

BEST BUY CO INC  
Form 10-KT  
March 27, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
(Mark One)

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

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

For the transition period from March 4, 2012 to February 2, 2013

Commission file number 1-9595

BEST BUY CO., INC.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices)

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.  
 Yes  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.  Yes  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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)  Yes  No  
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 4, 2012, was approximately \$4.1 billion, computed by reference to the price of \$17.64 per share, the price at which the common equity was last sold on August 4, 2012, 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 March 21, 2013, the registrant had 338,770,740 shares of its Common Stock issued and outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement dated on or about May 8, 2013 (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of February 2, 2013), for the regular meeting of shareholders to be held on June 20, 2013 ("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 ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Transition Report on Form 10-K are forward-looking statements and may be identified by the use of words such as "anticipate," "assume," "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 Transition Report on Form 10-K for a description of important factors that could cause our future results to differ materially from those contemplated by the forward-looking statements made in this Transition Report on Form 10-K. Our forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

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BEST BUY FISCAL 2013 FORM 10-K TRANSITION REPORT

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PART I

Item 1. Business.

Unless the context otherwise requires, the use of the terms "we," "us" and "our" in this Transition Report on Form 10-K refers to Best Buy Co., Inc. and, as applicable, its consolidated subsidiaries.

Description of Business

We are a multi-national, e-commerce and physical retailer of consumer electronics, including mobile phones, tablets and computers, large and small appliances, televisions, digital imaging, entertainment products and related accessories. We also offer technology services – including support, repair, troubleshooting and installation – under the Geek Squad brand. We operate online retail operations, retail stores and call centers and conduct operations under a variety of names such as Best Buy (BestBuy.com, BestBuy.ca), Best Buy Mobile (BestBuyMobile.com), The Carphone Warehouse (CarphoneWarehouse.com), Five Star, Future Shop (FutureShop.ca), Geek Squad, Magnolia Audio Video, Pacific Sales and The Phone House (PhoneHouse.com). References to our website addresses do not constitute incorporation by reference of the information contained on the websites.

Information About Our Segments and Geographic Areas

During fiscal 2013 (11-month), we operated two reportable segments: Domestic and International. The Domestic segment is comprised of the operations in all states, districts and territories of the U.S., operating under various brand names including, but not limited to, Best Buy, Best Buy Mobile, Geek Squad, Magnolia Audio Video and Pacific Sales.

The International segment is comprised of: (i) all Canada operations, operating under the brand names Best Buy, Best Buy Mobile, Cell Shop, Connect Pro, Future Shop and Geek Squad; (ii) all Europe operations, operating under the brand names The Carphone Warehouse, The Phone House and Geek Squad; (iii) all China operations, operating under the brand names Five Star and Best Buy Mobile and (iv) all Mexico operations, operating under the brand names Best Buy, Best Buy Express and Geek Squad.

Financial information about our segments and geographic areas is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 14, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Transition Report on Form 10-K.

Domestic Segment

We were incorporated in the state of Minnesota in 1966 as Sound of Music, Inc. Today, our U.S. Best Buy stores offer our customers a wide variety of consumer electronics, computing and mobile phone products, entertainment products, large and small appliances and related accessories and services with variations on product assortments, staffing, promotions and store design to address specific customer groups and local market needs.

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. Today, we operate Magnolia Home Theater store-within-a-store experiences in certain U.S. Best Buy stores, offering customers high-end electronics with specially trained employees. In fiscal 2010, we also began operating Magnolia Design Center store-within-a-store experiences to further enhance the unique product offerings and high-touch customer service provided by the Magnolia brand in select U.S. Best Buy stores.

In fiscal 2003, we acquired Geek Squad Inc. to further our plans of providing technology support services to customers. Geek Squad service is available in all U.S. Best Buy branded stores.

In fiscal 2007, we acquired California-based Pacific Sales Kitchen and Bath Centers, Inc. ("Pacific Sales"). Pacific Sales specializes in the sale and installation of high-end and mass-market premium brand kitchen appliances, plumbing fixtures and home entertainment products, with a focus on builders and remodelers. In fiscal 2011, we also began integrating Pacific Sales into select U.S. Best Buy stores via our Pacific Kitchen and Home store-within-a-store experience, offering customers many of the same products and services offered in that brand's stand-alone store format.

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In fiscal 2007, we also developed the Best Buy Mobile concept through a management consulting agreement with U.K.-based Carphone Warehouse Group plc ("CPW"). Best Buy Mobile provides a comprehensive assortment of mobile phones, accessories and related services using experienced sales personnel in all U.S. Best Buy stores, as well as stand-alone stores.

In fiscal 2012, we acquired mindSHIFT Technologies, Inc ("mindSHIFT"), a managed service provider for small and mid-sized businesses, providing cloud services, data center services and professional services throughout the U.S.

### International Segment

Our International segment was established in fiscal 2002 with our acquisition of Future Shop Ltd., Canada's largest consumer electronics retailer. Since that acquisition, we have operated a dual-brand strategy in Canada by introducing the Best Buy brand, which allows us to retain Future Shop's brand equity and attract more customers by offering a choice of distinct store experiences.

In fiscal 2007, we acquired a 75% interest in Jiangsu Five Star Appliance Co., Ltd. ("Five Star"), one of China's largest appliance and consumer electronics retailers. In fiscal 2009, we acquired the remaining 25% interest in Five Star.

In fiscal 2009, we acquired a 50% controlling interest in Best Buy Europe Distributions Limited ("Best Buy Europe"). Best Buy Europe is a venture with CPW, consisting of CPW's former retail and distribution business with nearly 2,400 small-format The Carphone Warehouse and The Phone House stores, online channels, device insurance operations, and mobile and fixed-line telecommunication services.

In fiscal 2009, we expanded our Best Buy Mobile operations to Canada by opening stand-alone stores. We now also offer the Best Buy Mobile store-within-a-store experience in all Best Buy branded stores in Canada. Also in fiscal 2009, we opened our first Best Buy branded store in Mexico, located in Mexico City.

In fiscal 2013 (11-month), we introduced the Best Buy Mobile concept in China, and we now offer the store-within-a-store experience in select Five Star stores. We also introduced a small-format store in Mexico, Best Buy Express, that focuses on high traffic, convenience purchases with a higher mix of accessory products. In order to align our fiscal reporting periods and comply with statutory filing requirements in certain foreign jurisdictions, we consolidate the financial results of our Europe, China and Mexico operations on a one-month lag. Consistent with such consolidation, the financial and non-financial information presented in this Transition Report on Form 10-K relative to our Europe, China and Mexico operations is also presented on a one-month lag.

### Operations

#### Domestic Segment

Our Domestic segment is managed by product and service categories and channels, with separate leadership teams for each area. These teams are responsible for determining how their products and services are marketed across our three primary channels - online, retail stores and call centers. In addition to these teams, separate teams manage support capabilities (e.g., human resources and real estate management) and channel operations. Retail store operations are divided into territories and districts based on geography and store size. District managers monitor store operations and meet regularly with store managers to discuss performance.

Corporate management generally controls advertising, merchandise purchasing and pricing, as well as inventory policies across all of our channels. Our retail stores have developed procedures for inventory management, transaction

processing, customer relations, store administration, product sales and services, staff training and merchandise display that are standardized within each store brand. All stores within each store brand generally operate in the same manner under the standard procedures with a degree of flexibility for store management to address certain local market characteristics.

#### International Segment

Located throughout eight European countries, The Carphone Warehouse and The Phone House stores are significantly smaller than our Best Buy branded stores and employ sales associates that provide independent advice on the network service plan and hardware best suited to each customer. Most phone sales require in-store registration with the network operator facilitated by our employees, allowing the customer to leave the store with a fully active phone and a service contract. Advertising,



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merchandise purchasing and pricing, and inventory policies for these stores are controlled by corporate retail management in each respective local market.

Canada store operations are organized to support two principal store brands. Future Shop stores have predominantly commissioned sales associates, whereas employees in Best Buy branded stores in Canada, like employees in U.S. Best Buy stores, are noncommissioned. Each store brand has national management that monitors store operations. All Canada stores use a standardized operating system that includes procedures for inventory management, transaction processing, customer relations, store administration, staff training and merchandise display. Advertising, merchandise purchasing and pricing, and inventory policies are centrally controlled. Our Best Buy Mobile stores in Canada employ an operating model similar to that used in our U.S. Best Buy Mobile stores.

Our Five Star stores primarily utilize vendor employees and full-time sales associates to sell our products. Corporate retail management generally controls advertising, merchandise purchasing and pricing, and inventory policies, although management for individual regions within our Five Star brand may vary these operations to adapt to local customer needs.

Our stores in Mexico employ an operating model similar to that used in our U.S. Best Buy stores.

## Merchandise and Services

### Domestic Segment

Our online channel and U.S. Best Buy stores have offerings in six revenue categories: Consumer Electronics, Computing and Mobile Phones, Entertainment, Appliances, Services and Other. Consumer Electronics consists primarily of video and audio products. Video products include televisions, e-Readers, navigation products, digital cameras and accessories, digital camcorders and accessories and DVD and Blu-ray players. Audio products include MP3 players and accessories, home theater audio systems and components, musical instruments and mobile electronics such as car stereo and satellite radio products. The Computing and Mobile Phones revenue category includes notebook and desktop computers, tablets, monitors, mobile phones and related subscription service commissions, hard drives and other storage devices, networking equipment, office supplies and other related accessories such as printers. The Entertainment revenue category includes video gaming hardware and software, DVDs, Blu-rays, CDs, digital downloads and computer software. The Appliances revenue category includes both major and small appliances. The Services revenue category consists primarily of service contracts, extended warranties, computer-related services, product repair, and delivery and installation for home theater, mobile audio and appliances. The Other revenue category includes non-core offerings such as snacks and beverages.

U.S. Best Buy Mobile offerings are included in our Computing and Mobile Phones and Services revenue categories. Revenue from U.S. Best Buy Mobile stand-alone stores is primarily derived from mobile phone hardware, subscription service commissions from mobile phone network operators and associated mobile phone accessories.

Magnolia Audio Video stores have offerings in two revenue categories: Consumer Electronics and Services. Consumer Electronics consists of video and audio products. Video products include televisions, DVD and Blu-ray players and accessories. Audio products include home theater audio systems and components, mobile electronics and accessories. The Services revenue category consists primarily of home theater system installation, as well as extended warranties.

Pacific Sales stores have offerings in three revenue categories: Appliances, Consumer Electronics and Services. Appliances consists of major appliances, evenly split between high-end and mass-market premium brands, and plumbing, which consists of kitchen and bath fixtures including 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 extended warranties, installation and repair services.

The offerings from our managed service provider for small and mid-sized businesses, mindSHIFT, are included in our Services revenue category and consist primarily of information technology-related service contracts.

#### International Segment

The Carphone Warehouse and The Phone House stores in Europe have offerings in two revenue categories: Computing and Mobile Phones and Services. Computing and Mobile Phones consists primarily of mobile phone hardware, subscription service commissions from mobile phone network operators, associated mobile phone accessories and tablets. Services consists of insurance operations, providing protection primarily for the replacement of lost, stolen or damaged mobile phones and tablets, as well as mobile and fixed-line telecommunication services, billing management services and Geek Squad repair services.

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In Canada, the Future Shop and Best Buy branded stores have offerings in Consumer Electronics, Computing and Mobile Phones, Entertainment, Services and Other, and at Future Shop only, Appliances. Although Future Shop and Best Buy branded stores in Canada offer similar products, there are differences in brands and depth of selection. Further, Geek Squad services are only available in the Best Buy branded stores, with Future Shop's service offerings branded as Connect Pro. Best Buy Mobile offerings in Canada are similar to those offered in our U.S. Best Buy Mobile stores.

In China, our Five Star stores have offerings in four revenue categories: Appliances, Consumer Electronics, Computing and Mobile Phones and Services. The products and services in these revenue categories are similar to those of our U.S. Best Buy stores.

Our stores in Mexico have offerings in six revenue categories: Consumer Electronics, Computing and Mobile Phones, Entertainment, Appliances, Services and Other, with products and services similar to those of our U.S. Best Buy stores.

### Distribution

#### Domestic Segment

U.S. Best Buy online merchandise sales generally are either picked up at U.S. Best Buy stores or fulfilled directly to customers from our distribution centers. Most merchandise for our U.S. Best Buy, U.S. Best Buy Mobile, Magnolia Audio Video and Pacific Sales stores is shipped directly from manufacturers to our distribution centers or warehouses located throughout the U.S. In order to meet release dates for certain products, merchandise is shipped directly to our stores from suppliers. Contract carriers transport merchandise from distribution centers and warehouses to stores, though for some Appliances products merchandise is transported directly to customers.

#### International Segment

The Carphone Warehouse and The Phone House stores' merchandise is shipped directly from our suppliers to distribution centers across Europe. Contract carriers ship merchandise from distribution centers to stores.

Our Canada stores' merchandise is shipped directly from our suppliers to our distribution centers. In order to meet release dates for selected products, certain merchandise is shipped directly to our stores from suppliers. Contract carriers ship merchandise from distribution centers to stores.

We receive our Five Star stores' merchandise at nearly 40 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 the shipment of most merchandise to our stores or customers. Large merchandise, such as major appliances, is generally fulfilled directly to customers through our distribution centers and warehouses.

Our stores in Mexico have distribution methods similar to that of our U.S. Best Buy stores.

### Suppliers and Inventory

Our business is to distribute a broad selection of products, predominantly from third-party suppliers. We work with a variety of suppliers and in fiscal 2013 (11-month), our 20 largest suppliers accounted for just under 70% of the merchandise we purchased, with 5 suppliers – Apple, Samsung, Hewlett-Packard, Sony, and LG Electronics – representing approximately 45% of total merchandise purchased. We generally do not have long-term written

contracts with our major suppliers.

We carefully monitor and manage our inventory levels to match quantities on hand with consumer demand as closely as possible. Key elements to our inventory management process include the following: continuous monitoring of historical and projected consumer demand; continuous monitoring and adjustment of inventory receipt levels; agreements with vendors relating to reimbursement for the cost of markdowns or sales incentives; and agreements with vendors relating to return privileges for certain products.

We also have a global sourcing operation to design, develop, test and contract manufacture our own line of exclusive brand products.

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### Store Development

#### Domestic Segment

During fiscal 2013 (11-month), we closed 47 U.S. Best Buy stores, 1 U.S. Best Buy Mobile stand-alone store and 1 Magnolia store while opening 105 U.S. Best Buy Mobile stand-alone stores. We continue to offer Geek Squad support services, as well as the Best Buy Mobile store-within-a-store experience, in all U.S. Best Buy stores. In fiscal 2014, we currently expect to close an additional five to ten U.S. Best Buy stores and open a small number of U.S. Best Buy Mobile stand-alone stores.

#### International Segment

Best Buy Europe opened 122 new stores and closed 126 stores in fiscal 2013 (11-month). Our small-format stores in Europe tend to have a greater number of store openings and closings compared to our other store formats, as we continually reposition and resize stores in certain markets and locations in order to optimize overall performance. In the remainder of our International segment, we opened 40 new stores and closed 21 stores. Store closures were primarily driven by Future Shop and Best Buy branded stores in Canada. Store openings were primarily driven by Best Buy Mobile Canada and Five Star. We offer Geek Squad support services in all Best Buy branded stores and within select The Carphone Warehouse and The Phone House stores in the U.K and Spain, as well as similar Connect Pro branded services in Future Shop stores. We offer the Best Buy Mobile store-within-a-store experience in all Best Buy branded stores in Canada, with a similar Cell Shop branded concept in the majority of Future Shop stores. The Best Buy Mobile store-within-a-store experience is also offered in select Five Star stores in China. In fiscal 2014, we currently expect to open a limited number of small-format stores in Europe, while continuing to review our portfolio of Best Buy stores across all geographies.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for tables reconciling our Domestic and International segment stores open at the end of each of the last three fiscal years.

#### Intellectual Property

We own or have the right to use valuable intellectual property such as trademarks, service marks and tradenames, including, but not limited to, "Best Buy," "Best Buy Mobile," "The Carphone Warehouse," "Dynex," "Five Star," "Future Shop," "Geek Squad," "Init," "Insignia," "Magnolia," "mindSHIFT," "Pacific Sales," "The Phone House," "Rocketfish," and our "Yellow Tag" logo.

We have secured domestic and international trademark and service mark registrations for many of our brands. We have also secured patents for many of our inventions. We believe our intellectual property has significant value and is an important factor in the marketing of our company, our stores, our products and our websites.

#### Seasonality

Our business, like that of many retailers, is seasonal. Historically, we have realized more of our revenue and a large portion of our earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Europe, Canada and Mexico, 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, for general corporate purposes and investment opportunities. Our working capital needs are typically greatest in the months leading up to the holiday shopping season as we purchase inventory in advance of expected sales.

#### Competition

Our primary competitors are consumer electronics retailers, including vendors who offer their products direct to the consumer, internet-based businesses, wholesale clubs, discount chains and home-improvement superstores.

Some of our competitors have low cost operating structures and seek to compete for sales primarily on price. In addition, in the U.S., online-only operators are exempt from collecting sales taxes in certain states. We believe this advantage will continue to be eroded as sales tax rules are re-evaluated at both the state and federal level. We carefully monitor pricing offered by other retailers and continuously adjust our pricing and promotions to maintain our competitiveness. Beginning in March 2013, we

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implemented an enhanced price-matching policy in the U.S. to allow customers to request that we match a price offered by certain retail store and online operators, following a successful pilot over the fiscal 2013 (11-month) holiday season. In order to allow this, we are focused on maintaining efficient operations and leveraging the economies of scale available to us and our global vendor partnerships.

In addition to price, we believe our ability to deliver a high quality customer experience offers us a key competitive advantage. We believe our dedicated and knowledgeable people, integrated online and store channels, broad product assortment, range of focused service and support offerings, distinct store formats and brand marketing strategies are important ways in which we maintain this advantage.

## Environmental Matters

While seeking and discovering new and innovative ways to engage our customers, we also strive to lessen our impact on the environment. Our energy efficiency strategy is focused on reducing energy use in our operations and on offering energy efficient products and services to our customers. For our exclusive brand products, we continue to make efforts to provide products that use less energy, are made with a reduction of toxic materials and are packaged in more responsible ways. Continued efforts to be more environmentally conscious in our exclusive brands packaging focuses on the use of recycled materials, non-solvent coatings and organic inks where possible.

Our energy efficient practices include a centralized automated energy management system for our U.S. Best Buy stores and retail energy reports by store. We continue to evolve our High Performance Building Program as we remodel and update locations. For example, where economically viable, during remodels we install skylights and dimmable lighting to reduce our energy consumption. These energy efficiency improvements, as well as process enhancements, have helped us reduce our carbon footprint. In calendar 2010, we set a long-term goal of reducing our carbon dioxide emissions by 20% by calendar 2020 (over a 2009 baseline). During calendar 2012, our retail stores, distribution centers and corporate offices reduced over 58,000 metric tons of carbon dioxide (CO<sub>2</sub>) emissions, an “absolute” decrease of 8.4 % from the previous calendar year.

Our U.S. Best Buy customers purchased over 21.2 million ENERGY STAR® certified products in calendar 2012. Through our ENERGY STAR program, we helped our customers realize utility bill savings of over \$51 million in calendar 2012. This energy saving equates to just over 689 million pounds of CO<sub>2</sub> avoidance, or the equivalent of removing 61,000 cars from U.S. roads. We are also investing in partnerships that increase our product and service offerings to our customers that will allow for more affordable energy efficient products.

Our nationwide consumer electronics recycling program allows customers to bring many consumer electronics products to our U.S. stores for free recycling, regardless of whether they were purchased from Best Buy. This recycling program is available in all U.S. Best Buy stores. We also collect old, inefficient appliances for recycling through a haul-away program. Best Buy has publicly committed to recycle 1 billion pounds of consumer goods by the end of calendar 2014. From June 2008 through December 2012, we have diverted 680 million pounds from the waste stream. We project attaining our goal in 2014.

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 are reasonably expected to materially affect, our net earnings or competitive position, or have resulted or are reasonably expected to result in material capital expenditures. See Item 1A, Risk Factors, for additional discussion.

We believe we can continue to reduce energy consumption and carbon emissions in cost effective ways that deliver value to our shareholders, customers, employees and the communities we serve, whether in our own internal

operations or through our work to connect customers with more energy efficient solutions.

Number of Employees

At the end of fiscal 2013 (11-month), we employed approximately 165,000 full-time, part-time and seasonal employees worldwide. We consider our employee relations to be good. We offer our employees a wide array of company-paid benefits that vary within our company due to customary local practices and statutory requirements, which we believe are competitive in the aggregate relative to others in our industry.



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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 NE  
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 website 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 website at [www.sec.gov](http://www.sec.gov).

We make available, free of charge on our website, our Transition Report and Annual Reports 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 website at [www.investors.bestbuy.com](http://www.investors.bestbuy.com) - select the "Financial Performance" link and then the "SEC Filings" link.

We also make available, free of charge on our website, 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, as well as the charters of all of our Board's committees: Audit Committee, Compensation and Human Resources Committee, Finance and Investment Policy Committee and Nominating, Corporate Governance and Public Policy Committee. These documents are posted on our website at [www.investors.bestbuy.com](http://www.investors.bestbuy.com) - select 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 risk factors that we believe apply to our business and the industry in which we operate. You should carefully consider each of the following risk factors in conjunction with other information provided in this Transition Report on Form 10-K and in our other public disclosures. The risk factors described below highlight potential events, trends or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity or access to sources of financing, and consequently, the market value of our common stock and debt instruments. The risk factors could cause our future results to differ materially from historical results and from guidance we may provide regarding our expectations of future financial performance. The risk factors described below should not be construed as an exhaustive list of all the risks we face. There may be others that we have not identified or that we have deemed to be immaterial. All forward-looking statements made by us or on our behalf are qualified by the risks described below.

Failure to anticipate and respond to changing consumer preferences in a timely manner could result in a decline in our sales.

Our success depends on our vendors' and our ability to successfully introduce new products, services and technologies to consumers. The level of success we achieve is dependent on, among other factors, the frequency of product and service innovations, how accurately we predict consumer preferences, the level of consumer demand, availability of merchandise, the related impact on the demand for existing products and the competitive environment. Consumers continue to have a wide variety of choices in terms of how and where they purchase the products and services we sell. Failure to accurately predict and adapt to constantly changing technology and consumer preferences, spending patterns and other lifestyle decisions, could have a material adverse effect on our revenues and results of operations.

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Sustained or worsening economic pressures in the U.S. and key international markets could adversely affect consumer spending and adversely effect our revenues.

For the past several years, we have experienced the impact of difficult and uncertain macroeconomic conditions in the geographic markets in which we operate. Certain of our products and services are viewed by some consumers to be discretionary items rather than necessities. As a result, our results of operations are sensitive to changes in macroeconomic conditions that impact consumer spending. Factors such as consumer confidence, employment levels, interest rates, tax rates, availability of consumer financing, housing market conditions, and costs for items such as fuel, energy and food, can adversely affect consumers' demand for the products and services that we offer. Our future results could be significantly adversely impacted by these factors.

Political factors could adversely affect consumer confidence and certain aspects of our operations.

Political factors can affect consumer confidence in all of the markets in which we operate. Uncertainty regarding social or fiscal policy, the threat or outbreak of terrorism, civil unrest or other hostilities or conflicts could lead to a decrease in consumer confidence. Similarly, an overly anti-business climate or sentiment could lead to adverse changes in our operations or cost structure. Other factors that may impact our operations include disruptions to the availability of content such as sporting events or other broadcast programming. Such disruptions may influence the demand for hardware that our customers purchase to access such content, as well as the commissions we receive from service providers. Accordingly, such disruptions could cause a material adverse effect on our revenues and results of operations.

If we fail to attract, develop and retain qualified employees, including employees in key positions, our business and operating results may be harmed.

Our performance is highly dependent on attracting and retaining qualified employees, including our senior management team and other key employees. Our strategy of offering high quality services and assistance for our customers requires a highly trained and engaged workforce. The turnover rate in the retail industry is relatively high, and there is an ongoing need to recruit and train new store employees. Factors that affect our ability to maintain sufficient numbers of qualified employees include employee morale, our reputation, unemployment rates, competition from other employers and our ability to offer appropriate compensation packages. Our inability to recruit a sufficient number of qualified individuals or failure to retain key employees in the future may impair our efficiency and effectiveness and our ability to pursue growth opportunities. In addition, we have experienced a significant amount of turnover of senior management employees with specific knowledge relating to us, our operations and our industry which knowledge could be difficult to replace. These management changes may negatively impact the operation of our business.

We face strong competition from traditional store-based retailers, internet-based businesses, our vendors and other forms of retail commerce, which directly affects our sales and margins.

The retail business is highly competitive. Price is of primary importance to customers and price transparency and comparability continue to increase, particularly as a result of digital tools. We compete with many other local, regional, national and international retailers, as well as certain of our vendors who offer their products directly to consumers. Some of our competitors have greater market presence and financial resources than we do. Some internet-only businesses do not collect and remit sales taxes in all U.S. states. In addition, because our business strategy is based on offering superior levels of customer service utilizing a multi-channel platform, our cost structure is higher than some of our competitors. Changes in the levels of these various competitive factors may have a significant impact on consumer demand for our products and services and the margins we can generate from them.

Consumer demand for our products and services could decline if we fail to maintain positive brand perception and recognition.

We operate a global portfolio of brands with a commitment to customer service and innovation. We believe that recognition and the reputation of our brands are key to our success. The proliferation of web-based social media means that consumer feedback and other information about our company are shared with a broad audience in a manner that is easily accessible and rapidly disseminated. Damage to the perception or reputation of our brands could result in declines in customer loyalty, lower employee retention and productivity, vendor relationship issues, and other factors, all of which could materially affect our profitability.

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Our success is dependent on the design and execution of appropriate business strategies.

Our success is dependent on our ability to identify, develop and execute appropriate strategies. Our current strategy includes transformational change to many areas of our business, including online and in-store customer experience, employee training and engagement, partnership with our vendors, retail execution and cost control. Achieving the targets we have set in a timely manner will be challenging, and it is possible that our strategies prove ineffective and that we need to make substantial changes to them in future periods. It is also possible that we are unsuccessful in executing our strategies. If we fail to design and execute appropriate strategies, our results could be materially adversely affected. If investors are uncertain about the appropriateness of our strategies or our ability to execute them, the market value of our common stock and debt instruments could be materially adversely affected.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further information regarding our strategies.

Failure to effectively manage our property portfolio may negatively impact our operating results.

As a multi-national retailer, effective management of our large property portfolio is critical to our success. We primarily secure properties through operating leases with third-party landlords. If we fail to negotiate appropriate terms for new leases we enter into, we may incur lease costs that are excessive and cause operating margins to be below acceptable levels. We may also make term commitments that are too long or too short, without the option to extend. The availability of suitable new property locations may also hinder our ability to maintain or grow our operations. Factors such as the condition of local property markets, availability of lease finance, taxes, zoning and environmental issues and competitive actions may impact the availability for suitable property.

We have closed stores, and we may close additional stores or other facilities in the future. For leased property, the financial impact of exiting a property can vary greatly depending on, among other factors, the terms of the lease, the condition of the local property market, demand for the specific property, our relationship with the landlord and the availability of potential sub-lease tenants. It is difficult for us to influence some of these factors. If these factors are unfavorable to us, then the costs of exiting a property can be significant. When we enter into a contract with a tenant to sub-lease property, we remain at risk of default by the tenant and the impact of such defaults on our future results could be significant.

Failure to effectively manage our costs could have a material adverse affect on our profitability.

Certain elements of our cost structure are largely fixed in nature. Consumer spending remains uncertain, which makes it more challenging for us to maintain or increase our operating income. The competitiveness in our industry and increasing price transparency mean that the focus on achieving efficient operations is greater than ever. As a result, we must continuously focus on managing our cost structure. Failure to manage our labor and benefit rates, advertising and marketing expenses, operating leases, other store expenses or indirect spending could severely impair our ability to maintain our price competitiveness while achieving acceptable levels of profitability.

Our liquidity may be materially adversely affected by constraints in the capital markets or our vendor credit terms.

We must have sufficient sources of liquidity to fund our working capital requirements, service our outstand