in fiscal 2000 and \$216.3 million in fiscal 1999. Earnings per share on a diluted basis increased to \$1.86 in fiscal 2001, compared with \$1.63 per share in fiscal 2000 and \$1.03 per share in fiscal 1999. The 14% increase in fiscal 2001 net earnings was the result of strong sales of new and expanded digital technology product offerings and gross margin improvements. The earnings growth in fiscal 2001 also was driven by a 23% increase in revenues for the year, with new Best Buy stores accounting for the majority of the increase. Despite an increasingly challenging economic environment in fiscal 2001, comparable store sales increased 4.9% on top of an 11.1% increase in fiscal 2000, and gross profit margin improved to 20.0% of revenues from 19.2% of revenues for the same period one year ago. The Company's financial performance in fiscal 2001 also was impacted by expenses associated with the Company's growth initiatives, including the national launch of BestBuy.com and the significant start-up costs associated with opening 62 new Best Buy stores, including the entry into the New York market. The write-off of \$15 million of e-commerce investments reduced fiscal 2001 earnings by approximately 4 cents per share. Fiscal 2001 earnings per share also were reduced by approximately 4 cents per share as a result of the costs associated with the acquisition and integration of Musicland. Magnolia Hi-Fi's financial results did not have a material impact on the Company's net earnings.

In addition to traditional financial measurements, management uses Economic Value Added (EVA®) to measure and manage the financial performance and the allocation of capital resources of the Company. EVA is net operating profit after taxes minus a charge for total capital employed. Operating profit after taxes exceeded the required return on capital employed for the third consecutive year. The Company generated EVA of \$138 million in fiscal 2001, compared with \$178 million in fiscal 2000 and \$75 million in fiscal 1999. Fiscal 2001 EVA was impacted by higher capital investments in new stores, including the impact of capitalizing operating leases for EVA purposes and technology investments to support expanding and increasingly complex business operations, along with significant start-up costs for BestBuy.com and the New York market. These activities reduced EVA in fiscal 2001 as compared with fiscal 2000; however, the Company expects to earn positive EVA from these investments in the future.

The following table presents selected revenue data for each of the past three fiscal years (\$ in thousands).

	2001	2000	1999
Revenues	\$15,326,552	\$12,494,023	\$10,064,646
Percentage increase in revenues	23%	24%	21%
Comparable store sales increase*	4.9%	11.1%	13.5%
Average revenues per store*	\$38,900	\$37,200	\$33,700

*Best Buy stores only.

Revenues in fiscal 2001 increased 23% to \$15.3 billion, compared with \$12.5 billion in fiscal 2000, due to the addition of 62 Best Buy stores, a full year of operation at the 47 Best Buy stores added in fiscal 2000, a 4.9% increase in comparable store sales and the approximately \$160 million in revenues generated by Musicland and Magnolia Hi-Fi from their dates of acquisition. The 53rd week added about \$280 million to fiscal 2001 revenues. The comparable store sales increase in a weaker economic environment reflects the strength of the digital product cycle, the benefits from enhancements made to the Company's operating model and the Company's continuing ability to gain market share. Digital product sales comprised 15% of revenues in the fourth quarter of fiscal 2001, compared with 10% one year ago. The Company's enhanced operating model, which included an improved merchandise assortment, higher in-stock positions, more effective advertising and more consistent store execution, contributed to market share gains.

As of March 3, 2001, the Company operated more than 1,700 retail stores. The Company acquired more than 1,300 stores as part of its acquisition of Musicland and 13 stores in connection with the acquisition of Magnolia Hi-Fi. The Company opened 62 new Best Buy stores in fiscal 2001, including entries into the new markets of the New York City area and Norfolk, Va. Included in the new store openings were 11 small-market stores, intended to serve markets with populations of less than 200,000, bringing the total stores in this format to 20. The Company also relocated seven stores and expanded three stores during the last year. At the end of fiscal 2001, the Company operated 419 Best Buy stores, compared with 357 stores at the end of the prior fiscal year.

In the second quarter of fiscal 2001, the Company launched its online shopping site, BestBuy.com. The Company's clicks-and-mortar strategy is designed to empower consumers to research and purchase products seamlessly across the Best Buy retail environment – online or in retail stores. The online site initially offered consumer electronics products, music and movies. Later in the year, the product offerings were expanded to include computers and related products. While online revenues do not currently represent a significant portion of the Company's business, the Company believes the investment in and increased expenses associated with the development, launch and operation of a comprehensive Internet strategy creates a significant future growth opportunity in serving consumers both online and in retail stores.

Fiscal 2000 revenues increased 24% to \$12.5 billion, compared with \$10.1 billion in fiscal 1999, due to an 11.1% increase in comparable store sales, 47 new stores and a full year of operations at the 28 stores opened in fiscal 1999. The increase in comparable store sales reflected the continued strength in consumer spending and the Company's ability to gain market share. Higher levels of disposable income due to the strong economy, consumers' rapid acceptance of digital technology products and the increased affordability of personal computers all drove consumer demand. Internet service providers (ISPs) offered new subscribers significant rebates on purchases of personal computers, making them more affordable. These offers stimulated unit sales of personal computers and sales of higher-margin accessories and Performance Service Plans (PSPs).

Product Category Performance

The following table presents the Best Buy retail store sales mix by major product category for each of the past three fiscal years.

	2001	2000*	1999*
Home Office	34%	35%	36%
Consumer Electronics – Video	22%	19%	18%
Consumer Electronics – Audio	11%	11%	11%
Entertainment Software	19%	19%	20%
Appliances	7%	8%	8%
Other	7%	8%	7%
Total	100%	100%	100%

* Prior-year percentages have been adjusted to reflect current year categorization of products. The primary change was to reclassify cameras and photographic equipment from the "other" category to consumer electronics – video.

Home Office Best Buy's home office category experienced positive comparable store sales growth in 2001 as a whole; however, sales slowed through the latter half of the year as consumer demand for personal computers declined. Revenues were driven by a variety of products, including wireless communications, computer peripherals, configure-to-order computer offerings, notebook computers and personal digital assistants (PDAs). ISPs continued to offer new subscribers significant rebates on the purchase of personal computers and other products, stimulating demand. As a result of its strategic alliance with Microsoft Corporation and Best Buy's retail execution, the Company signed up more than 1.3 million new ISP subscriptions in fiscal 2001, which had a favorable impact on computer sales and other product sales. Laptop computers and configure-to-order computers, which generally carry a higher gross profit margin, increased in their percentage of the computer business' sales mix. Consumer demand has been shifting to higher-priced, more fully featured computers. Desktop personal computer sales declined as a result of the industry-wide decline in unit sales volume and a slight decrease in average selling prices. Computer peripherals, including CD drives with read/write capabilities, generated strong sales gains during the year. Sales of PDAs increased significantly in fiscal 2001 and contributed to the category's positive comparable store sales growth. The re-merchandising of wireless communications and other digital products within this category to a more prominent position at the front of the stores contributed to the comparable store sales increase.

Consumer Electronics Consumer electronics comprised 33% of Best Buy's total sales mix in fiscal 2001, up from 30% in fiscal 2000. The category experienced double-digit comparable store sales growth, led by new technology products, including digital televisions, digital camcorders, cameras and DVD players. The sales were driven by increased consumer demand for new technology and lower price points. Sales of digital televisions, with an average selling price of approximately \$2,300 as of fiscal year-end, increased dramatically during the year, accounting for approximately 10% of fiscal 2001 television sales compared with 2% in fiscal 2000. Consumers continued the rapid transition to DVD technology from the VHS format. Sales of analog televisions and home theater systems also generated strong sales gains in fiscal 2001.

Entertainment Software Sales of entertainment software, which includes music and movies, computer software and video games, were 19% of Best Buy's total sales in fiscal 2001, unchanged from fiscal 2000. Best Buy posted its third consecutive year of DVD movie comparable store sales gains of more than 100% due to the continued expansion of the DVD hardware installed base and a broader assortment of movie titles, including strong-selling new releases. Sales of recorded music were impacted by the general absence of new releases with strong consumer appeal and an increase in both the downloading of music via Internet sites and greater consumer awareness of CD recording technology. Video game hardware and software sales were weaker than expected due to a shortage of new titles and the limited availability of new technology products such as Sony's PlayStation II video game platform. Online offerings, industry consolidation, the industry-wide decrease in personal computer unit sales volume and lower price points continued to impact computer software sales.

Appliances Comparable store sales of appliances declined in fiscal 2001 as a result of an increased number of competing retail stores offering major appliances, a lack of new products and the slowdown in consumer demand that was experienced throughout the industry. Currently, the Company is working with suppliers to improve its appliance business model, end to end, and increase profitability. The primary areas of concentration include the consumer shopping experience, marketing of products, after-sale service and logistics.

Other Sales in the "other" category, comprised of Performance Service Plans (PSPs), furniture and other miscellaneous products such as batteries, business cases and blank audio and video media, were consistent with fiscal 2000 as a percentage of the retail store sales mix. PSP sales decreased to 3.9% of revenues in fiscal 2001 from 4.0% of revenues in fiscal 2000 due to the decline in personal computer and appliance unit volume, which was offset by higher unit sales of other products.

Components of Operating Income

The following table presents selected operating ratios as a percentage of revenues for each of the past three fiscal years.

	2001	2000	1999
Gross profit	20.0%	19.2%	18.0%
Selling, general and administrative expenses	16.0%	14.8%	14.5%
Operating income	3.9%	4.3%	3.5%

Gross profit for fiscal 2001 improved to 20.0% of revenues, compared with 19.2% in fiscal 2000. The current-year increase was driven by improved product margins and a more profitable sales mix that resulted from increased sales of digital products and higher-end, more fully featured products. The generally lower-margin home office category, which includes personal computers, declined in Best Buy's sales mix, while the generally higher-margin consumer electronics categories, which include most digital products, increased. However, within the home office category, Best Buy benefited from a more profitable sales mix as consumers shifted from lower-margin desktop computers to higher-margin configure-to-order and notebook computers. The Company also benefited from its "Complete Solution" selling strategy that is designed to provide customers with higher-margin accessories and services supporting their purchases. Improved inventory management contributed to the gross profit margin improvement as inventory turns for Best Buy stores increased to 7.6 turns in fiscal 2001, compared with 7.2 turns in fiscal 2000. The increase in inventory turns resulted in fewer markdowns, particularly during model transitions. The addition of Musicland's financial results from its date of acquisition positively impacted the Company's gross profit by approximately 0.2% of revenues, due to its higher margin sales mix.

Gross profit improved to 19.2% of revenues in fiscal 2000 from 18.0% in fiscal 1999. The improvement resulted from higher product margins, a more profitable sales mix due to higher sales of PSPs and accessories, and an enhanced inventory assortment. Improved inventory turns and continued efforts to reduce inventory shrink also contributed to the gross profit margin improvement.

Selling, general and administrative expenses (SG&A) increased to 16.0% of revenues in fiscal 2001 compared with 14.8% one year ago, primarily as a result of the Company's increased investment in strategic initiatives combined with a more modest sales growth environment. The launch and operation of BestBuy.com was a significant component of the increase in the SG&A ratio. The start-up costs associated with the opening of the New York market, as well as lower than anticipated productivity from the initial operations of these stores, also added to the increase in the SG&A rate. Similar to the entry into Los Angeles, management currently expects that the New York market will take longer to reach its projected productivity. Fiscal 2001 expenses also were impacted by the \$15 million write-off of e-commerce company investments that increased SG&A by approximately 0.1% of revenues. In addition, the costs associated with the operation, acquisition and integration of Musicland increased fiscal 2001 SG&A by approximately 0.2% of revenues. The Company's overall financial performance in fiscal 2001 benefited from its strategic alliance with Microsoft Corporation in the form of profit sharing and technology and marketing support.

The increase in SG&A as a percentage of revenues in fiscal 2000 compared with fiscal 1999 was primarily due to increased spending on the Company's strategic initiatives and expenses related to the greater number of new store openings. Fiscal 2000 strategic initiatives included the enhancement of operating systems and processes in Best Buy's services area, which provides product installation and repair services; early development of Best Buy's e-commerce business; and refinement of Best Buy's retail operating model. Compensation costs also increased in fiscal 2000 to support the development of a more effective sales staff, the hiring and training of store managers to support growth and the increase in corporate staff to drive strategic initiatives.

Net interest income increased to \$37.2 million in fiscal 2001 compared with \$23.3 million in the same period last year. The increase is due to higher cash balances compared to the prior fiscal year. The higher cash balances are the result of cash flows generated from operations during the last 12 months, including improved inventory management and a \$200 million investment in Best Buy common stock by Microsoft Corporation as part of the strategic alliance. Interest expense on the Musicland debt and lost interest income on the cash used to acquire Musicland and Magnolia Hi-Fi reduced net interest income by approximately \$4 million.

The Company's effective income tax rate in fiscal 2001 was 38.3%, unchanged from fiscal 2000. Historically, the Company's effective tax rate has been impacted primarily by the taxability of investment income and state income taxes.

Liquidity and Capital Resources

The continued increase in cash flows from operations enabled the Company to internally fund its business expansion plans and invest \$513 million (\$326 million net of cash acquired) to purchase Musicland and Magnolia Hi-Fi. Cash flow from operations increased \$32 million in fiscal 2001, to \$808 million, driven by earnings growth. The Company's cash flows were supplemented by Microsoft Corporation's \$200 million investment in Best Buy common stock. The Company's financial position and liquidity remain strong even with the significant investments in new growth and strategic initiatives. Cash and cash equivalents totaled \$747 million at the end of fiscal 2001, basically unchanged from one year ago. The Company's debt-to-capitalization ratio at the end of fiscal 2001 was less than 10%.

Merchandise inventories increased by \$144 million as a result of the net addition of 62 new Best Buy stores in the last year. Inventory turns for Best Buy stores improved to 7.6 times for the fiscal year, compared with 7.2 times for the comparable period one year ago. Average inventory per Best Buy store declined by approximately 3%, compared to the end of fiscal 2000. The acquisition of Musicland and Magnolia Hi-Fi increased inventory at fiscal year-end by approximately \$400 million.

Receivables, mainly credit card and vendor-related receivables, increased by \$7 million compared with the prior year. The increase was primarily due to higher business volume offset by a reduction in receivables from Internet service providers. Receivables from sales on the Company's private-label credit card are sold to third parties, and the Company does not bear risk of loss with respect to these receivables. Other assets increased \$16 million from the end of fiscal 2000 due to the purchase of real estate associated with the Company's corporate facilities expansion plans and the purchase of insurance in connection with the Company's deferred compensation plan. The \$15 million write-down of minority e-commerce investments offset the increase in other long-term assets. The acquisition of Musicland and Magnolia Hi-Fi increased receivables and other assets other than goodwill at year-end by approximately \$70 million.

Accounts payable and other liabilities increased as compared with the end of fiscal 2000 as a result of higher business volume. Accounts payable is impacted by the timing of payments to vendors and can fluctuate significantly. Other liabilities also increased due to advances received under alliances and an increase in outstanding gift cards. Increased accrued compensation resulting from the expanding employee base supporting the Company's growth and an increase in deferred taxes also contributed to the increase. The acquisition of Musicland and Magnolia Hi-Fi increased accounts payable and other liabilities at fiscal year-end by approximately \$450 million.

The Company assumed \$260 million of debt, with a fair value of \$271 million, in connection with the acquisition of Musicland. Subsequent to the end of fiscal 2001, \$94 million of the debt was retired as a result of the debt's change-in-control provisions. Other debt decreased compared to the prior fiscal year-end due to repayments, partially offset by the assumption of a mortgage related to the investment in corporate real estate.

The Company's practice is to lease rather than own real estate. For those sites developed using working capital, the Company generally sells and leases back those properties under long-term leases. Recoverable costs from developed properties increased by \$31 million over last year primarily due to the increased development of new stores. During the fourth quarter of fiscal 2001, the Company entered into a \$60 million, five-year master lease agreement for the purpose of constructing and leasing new retail locations.

Capital spending in fiscal 2001 was \$658 million, compared with \$361 million and \$166 million in fiscal 2000 and fiscal 1999, respectively. The increase is primarily the result of the Company's investment in 62 new stores and 10 expanded or relocated stores during fiscal 2001, compared with 47 new stores and 13 expanded or relocated stores in fiscal 2000, and 28 new stores and five expanded or relocated stores in fiscal 1999. Capital spending in fiscal 2001 also included investment in store enhancement projects and expansion of the Company's distribution and corporate facilities. In addition, the Company is significantly increasing its investment in its core financial and operating systems to support the Company's growth and to support more complex sales and customer transaction processes.

In October 1998 and September 1999, the Company's Board of Directors authorized the purchase of up to \$100 million and \$200 million, respectively, of the Company's common stock. These plans were completed with a total of 1.8 million and 3.8 million shares purchased and retired, respectively. In February 2000, the Company's Board of Directors authorized the purchase of up to \$400 million of the Company's common stock from time to time through open market purchases. The stock purchase program has no stated expiration date. Approximately 1.9 million shares had been purchased under this plan during the prior fiscal year at a cost of \$100 million. No additional purchases were made in fiscal 2001.

The Company has a \$100 million revolving credit facility that is scheduled to mature in June 2002. There were no borrowings under that facility during fiscal 2001.

Musicland Acquisition

The following table shows unaudited pro forma combined results of operations of Best Buy and Musicland for fiscal 2001 as though that acquisition had been completed as of the beginning of the fiscal year:

(\$ in thousands, except per share amounts)

	Pro Forma Results	Reported Results
Revenues	\$17,078,464	\$15,326,552
Gross profit	3,710,328	3,059,093
Selling, general and administrative costs	3,023,200	2,454,785
Operating income	687,128	604,308
Net interest income (expense)	(2,024)	37,171
Earnings before income tax expense	685,104	641,479
Income tax expense	267,875	245,640
Net earnings	417,229	395,839
Earnings per share - diluted	\$1.96	\$1.86
Components of operating income:		
Gross profit	21.7%	20.0%
Selling, general and administrative expense	17.7%	16.0%
Operating income	4.0%	3.9%

The information presented above does not necessarily represent what actual results would have been, had the acquisition taken place at the beginning of the fiscal year. Expenses associated with post-acquisition integration and store transformation activities are not included in the pro forma results. Additionally, anticipated changes to operations, including the impact of changes in product assortment at Musicland stores and expected expense savings and synergies, are not reflected.

The pro forma gross profit margin ratio of 21.7% as compared to the reported 20.0% reflects the impact of Musicland's higher margin sales mix.

The pro forma SG&A ratio of 17.7%, compared with a reported SG&A ratio of 16.0%, reflects the higher cost structure of Musicland's operations. In addition, the amortization of goodwill resulting from the acquisition is included in the pro forma SG&A and contributes \$15.9 million in SG&A or approximately 0.1% of revenues.

Pro forma interest expense reflects interest on the debt assumed as well as the lost interest income on the cash used to finance the acquisition of Musicland shares. The pro forma effective tax rate of 39.1% compared to the reported tax rate of 38.3% principally reflects the impact of non tax-deductible goodwill amortization.

The reported gross profit margin and SG&A ratios were both increased by 0.2% of sales as result of the inclusion of Musicland's results since the date of acquisition. The reported earnings per share of \$1.86 were reduced by 4 cents per share from one month of operation including initial integration costs and goodwill amortization.

Pro forma information regarding the Magnolia Hi-Fi acquisition is not presented as it would not have had a material impact on the Company's reported results or operating ratios.

Outlook for Fiscal 2002

The Company believes it will generate growth in net earnings in fiscal 2002. The net earnings improvement is expected to result from the operating profits from fiscal 2002 new store openings, a full year's contribution from stores opened in fiscal 2001 and the continued benefits from the increase in sales of digital products. In addition, the operating losses from the Company's e-commerce business should decline in fiscal 2002 as sales volume increases and the business realizes the benefits of last year's launch and infrastructure improvements. The Company anticipates that inclusion of Musicland's financial results — including integration expenses, store transformation efforts and goodwill amortization — will negatively impact the first three quarters of fiscal 2002. Profits contributed by Musicland in the highest volume fourth quarter are expected to offset the aggregate losses in the first three quarters of fiscal 2002.

Comparable store sales increases are expected to be in the low single digits for fiscal 2002. However, during the first half of the year comparable store sales are expected to decline modestly as consumers are likely to remain cautious. The Company's fiscal 2002 sales are expected to range from \$19.0 billion to \$19.5 billion.

The Company believes Best Buy stores will realize a modest improvement in its gross profit margin in fiscal 2002; however, the improvement is expected to be less than the fiscal 2001 improvement. The anticipated margin improvement assumes moderate promotional activity and a more profitable sales mix resulting from an increase in digital products as a percentage of the Company's sales mix. In addition, a continuation of the shift to higher margin products in the home office category and the migration to digital televisions should benefit the Company's overall gross margin rate in fiscal 2002. The Company believes digital products sales will be approximately 18% to 19% of the fourth quarter fiscal 2002 sales mix, compared with 15% in the fourth quarter of fiscal 2001. Reduced product margins due to the commoditization of selected digital products, DVD in particular, is expected to partially offset the gross profit margin improvements anticipated from the more profitable sales mix. In addition, the Company expects that Musicland will positively impact the Company's gross profit margin rate in fiscal 2002. Historically, Musicland stores have produced a higher gross

profit margin than Best Buy stores due to product mix and pricing differences. This gap is expected to narrow slightly in fiscal 2002 due to a broader product assortment as new consumer electronics are introduced into the Musicland stores.

The SG&A ratio is expected to increase in fiscal 2002 due, in part, to the inclusion of a full year of Musicland's higher operating cost structure. In addition, the increased depreciation resulting from the investments in initiatives supporting the Company's growth strategies and goodwill amortization resulting from the acquisitions of Musicland and Magnolia Hi-Fi will impact the fiscal 2002 SG&A ratio. Recently proposed accounting rule changes could eliminate the requirement to amortize goodwill by the second half of the year. The flat or slightly negative comparable store sales in the first half of fiscal 2002 are expected to result in lower expense leverage and an increase in the SG&A ratio. The Company anticipates gaining expense leverage in the second half of the fiscal year as new stores open and comparable store sales increase.

Net interest income is expected to decrease in fiscal 2002 as a result of the cash used to purchase Musicland and Magnolia Hi-Fi and the assumption of Musicland's debt as well as lower yields on invested cash.

The Company's effective tax rate is expected to increase in fiscal 2002 because of the nondeductibility of goodwill that resulted from the acquisition of Musicland.

Capital expenditures in fiscal 2002 are expected to range from \$700 million to \$750 million, exclusive of amounts expended on property development that will be recovered through sale leasebacks. The capital spending will support the opening of approximately 60 new Best Buy stores, the continued development of the Company's systems, the expansion of corporate facilities and the Company's strategic initiatives, including the Musicland integration and store transformation strategy. Small-market stores are expected to comprise about one-third of the new Best Buy stores scheduled to open in fiscal 2002. Most new stores will incorporate the features of Best Buy's new Concept 5 store format. This new format, while retaining the 45,000-square-foot size, features customer-centric layouts, better adjacencies of products and accessories, faster checkout and improved merchandising. Existing stores will not be remodeled with the new concept in fiscal 2002.

Management currently believes that funds from the expected results of operations and available cash and cash equivalents will be sufficient to finance anticipated expansion plans and strategic initiatives for the next year. In addition, the Company's revolving credit facility is available for additional working capital needs or investment opportunities. Management also intends to consider long-term financing to support development of the Company's new corporate headquarters facility.

Quarterly Results and Seasonality

Similar to many retailers, the Company's business is seasonal. Revenues and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season. The timing of new store openings, costs associated with acquisitions and development of new businesses, and general economic conditions also may affect future quarterly results of the Company.

The following tables show selected unaudited quarterly operating results and high and low prices of the Company's common stock for each quarter of fiscal 2001 and 2000.

(\$ in thousands, except per share amounts)

Quarter	1st	2nd	3rd	4th ⁽¹⁾
Fiscal 2001				
Revenues	\$2,963,718	\$3,169,171	\$3,732,080	\$5,461,583
Comparable store sales increase ⁽²⁾	9.5%	5.1%	5.9%	1.8%
Gross profit	\$ 605,593	\$ 648,745	\$ 689,041	\$1,115,714
Operating income	108,518	115,350	85,013	295,427
Net earnings	72,158	76,748	57,263	189,670
Diluted earnings per share	.34	.36	.27	.89
Fiscal 2000				
Revenues	\$2,385,431	\$2,686,640	\$3,107,337	\$4,314,615
Comparable store sales increase ⁽²⁾	13.3%	11.1%	9.2%	11.0%
Gross profit	\$ 462,002	\$ 530,520	\$ 590,367	\$ 810,540
Operating income	71,701	89,606	122,588	255,364
Net earnings	46,809	58,067	78,389	163,805
Diluted earnings per share	.22	.27	.37	.78

⁽¹⁾ The fourth quarter of fiscal 2001 included 14 weeks. All other quarters included 13 weeks. The comparable store sales increase for the fourth quarter of fiscal 2001 was based upon the comparable 14-week period for the prior year. Also, during the fourth quarter of fiscal 2001, the Company acquired the common stock of Musicland Stores Corporation and Magnolia Hi-Fi, Inc. The results of operations of those businesses are included from their dates of acquisition.

⁽²⁾ Best Buy stores only.

Common Stock Prices

Quarter	1st	2nd	3rd	4th
Fiscal 2001				
High	\$88.88	\$80.69	\$74.13	\$51.00
Low	47.25	57.50	30.50	21.00
Fiscal 2000				
High	\$57.38	\$80.50	\$72.81	\$67.00
Low	40.50	44.25	45.88	42.00

Best Buy's common stock is traded on the New York Stock Exchange under the symbol BBY. As of March 30, 2001, there were 1,970 holders of record of Best Buy common stock. The Company has not historically paid, and has no current plans to pay, cash dividends on its common stock.

Forward-Looking Statements

Section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended, 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 are forward-looking statements and may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential." Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause the Company's actual results to differ materially from the anticipated results expressed in such forward-looking statements, including, among other things, general economic conditions, acquisitions and development of new businesses, product availability, sales volumes, profit margins, and the impact of labor markets and new product introductions on the Company's overall profitability. Readers should review the Company's Current Reports on Form 8-K that describe additional important factors that could cause actual results to differ materially from those contemplated by the statements made in this annual report.