

**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**

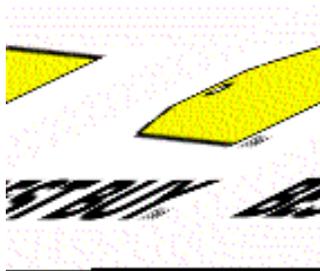
For the fiscal year ended March 1, 2003

OR

- 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
Common Stock, par value \$.10 per share

Name of each exchange on which registered
New York Stock Exchange

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant on August 30, 2002, was approximately \$5.615 billion, based on the closing price on such date of \$21.20 per share of the Registrant's Common Stock, 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 May 2, 2003, the Registrant had 322,243,258 shares of its Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended March 1, 2003 ("Annual Report"), are incorporated by reference into Parts I and II. The Annual Report is Exhibit 13.1 to this report.

Portions of the Registrant's Definitive Proxy Statement dated May 20, 2003, for the regular meeting of shareholders to be held on June 24, 2003 ("Proxy Statement"), are incorporated by reference into Parts II and III.

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 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 our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause our 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, weather, foreign currency fluctuation, availability of suitable real estate locations, and the impact of labor markets and new product introductions on our overall profitability. Readers should review our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on January 10, 2003, that describes additional important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements made in this Annual Report on Form 10-K.

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PART I

Item 1. Business.

Overview

History

We are a specialty retailer of consumer electronics, home-office equipment, entertainment software and appliances with revenue from continuing operations of \$20.9 billion for our fiscal year ended March 1, 2003. We operate retail stores and commercial Web sites as part of continuing operations under the brand names Best Buy (BestBuy.com), Future Shop (FutureShop.ca) and Magnolia Hi-Fi (MagnoliaHiFi.com).

We began in 1966 as an audio components retailer, and with the introduction of the videocassette recorder in the early 1980's, expanded into video products. In 1983, we revised our marketing strategy 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 introduced a small-market Best Buy store concept that offers merchandise in the same product categories as larger stores, with a product assortment tailored to each respective community. The Best Buy store concept has evolved to include more interactive displays and, for certain products, a higher level of customer service, with the latest version designed to increase labor efficiency and to improve merchandising. In fiscal 2004, we plan to enhance our store formats and customize product offerings to meet the needs of customers in different markets. This plan is consistent with customer centricity, one of the four key strategic priorities we formalized in fiscal 2003.

In fiscal 2000, we established Best Buy stores' 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 retail stores. The online site offers products in all of Best Buy stores' principal product categories. In fiscal 2004, we expect to unveil a Web site with enhanced features including the ability to offer online consumers an even broader product assortment than we carry in Best Buy stores.

Acquisitions

In the fourth quarter of fiscal 2001, we acquired the common stock of Magnolia Hi-Fi, Inc. (Magnolia Hi-Fi) for \$88 million in cash, including transaction costs. Magnolia Hi-Fi is a Seattle-based, high-end retailer of audio and video products that operated 19 stores in Washington, Oregon and California as of March 1, 2003. We acquired Magnolia Hi-Fi to access new customers.

In the third quarter of fiscal 2002, we acquired all of the common stock of Future Shop Ltd. (Future Shop) for \$368 million, net of cash acquired, including transaction costs. Future Shop, which operated 104 stores as of March 1, 2003, is Canada's largest consumer electronics retailer and offers product categories similar to that of Best Buy stores. We acquired Future Shop to further our expansion plans, leverage our expertise in consumer electronics retailing and increase shareholder value. The acquisition marked our initial expansion into international operations.

In the third quarter of fiscal 2003, we acquired all of the common stock of Geek Squad, Inc. (Geek Squad) for approximately \$3 million, net of cash acquired, including transaction costs. Geek Squad provides residential consumer computer support. We acquired Geek Squad to further our plans of providing technology support services to customers.

Additional information regarding our acquisitions is included in note 3 of the Notes to Consolidated Financial Statements on page 54 of our Annual Report, contained in Exhibit 13.1 to this report, and is incorporated herein by reference.

In fiscal 2003, we put on hold any major acquisitions or expansion beyond North America to focus on our core business.

Discontinued Operations

In addition to the acquisitions described above, in the fourth quarter of fiscal 2001, we acquired the common stock of Musicland Stores Corporation (Musicland) for \$425 million, including transaction costs, plus long-term debt valued at \$271 million. Musicland is primarily a mall-based national retailer of movies, prerecorded music and other entertainment-related products. At the end of fiscal 2003, Musicland operated 1,195 retail stores in 48 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico, and commercial Web sites under the brand names Media Play (MediaPlay.com), Sam Goody (SamGoody.com) and Suncoast (Suncoast.com).

The original strategy behind the Musicland acquisition was to bring Best Buy's core competencies in retailing consumer electronics to new consumer segments, including segments typically underserved by our Best Buy stores. However, the Musicland business did not meet our financial objectives. After carefully considering several alternatives, we determined that the interests of our shareholders, employees, vendors and landlords would be best served by a sale of the business. Accordingly, during the fourth quarter of fiscal 2003, we committed to a plan to sell our interest in Musicland. We have retained a national investment banking firm to assist with the sale process, as well as additional professionals to assist in other areas of the plan. Musicland's financial results have been classified separately as discontinued operations in our consolidated financial statements for all periods presented. The sale of our interest in Musicland will allow us to focus on our consumer electronics stores, which are the core profit drivers for our business.

Additional information regarding Discontinued Operations is included in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 20 of our Annual Report and note 2 of the Notes to Consolidated Financial

Statements beginning on page 52 of our Annual Report, incorporated herein by reference.

Unless otherwise noted, the following discussion relates to continuing operations only.

Business Strategy

Our vision is to make life fun and easy. Our business strategy is to bring technology and consumers together in a retail environment that focuses on educating consumers on the features and benefits of technology and entertainment products, while maximizing overall profitability. We believe our stores offer consumers meaningful advantages in store environment, product value, selection and service, all of which advance our objectives of enhancing our business model, gaining market share and improving profitability. The Future Shop and Magnolia Hi-Fi acquisitions provide us with access to new distribution channels and new customers.

During fiscal 2003, we formalized four strategic priorities that we believe will further enhance our business model over the next several years. Additional information on our strategic priorities is included in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 20 of our Annual Report, incorporated herein by reference.

Store Development

The addition of new stores has played, and we believe it will continue to play, a significant role in our continued growth and success. Our store development program focuses on entering new markets, adding stores within existing markets and relocating, remodeling and/or expanding existing stores. During fiscal 2003, we opened 90 new stores and 17 stores were remodeled, relocated or expanded. While many of the new stores opened in fiscal 2003 were in existing markets, others were in new markets including the opening of our first Best Buy store in Manhattan, as well as the opening of the first Best Buy stores in Canada. During fiscal 2004, we expect to open

approximately 80 new stores, most of which will be located in existing markets. We believe that continuing to grow our store base and locating our stores in desirable geographic markets are essential to our future success.

Additional information regarding our Outlook for Fiscal 2004 is included in Management's Discussion and Analysis of Results of Operations and Financial Condition on page 37 of our Annual Report, incorporated herein by reference.

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 accounts for 10% or more of our total revenue.

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 2003, our 20 largest suppliers accounted for over half of the merchandise we purchased, with five suppliers – Sony, Hewlett-Packard, Toshiba, Panasonic and Samsung – representing approximately 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 profits. We generally do not have long-term written contracts with our major suppliers. We have no indication that any of our suppliers will 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 sold in our stores.

Working Capital

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

Additional information on our Liquidity and Capital Resources is included in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 31 of our Annual Report, incorporated herein by reference.

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 SEC. Copies of these reports, proxy statements and other information can be inspected and copied at:

SEC Public Reference Room
450 Fifth Street, N.W.
Washington, D.C. 20549

You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You may also obtain these materials electronically by accessing the SEC's home page on the Internet at:

<http://www.sec.gov>

In addition, we make available, free of charge on our Internet 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 this material with, or furnish it to, the SEC. You may review these documents, under the heading "Investor Relations," by accessing our Web site:

<http://www.BestBuy.com>

Also, reports and other information concerning us are available for inspection and copying at:

New York Stock Exchange
20 Broad Street
New York, NY 10005

Reportable Operating Segments

During fiscal 2003, we had two reportable operating segments: Domestic and International. At the end of fiscal 2003, the Domestic segment included U.S. Best Buy and Magnolia Hi-Fi stores. U.S. Best Buy stores offer a wide variety of consumer electronics, home-office equipment, entertainment software and appliances, and operated 548 stores in 48 states at the end of fiscal 2003. Magnolia Hi-Fi is a high-end retailer of audio and video products and had 19 stores in Washington, Oregon and California at March 1, 2003. The International segment was established in connection with our acquisition of Future Shop in November of fiscal 2002. At the end of fiscal 2003, the International segment consisted of 104 Future Shop stores operating in

all Canadian provinces and eight Canadian Best Buy stores operating in Ontario. Future Shop and Canadian Best Buy stores offer products similar to those offered by U.S. Best Buy stores.

During fiscal 2002, we had three reportable operating segments: Best Buy, Musicland and International. The primary reasons for the combining of our domestic operations into one reportable operating segment were the significant similarities of their respective products and markets, the leveraging of our buying and distribution functions and the merging of many of our operational functions into a shared services model in the first quarter of fiscal 2003. Based on our commitment to a plan to sell our interest in Musicland, Musicland's financial results are no longer included in the Domestic segment, but rather are reported separately as discontinued operations.

The following table reconciles stores open at the end of fiscal 2002 to the number of stores open at the end of fiscal 2003:

	Total Stores at End of Fiscal 2002	Stores Opened Fiscal 2003	Stores Closed Fiscal 2003	Total Stores at End of Fiscal 2003
Domestic stores:				
U.S. Best Buy stores	481	67	—	548
Magnolia Hi-Fi stores	13	6	—	19
Total Domestic stores	494	73	—	567
International stores:				
Future Shop stores	95	9	—	104
Canadian Best Buy stores	—	8	—	8
Total International stores	95	17	—	112
Total	589	90	—	679

Additional information regarding our Segment Performance is presented in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 26 of our Annual Report, incorporated herein by reference. In addition, selected operating segment financial data is included in note 10 of the Notes to Consolidated Financial Statements on page 62 of our Annual Report, incorporated herein by reference.

Domestic Segment

U.S. Best Buy Stores

Overview

At the end of fiscal 2003, we operated 548 U.S. Best Buy stores in 48 states. The stores average approximately 44,200 retail square feet and produce average annual revenue of approximately \$37.1 million. U.S. Best Buy stores collectively represent approximately 24.2 million retail square feet, or about 90% of our total retail square footage. During fiscal 2002, U.S. Best Buy stores launched its latest store concept, which was designed to provide a more flexible architecture, improved merchandising, faster checkout, better product adjacencies and a more efficient labor model. Most new U.S. Best Buy stores opened in fiscal 2003 incorporated the features of this latest store format.

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	n.a.	n.a.	284
1999	28	1	311
2000	47	1	357
2001	62	—	419
2002	62	—	481
2003	67	—	548

Merchandise

U.S. Best Buy stores offer merchandise in five product categories: consumer electronics, home office, entertainment software, appliances and "other" products. Consumer electronics, the largest product category based on revenue, consists of video and audio equipment. Video products include television sets, DVD players, cameras, camcorders, VCRs and digital broadcast satellite systems. Audio products include car stereos, portable audio equipment, home theater audio systems, audio components, shelf systems and speakers. The home office category includes desktop and notebook computers and related peripheral equipment, telephones, wireless communication devices and personal digital assistants. Entertainment software products include compact discs, video game hardware and software, DVD and VHS movies, and computer software. The appliance category includes washers, dryers, ranges, refrigerators, freezers and dishwashers, as well as vacuums, microwaves and housewares. The "other" product category includes extended service contracts, blank recording media, furniture and other miscellaneous products such as batteries, business cases and storage products.

The following table presents U.S. Best Buy stores' revenue, by product category, as a percentage of total U.S. Best Buy stores' revenue:

Product Category	Percentage of Total Revenue Fiscal 2003	Percentage of Total Revenue Fiscal 2002	Percentage of Total Revenue Fiscal 2001
Consumer Electronics	34%	33%	33%
Home Office	30%	31%	34%
Entertainment Software	22%	22%	19%
Appliances	6%	6%	7%
Other	8%	8%	7%
Total	100%	100%	100%

Operations

U.S. Best Buy stores follow a standardized and detailed operating procedure called Standard Operating Platform (SOP). The SOP includes procedures for inventory management, transaction processing, customer relations, store administration, product sales and merchandise display.

U.S. Best Buy store operations are organized into three divisions. Each division is divided into regions and is under the supervision of a senior vice president who oversees store performance through regional vice presidents. Regional vice presidents have responsibility for a number of districts within their respective region. 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. Similar meetings are conducted at the corporate level with divisional and regional management. A senior vice president of retail operations has overall responsibility for retail store processing and operations, including labor management. Each district also has a loss prevention manager, with product security personnel employed at each store to control physical inventory losses. Advertising, merchandise buying and pricing, and inventory policies for U.S. Best Buy stores are centrally controlled.

U.S. Best Buy stores are generally open 73 hours a week, seven days a week. A store is typically staffed by one manager and four to five assistant managers. The average staff in each store ranges from 65 to 150 people, depending on store size and sales volume.

Distribution

Generally, merchandise is shipped to U.S. Best Buy stores from one of six distribution centers located in California, Georgia, Minnesota, Ohio, Oklahoma and Virginia. U.S. Best Buy stores also currently operate two dedicated distribution centers for entertainment software in Minnesota and Indiana. In addition, during the first quarter of fiscal 2004, we opened an additional general distribution center in upstate New York. The majority of U.S. Best Buy stores' merchandise, except for major appliances and large-screen televisions, is shipped directly from manufacturers to a distribution center. 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 the stores from manufacturers and distributors. We believe our current distribution centers and the relocation of the Ardmore, Oklahoma, distribution center to a larger facility in fiscal 2005, will accommodate expansion plans for the next several years. On average, U.S. Best Buy stores receive product shipments two or three times a week depending on sales volume. Generally, e-commerce merchandise sales are either picked up at U.S. Best Buy retail stores or fulfilled through the distribution centers.

Seasonality

Similar to many retailers, U.S. Best Buy stores' business is seasonal. Revenue and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season.

Competition

U.S. Best Buy stores' industry is highly competitive. U.S. Best Buy stores compete nationally against other consumer electronics retailers, specialty home office retailers, mass merchants, home improvement superstores and a growing number of direct-to-consumer alternatives. U.S. Best Buy stores also compete against independent dealers, regional chain discount stores, wholesale clubs, mail-order and Internet retailers, video rental stores and other specialty retail stores. Mass merchandisers continue to increase their assortment of consumer electronics products — primarily those that are less complex to sell, install and operate. 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 believe our U.S. Best Buy stores' formats and brand marketing strategies are differentiated from most competitors' by positioning our U.S. Best Buy retail stores as the destination for new technology and entertainment products in a fun, informative and noncommissioned shopping environment. U.S. Best Buy stores compete by aggressively advertising and emphasizing a broad product assortment, value pricing and financing alternatives. In addition, we believe Best Buy's e-commerce operations, coupled with the knowledgeable sales associates and service capabilities of U.S. Best Buy retail stores, have effectively positioned us to compete successfully, despite an increasingly competitive environment.

Magnolia Hi-Fi

Overview

In the fourth quarter of fiscal 2001, we acquired Seattle-based Magnolia Hi-Fi, a retailer of high-end consumer electronics, founded in 1954. At the end of fiscal 2003, Magnolia Hi-Fi operated 19 stores in Washington, Oregon and California that average approximately 10,000 retail square feet and generate average annual revenue per store of \$6.9 million. Collectively, Magnolia Hi-Fi stores represent approximately 189,000 retail square feet, less than 1% of our total retail square footage.

The following table reconciles Magnolia Hi-Fi stores open at the beginning and end of each fiscal year since the date of acquisition:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance Forward*	n.a.	n.a.	13
2001	—	—	13
2002	—	—	13
2003	6	—	19

*As of the date of acquisition, December 15, 2000

Merchandise

Magnolia Hi-Fi stores offer merchandise in three product categories: consumer electronics, home office and “other” products. Consumer electronics, the largest product category based on revenue, consists of video and audio equipment. Video products include television sets, DVD players, digital cameras, digital camcorders, mobile video, VCRs, digital broadcast satellite systems and video accessories. Audio products include home receivers and amplifiers, home speakers, shelf systems, portable audio equipment, audio accessories, car stereos and car security systems. The home office category includes telephones and wireless communication devices. The “other” product category includes extended service contracts, customer equipment repairs, and in-home and automobile installation labor and parts.

The following table presents Magnolia Hi-Fi revenue, by product category, as a percentage of total Magnolia Hi-Fi revenue:

Product Category	Percentage of Total Revenue Fiscal 2003	Percentage of Total Revenue Fiscal 2002
Consumer Electronics	87%	86%
Home Office	4%	4%
Other	9%	10%
Total	100%	100%

Operations

Magnolia Hi-Fi stores are typically managed by a store manager, an audio/video sales manager and a mobile electronics sales manager. Magnolia Hi-Fi stores are generally open 72 hours a week, seven days a week. Depending on an individual store’s volume, store staffing includes eight to 25 commissioned sales personnel, two to six commissioned mobile electronics installers, one to six digital products sales personnel, cashiers and warehouse personnel. Advertising, merchandise buying and pricing, and inventory policies for Magnolia Hi-Fi stores are centrally controlled.

Distribution

Magnolia Hi-Fi's merchandise is received and warehoused at its distribution center in Washington or at its regional warehouse in California. All inventory is bar coded and scanned to ensure accurate inventory tracking. In addition, a computerized inventory replenishment program is used to maintain optimal inventory levels at each retail store. Merchandise is delivered to retail stores an average of three times each week via Magnolia Hi-Fi's in-house distribution system.

Seasonality

Similar to many retailers, Magnolia Hi-Fi's business is seasonal. Revenue and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season.

Competition

Magnolia Hi-Fi competes with a variety of national, regional and local retailers, including large consumer electronics superstores, mass merchants and small specialty stores.

Magnolia Hi-Fi has positioned itself between large mass merchants and high-end specialty boutiques. We believe Magnolia Hi-Fi's quality product offerings, extensively trained sales staff and focus on exceptional customer service both before and after the sale, in combination with the leveraging of U.S. Best Buy stores' core competencies, effectively position Magnolia Hi-Fi to meet current and future competitive challenges.

International Segment

Overview

The International segment was established in connection with our acquisition of Future Shop in November of fiscal 2002. At the end of fiscal 2003, the International segment consisted of 104 Future Shop stores in all Canadian provinces and eight Canadian Best Buy stores in Ontario. Collectively, International stores generate average annual revenue of approximately \$16.0 million per store and represent approximately 2.4 million retail square feet, or 9% of our total retail square footage.

The Future Shop acquisition accelerated our international expansion plans and provided us with an opportunity to increase revenue, gain market share and leverage our operational expertise. We continue to build on Future Shop's position as the leading consumer electronics retailer in Canada. During fiscal 2003, we opened nine new Future Shop stores. These new stores strengthen our presence in Ontario, British Columbia and Quebec. In addition to investments in new store openings, we also enhanced the Future Shop Web site. The Web site provides an increasingly important avenue for reaching consumers and enhancing the Future Shop brand in Canada.

The primary objective of our International segment in fiscal 2003 was launching our dual-branding strategy in Canada. We introduced the Best Buy brand in Canada by opening eight Best Buy stores in the Toronto, Ontario market. The Canadian Best Buy stores are similar to the U.S. Best Buy stores and appeal to technology and entertainment enthusiasts who enjoy the interactive shopping experience and grab-and-go convenience for which Best Buy is known. As we increase the presence of Best Buy stores in Canada, we expect to gain operating efficiencies through the leveraging of our capital investments, supply chain management, advertising, merchandising and administrative functions.

The dual-branding strategy was designed to retain Future Shop's brand equity and attract more customers by offering a choice of store experiences. Our goal is to reach differentiated customers with each brand by giving them the unique shopping experiences they desire. The primary differences between the two brands are:

In-store experience – The customer's interaction with store employees is different at each of the two brands. Future Shop has 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, Canadian Best Buy store employees are noncommissioned, and the stores offer more interactive displays and grab-and-go merchandising. This design allows the customer to drive the transaction as they experience the products themselves, with store employees available to provide product information and explain product features.

Store size – The average Future Shop store is approximately 21,000 retail square feet, compared with an average of approximately 28,000 retail square feet for Canadian Best Buy stores. Canadian Best Buy stores generally have wider aisles, with more square footage devoted to entertainment software.

Additional information regarding our International segment is included in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 28 of our Annual Report, incorporated herein by reference. In addition, selected International segment financial data is included in note 10 of the Notes to Consolidated Financial Statements on page 62 of

our Annual Report, incorporated herein by reference.

Reference is also made to Part II, Item 7A., “Quantitative and Qualitative Disclosures About Market Risk,” of this report for a discussion regarding the risks associated with foreign operations.

The following table reconciles Future Shop stores open at the beginning and end of each fiscal year since the date of acquisition:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance Forward*	n.a.	n.a.	91
2002	4	—	95
2003	9	—	104

*As of the date of acquisition, November 4, 2001

The following table reconciles Canadian Best Buy stores open at the beginning and end of each fiscal year since inception of the International segment:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance Forward	n.a.	n.a.	n.a.
2002	—	—	—
2003	8	—	8

Merchandise

International stores generally offer merchandise in five product categories: consumer electronics, home office, entertainment software, appliances and “other” products. Home office, the largest product category based on revenue, includes desktop and notebook computers and related peripheral equipment, telephones, wireless communication devices and personal digital assistants. The consumer electronics category consists of video and audio equipment. Video products include television sets, DVD players, cameras, camcorders, VCRs and digital broadcast satellite systems. Audio products include car stereos, portable audio equipment, home theater

audio systems, audio components, shelf systems and speakers. Entertainment software products include compact discs, video game hardware and software, DVD and VHS movies, and computer software. The appliance category includes washers, dryers, ranges, refrigerators, freezers and dishwashers, as well as vacuums, microwaves and housewares. The “other” product category includes extended service contracts, blank recording media, furniture and other miscellaneous products such as batteries, business cases and storage products.

Although the two store brands carry similar product categories, there are differences in product brands and depth of selection within product categories. On average, less than 55 percent of the product assortment overlaps (excluding entertainment software) between the two store brands.

The following table presents International revenue, by product category, as a percentage of total International revenue:

Product Category	Percentage of Total Revenue Fiscal 2003	Percentage of Total Revenue Fiscal 2002*
Home Office	38%	39%
Consumer Electronics	34%	34%
Entertainment Software	15%	17%
Appliances	5%	4%
Other	8%	6%
Total	100%	100%

* Subsequent to the date of acquisition, November 4, 2001

Operations

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

International store operations are organized into divisions, each headed by a vice president. Each vice president has regional management who closely monitor store operations and meet 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, advertising, financial and administrative staff, as well as senior regional and global headquarters personnel, are held quarterly to review operating results and to establish future objectives.

International stores are generally open 60 to 75 hours a week, seven days a week. A typical store is staffed by a general manager, several department sales managers, a customer service manager and on average 39 full-time staff associates, as well as part-time associates. The number of full-time staff associates is dependent upon store size, sales volume and store brand.

Distribution

The majority of International stores’ merchandise, except for appliances, is shipped directly from suppliers to distribution centers in British Columbia and Ontario. Contract carriers ship merchandise from the distribution centers to retail stores. The majority of appliance sales are delivered by third-party distributors. International 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 the stores from manufacturers and distributors. International stores typically receive product shipments twice a week, with accelerated shipments during periods of high sales volume.

Seasonality

Similar to many retailers, the International segment’s business is seasonal. Revenue and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season.

Competition

The Canadian marketplace is highly competitive and highly fragmented. International stores compete against other consumer electronics retailers, specialty home office retailers, mass merchants, home improvement superstores and a growing number of direct-to-consumer alternatives. International stores also compete against independent dealers, regional chain discount stores, wholesale clubs, mail-order and Internet retailers, video rental stores and other specialty retail stores. Mass merchandisers continue to increase their assortment of consumer electronics products — primarily those that are less complex to sell, install and operate. 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 believe our International segment’s price leadership, large product assortment, focus on customer service and complementary e-commerce operations effectively positions us to meet current and future competitive conditions.

Discontinued Operations

Overview

Musicland, which was acquired in the fourth quarter of fiscal 2001, is a national retailer of movies, prerecorded music, video gaming merchandise and other entertainment-related products. Its mall-based stores include the Sam Goody and Suncoast brands. Musicland also operates large-format Media Play stores in urban and suburban areas, and Sam Goody Rural (formerly known as On Cue) stores in small or rural cities. At the end of fiscal 2003, Musicland operated 1,195 stores in 48 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico, with 8.3 million retail square feet.

Additional information regarding Discontinued Operations is included in Management's Discussion and Analysis of Results of Operations and Financial Condition beginning on page 29 of our Annual Report, incorporated herein by reference. In addition, selected Musicland financial data is included in note 2 of the Notes to Consolidated Financial Statements beginning on page 52 of our Annual Report, incorporated herein by reference.

The following is a general overview of Musicland's four retail store concepts:

Sam Goody Mall – Sam Goody Mall stores average approximately 5,100 retail square feet. At the end of fiscal 2003, there were 505 Sam Goody Mall stores in 46 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico. The retail square footage of Sam Goody Mall stores was approximately 2.6 million square feet. Sam Goody Mall stores average approximately \$1.1 million in annual revenue per location. During fiscal 2003, Musicland opened 13 and closed 123 Sam Goody Mall stores.

Suncoast – Suncoast stores are mall-based and average approximately 2,400 retail square feet. At the end of fiscal 2003, there were 383 Suncoast stores in 47 states and Puerto Rico. The retail square footage of Suncoast stores was approximately 900,000 square feet. Suncoast stores average approximately \$1.1 million in annual revenue per location. During fiscal 2003, Musicland opened 10 and closed 25 Suncoast stores.

Sam Goody Rural – In fiscal 2003, Musicland began changing the name of On Cue stores to the Sam Goody name as the result of brand recognition research conducted during fiscal 2002. Sam Goody Rural stores are located in small or rural cities, generally with populations of 10,000 to 30,000 people, and average approximately 5,900 retail square feet. At the end of fiscal 2003, there were 231 Sam Goody Rural stores in 33 states with total retail square footage of approximately 1.4 million square feet. Sam Goody Rural stores average approximately \$700,000 in annual revenue per location. During fiscal 2003, Musicland opened 19 and closed 20 Sam Goody Rural stores.

Media Play – Media Play is a superstore format retailer located in metropolitan markets. Media Play stores operate primarily in freestanding and strip mall locations in urban and suburban areas and average approximately 45,300 retail square feet. At the end of fiscal 2003, there were 76 Media Play stores in 19 states with total retail square footage of approximately 3.4 million square feet. Media Play stores average approximately \$6.4 million in annual revenue per location. During fiscal 2003, Musicland did not open or close any Media Play stores.

The following table reconciles Musicland stores open at the beginning and end of each fiscal year since the date of acquisition:

Fiscal Year	Stores Opened	Stores Closed	Total Stores at End of Fiscal Year
Balance Forward*	n.a.	n.a.	1,309
2001	—	—	1,309
2002	51	39	1,321
2003	42	168	1,195

*As of the date of acquisition, January 31, 2001

Merchandise

The following is an overview of the merchandise offered at each of Musicland's four retail store concepts:

Sam Goody Mall – Sam Goody Mall stores generally offer a wide assortment of entertainment products including compact disks, music, DVDs, books, computer software, electronics, video games and music-inspired apparel.

Suncoast – Suncoast stores feature newly released and classic movies, special interest videos and video recordings of popular TV shows. Complementary products include apparel, posters and other products inspired by new releases, as well as blank videotapes, storage cases and other video-related accessories.

Sam Goody Rural – Sam Goody Rural stores generally offer a wide assortment of entertainment products including compact disks, music, DVDs, books, computer software, electronics, video games and music-inspired apparel.

Media Play – Media Play offers a large assortment of entertainment products including movies, music, books, computer software, video games, electronics, musical instruments and toys.

The following table presents Musicland revenue, by product category, as a percentage of total Musicland revenue:

Product Category	Percentage of Total Revenue Fiscal 2003	Percentage of Total Revenue Fiscal 2002
Music	35%	41%
Movies	38%	35%

Gaming	9%	6%
Other	18%	18%
Total	100%	100%

Operations

Sam Goody Mall, Suncoast and Sam Goody Rural stores are typically managed by a store manager and an assistant manager. Media Play stores are typically managed by a general manager, an assistant general manager and three to five department managers. Most Musicland stores are open 65 to 80 hours per week, seven days a week, depending on mall hours. Store staffing levels fluctuate with the size of the store and anticipated sales volume. Advertising, merchandise buying and pricing, and inventory policies for Musicland stores are centrally controlled.

Distribution

The majority of Musicland's inventory is shipped from its distribution center located in Indiana. From time to time, in order to meet release dates for selected products and to improve inventory management, certain merchandise is shipped directly to the stores from manufacturers and distributors.

Seasonality

Similar to many retailers, Musicland's business is seasonal. Revenue and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season.

Competition

Musicland's industry is highly competitive. Increased downloading of entertainment and computer software directly via the Internet, the progression of CD recording technology and slumping music sales all have led to more intense competitive conditions. Musicland retail stores also compete with specialty retail chains, mass merchants, bookstores and consumer electronics stores, as well as video rental stores, mail order clubs and various Internet-based retailers.

Our Employees

At the end of fiscal 2003, we employed approximately 98,000 full-time, part-time and seasonal employees in our consolidated operations. This included 87,000 full-time, part-time and seasonal employees in continuing operations, and approximately 11,000 full-time, part-time and seasonal employees at Musicland. There are currently no collective bargaining agreements covering any of our employees with the exception of unions that represent hourly employees at 10 Musicland stores. We have not experienced a strike or work stoppage.

Item 2. Properties.

Stores, Distribution Centers and Corporate Facilities

The following table summarizes the geographic location of our stores at the end of fiscal 2003:

	Domestic Segment		International Segment		Discontinued Operations Musicland Stores
	U.S. Best Buy Stores	Magnolia Hi-Fi Stores	Canadian Best Buy Stores	Future Shop Stores	
Alabama	5	—	—	—	18
Alaska	1	—	—	—	7
Arizona	11	—	—	—	18
Arkansas	4	—	—	—	14
California	61	8	—	—	119
Colorado	10	—	—	—	26
Connecticut	4	—	—	—	11
Delaware	2	—	—	—	1
District of Columbia	—	—	—	—	2
Florida	34	—	—	—	38
Georgia	16	—	—	—	30
Hawaii	—	—	—	—	6
Idaho	1	—	—	—	12
Illinois	36	—	—	—	59
Indiana	14	—	—	—	38
Iowa	6	—	—	—	27
Kansas	6	—	—	—	13
Kentucky	5	—	—	—	22
Louisiana	6	—	—	—	22
Maine	2	—	—	—	2
Maryland	13	—	—	—	27
Massachusetts	16	—	—	—	18
Michigan	24	—	—	—	46
Minnesota	18	—	—	—	32
Mississippi	1	—	—	—	11
Missouri	13	—	—	—	26
Montana	2	—	—	—	8
Nebraska	3	—	—	—	8
Nevada	5	—	—	—	5
New Hampshire	5	—	—	—	5
New Jersey	15	—	—	—	48
New Mexico	4	—	—	—	8
New York	23	—	—	—	49
North Carolina	14	—	—	—	34
North Dakota	2	—	—	—	9
Ohio	25	—	—	—	57
Oklahoma	3	—	—	—	9
Oregon	4	3	—	—	20
Pennsylvania	20	—	—	—	52
Puerto Rico	—	—	—	—	5
Rhode Island	1	—	—	—	—
South Carolina	7	—	—	—	16
South Dakota	1	—	—	—	8
Tennessee	7	—	—	—	25
Texas	50	—	—	—	68
Utah	4	—	—	—	14
Vermont	1	—	—	—	—
Virgin Islands	—	—	—	—	2
Virginia	17	—	—	—	26
Washington	13	8	—	—	35
West Virginia	1	—	—	—	8
Wisconsin	12	—	—	—	30
Wyoming	—	—	—	—	1
British Columbia	—	—	—	21	—

Alberta	—	—	—	13	—
Saskatchewan	—	—	—	3	—
Manitoba	—	—	—	4	—
Ontario	—	—	8	37	—
Quebec	—	—	—	20	—
Nova Scotia	—	—	—	2	—
New Brunswick	—	—	—	2	—
Newfoundland	—	—	—	1	—
Prince Edward Island	—	—	—	1	—
Total	548	19	8	104	1,195

Domestic Segment

U.S. Best Buy Stores

At the end of fiscal 2003, we operated 548 U.S. Best Buy stores totaling approximately 24.2 million retail square feet.

U.S. Best Buy stores are serviced by the following major distribution centers:

Location	Square Footage	Owned or Leased
Findlay, Ohio	1,024,000	Leased
Staunton, Virginia	725,000	Leased
Dublin, Georgia	742,000	Owned
Dinuba, California(1)	1,039,000	Owned
Ardmore, Oklahoma(2)	565,000	Leased
Bloomington, Minnesota	425,000	Leased
Edina, Minnesota (entertainment software)(3)	326,000	Leased
Franklin, Indiana (entertainment software)	715,000	Owned

(1) The Dinuba, California, distribution center was expanded from 644,000 square feet to 1,039,000 square feet during fiscal 2003.

(2) We recently broke ground on a new distribution center in Ardmore, Oklahoma. The distribution center will be located north of the existing location in Ardmore, Oklahoma, and will be owned. The new distribution center is scheduled to open in fiscal 2005. The existing location is being replaced in order to meet the expected increased demand for technology products and services. The new facility is expected to serve 98 U.S. Best Buy stores when it initially opens and will have the ability to serve up to 125 U.S. Best Buy stores in Arkansas, Kansas, Louisiana, Missouri, New Mexico, Oklahoma and Texas.

(3) At the end of fiscal 2003, the Edina, Minnesota, distribution center distributed entertainment software to certain U.S. Best Buy stores. We are in the process of relocating the Edina distribution center's services to our Franklin, Indiana, distribution center. Following the transition expected to be completed in fiscal 2004 and coinciding with the expiration of the current lease, we will vacate the Edina facility.

In addition, U.S. Best Buy stores lease space in 17 satellite warehouses in major metropolitan markets for home delivery of major appliances and large-screen televisions. U.S. Best Buy stores utilize approximately 2.4 million square feet in these warehouses. In the first quarter of fiscal 2004, we opened an additional 720,000-square-foot owned distribution center in upstate New York.

Effective March 31, 2003, Best Buy Co., Inc. moved its principal corporate offices into a new 1.5 million square-foot facility located in Richfield, Minnesota. The new corporate campus replaces existing owned and leased corporate office facilities. In addition to owning this new facility, we continue to own two facilities in Eden Prairie, Minnesota, aggregating 540,000 square feet, which previously served as our principle corporate offices. These facilities are currently for sale. At the end of fiscal 2003, we also leased an additional 550,000 square feet of office space in close proximity to the owned facilities.

Magnolia Hi-Fi

At the end of fiscal 2003, we operated 19 Magnolia Hi-Fi stores totaling approximately 189,000 retail square feet.

Magnolia Hi-Fi leases an 80,000-square-foot distribution, warehouse and office facility in Kent, Washington, of which approximately 54,000 square feet are used for distribution and warehouse operations, with the remainder dedicated to a service department and corporate administrative functions. In addition, Magnolia Hi-Fi utilizes a 13,000-square-foot leased regional warehouse in Hayward, California.

International Segment

At the end of fiscal 2003, we operated 104 Future Shop stores and eight Canadian Best Buy stores totaling approximately 2.4 million retail square feet.

The operations of the International segment are serviced by two leased distribution centers located in Delta, British Columbia, and Brampton, Ontario. The majority of merchandise, other than appliances, is distributed from these two distribution centers, which are 255,000 square feet and 434,000 square feet, respectively. Appliance sales in western Canada are fulfilled by the distribution center in British Columbia; however, a third-party distributor is used to warehouse and ship appliance inventory in other parts of Canada, primarily Ontario and Alberta.

The Brampton distribution center is expected to be expanded to 978,000 square feet by the end of fiscal 2005. In addition a 413,000-square-foot distribution center was purchased in Langley, British Columbia, during the first quarter of fiscal 2004. The Langley distribution center will replace the leased Delta distribution center. The transition to the Langley facility is expected to be completed during fiscal 2004.

Corporate offices for the International Segment are located in a 141,000–square–foot leased facility in Burnaby, British Columbia.

Discontinued Operations

At the end of fiscal 2003, we operated 1,195 Musicland stores totaling approximately 8.3 million retail square feet.

Musicland’s stores are serviced by our distribution facility in Franklin, Indiana. For additional information regarding this facility, refer to the above discussion of U.S. Best Buy Stores.

Musicland’s corporate offices are located in a 94,000–square–foot owned facility in Minnetonka, Minnesota.

Operating Leases

Essentially all retail stores and a majority of distribution facilities are leased. Terms of the lease agreements range up to 20 years. Most of the leases contain renewal options and escalation clauses.

Additional information regarding operating leases is included in note 7 of the Notes to Consolidated Financial Statements on page 59 of our Annual Report, incorporated herein by reference.

Item 3. Legal Proceedings.

We are involved in various legal proceedings arising during the normal course of conducting business. The resolution of those proceedings is not expected to have a material impact on our results of operations and financial condition.

Our Executive Officers are as follows:

Name	Age	Position With the Company	Years With the Company
Bradbury H. Anderson	53	Vice Chairman and Chief Executive Officer	30
Richard M. Schulze	62	Founder and Chairman	37
Allen U. Lenzmeier	59	President and Chief Operating Officer	19
Thomas C. Healy	41	President — Best Buy International	13
Michael P. Keskey	48	President — Best Buy Retail Stores	15
Brian J. Dunn	43	Executive Vice President — Retail Sales	18
Marc D. Gordon	42	Executive Vice President and Chief Information Officer	5
Darren R. Jackson	38	Executive Vice President — Finance and Chief Financial Officer	3
Michael A. Linton	46	Executive Vice President — Consumer & Brand Marketing and Chief Marketing Officer	4
Michael London	54	Executive Vice President — General Merchandise Manager	7
Philip J. Schoonover	42	Executive Vice President — New Business Development	9
John C. Walden	43	Executive Vice President — Human Capital and Leadership	4
Susan S. Hoff	38	Senior Vice President — Public Affairs and Investor Relations Officer	20
Joseph M. Joyce	51	Senior Vice President — General Counsel and Assistant Secretary	12
Bruce H. Besanko	43	Vice President — Finance/Planning & Performance Management	1

Bradbury H. Anderson has been a director since 1986 and is currently Best Buy's Vice Chairman and Chief Executive Officer. Mr. Anderson assumed the responsibility of Chief Executive Officer effective June 30, 2002, having previously served as President and Chief Operating Officer since 1991. Mr. Anderson has been employed in various capacities with us since 1973.

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 June 30, 2002, Mr. Schulze relinquished the duties of Chief Executive Officer. Mr. Schulze is a trustee of the University of St. Thomas, chairman of the board of governors of the University of St. Thomas Business School and a member of the President's Council of Twin Cities Public Television.

Allen U. Lenzmeier has been a director since 2001. Mr. Lenzmeier is currently Best Buy's President and Chief Operating Officer. Mr. Lenzmeier joined us in 1984. Prior to his promotion to his current position, he served as President — Best Buy Retail Stores from 2001 to 2002 and as Chief Financial Officer and Executive Vice President from 1991 to 2001. He is a national trustee for the Boys and Girls Clubs of the Twin Cities and serves on its board of directors.

Thomas C. Healy was promoted to President — Best Buy International in 2001. Prior to that, he had served as Senior Vice President — Canadian Operations. Mr. Healy joined us in 1990 and has held positions as regional vice president, district manager and general manager.

Michael P. Keskey was promoted to President — Best Buy Retail Stores in March 2002. Mr. Keskey served as Executive Vice President — Retail Sales from 2001 to 2002 and as Senior Vice President — Retail Sales from 1997 to 2001. Mr. Keskey joined us in 1988 and has since held various positions.

Brian J. Dunn was named Executive Vice President — Retail Sales in March 2002. Mr. Dunn joined us in 1985 and has held positions as senior vice president, regional vice president, regional manager, district manager and store manager.

Marc D. Gordon was named Executive Vice President and Chief Information Officer in 2001. He is responsible for technology and supply chain management. Mr. Gordon joined us in 1998 as Senior Vice President — Information Systems and Chief Information Officer. Prior to that, Mr. Gordon had experience in the retail information systems area, most recently for West Marine Products, a West Coast-based specialty retailer/wholesaler of marine products. Mr. Gordon also served as a senior manager with Accenture, a

principal with a Boston management consulting firm and a vice president of information systems with Timberland Company.

Darren R. Jackson was named Executive Vice President — Finance and Chief Financial Officer in April 2002. Mr. Jackson joined us in 2000 as Senior Vice President — Finance and Treasurer and was promoted to Chief Financial Officer in 2001. Prior to that, Mr. Jackson served as chief financial officer of the Full-Line Store Division at Nordstrom, Inc. from 1998 to 2000 and as chief financial officer of Carson Pirie Scott & Co. Inc. from 1996 to 1998. A certified public accountant, Mr. Jackson has 14 years of experience in the retailing industry.

Michael A. Linton was promoted to Executive Vice President — Consumer & Brand Marketing and Chief Marketing Officer in March 2002. Mr. Linton joined us in 1999 as Senior Vice President — Strategic Marketing. Prior to that, Mr. Linton held positions as vice president of marketing at Remington Products Corporation, maker of personal care and grooming products; vice president and general manager of a product category at James River Corporation, a manufacturer and marketer of consumer products, food and packaging; and a general manager at Progressive Insurance. Mr. Linton began his career at The Procter & Gamble Company.

Michael London was promoted to Executive Vice President — General Merchandise Manager in 2001. Prior to that, he served as Senior Vice President – General Merchandise from 1998 to 2001 and as Vice President – General Merchandise from 1996 to 1998. Prior to joining us in 1996, Mr. London was a senior vice president for NordicTrack, a fitness equipment manufacturer, and executive vice president for Central Tractor Farm & Country, a specialty farm products retail supplier.

Philip J. Schoonover was named Executive Vice President — New Business Development in February 2002. He was promoted to Executive Vice President of Digital Technology Solutions in February 2001 after having served for five years as Senior Vice President – Merchandising. Prior to joining us in 1995, Mr. Schoonover was an executive vice president for TOPS Appliance City, a retailer of home appliances and consumer electronics.

John C. Walden was named Executive Vice President — Human Capital and Leadership in March 2002. Mr. Walden served as President of BestBuy.com, Inc. from 1999 to 2002. Prior to joining us in 1999, Mr. Walden served as chief operating officer of Peapod, Inc., an Internet retailer of groceries. Mr. Walden has also held executive positions with Ameritech Corporation, a telecommunications company, and Storage Technology Corporation, a maker of data storage products. Earlier he practiced corporate and securities law with Sidley, Austin, Brown and Wood LLP.

Susan S. Hoff was named Senior Vice President — Public Affairs and Investor Relations Officer in 2000. Since joining us in 1983, Ms. Hoff has served in various capacities including Vice President of Corporate Communications and Public Relations. She is the daughter of Founder and Chairman Richard M. Schulze.

Joseph M. Joyce was promoted to 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.

Bruce H. Besanko joined us in April 2002 as Vice President — Finance/Planning & Performance Management. Prior to joining us, he spent approximately six years with Sears serving in positions of increasing responsibility. Mr. Besanko also brings finance and treasury experience from Atlantic Richfield Company and more than eight years of service in the United States Air Force in various leadership roles.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The information set forth under the caption "Common Stock Prices" on page 40 of the Annual Report is incorporated herein by reference.

The information set forth under the caption "Equity Compensation Plan Information" on page 20 of the Proxy Statement, regarding securities authorized for issuance under equity compensation plans, is incorporated herein by reference.

Item 6. Selected Financial Data.

The information set forth under the caption "11-Year Financial Highlights" on pages 18 and 19 of the Annual Report, for the fiscal years 1999 through 2003 is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The information given under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 20 through 41 of the Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our debt is not subject to material interest-rate volatility risk. The rates on a substantial portion of our debt may be reset, but may not be more than one percentage point higher than the current rates. If the rates on the debt were to be reset one percentage point higher, our annual interest expense would increase by approximately \$8 million. We do not currently manage the risk through the use of derivative instruments.

We have market risk arising from changes in foreign currency exchange rates as a result of our acquisition of Future Shop in Canada in November 2001. At this time, we do not manage the risk through the use of derivative instruments. A 10% adverse change in the foreign currency exchange rate would not have a significant impact on our results of operations or financial position.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by this Item, listed below, are included in the Annual Report on the pages indicated below and are expressly incorporated herein by reference.

	Page No.
Consolidated balance sheets as of March 1, 2003 and March 2, 2002 For the fiscal years ended March 1, 2003, March 2, 2002 and March 3, 2001	42–43
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The information set forth under the caption "Quarterly Results and Seasonality," on pages 38–39 of the Annual Report, providing supplementary selected quarterly financial data, is incorporated herein by reference.

Condensed Consolidating Financial Information

Our convertible debentures are guaranteed by Best Buy Stores, L.P., our wholly-owned indirect subsidiary. The aggregate principal amount at maturity of these convertible debentures is \$894 million. The carrying value of the convertible debentures at March 1, 2003, was approximately \$749 million.

Additional information regarding the convertible debentures is included in note 4 of the Notes to Consolidated Financial Statements beginning on page 54 of the Annual Report, incorporated herein by reference.

During the fourth quarter of fiscal 2003, we committed to a plan to sell our interest in Musicland, which is included in Non-Guarantor Subsidiaries. At March 1, 2003, Best Buy Co., Inc. had an intercompany receivable from Musicland totaling \$350 million, included in current assets. Additional information regarding Musicland is included in note 2 of the Notes to Consolidated Financial Statements beginning on page 52 of the Annual Report, incorporated herein by reference.

The following tables present condensed consolidating balance sheets for the fiscal years ended March 1, 2003, and March 2, 2002, and condensed consolidating statements of earnings and cash flows for the fiscal years ended March 1, 2003; March 2, 2002; and March 3, 2001:

Condensed Consolidating Balance Sheets As of March 1, 2003

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,863	\$ 37	\$ 14	\$ —	\$ 1,914
Receivables	216	50	46	—	312
Recoverable costs from developed properties	10	—	—	—	10
Merchandise inventories	—	1,828	221	(3)	2,046
Other current assets	182	48	39	(81)	188
Current assets of discontinued operations	—	—	397	—	397
Intercompany receivable	1,617	—	—	(1,617)	—
Intercompany note receivable	500	—	—	(500)	—
Total current assets	4,388	1,963	717	(2,201)	4,867
Net Property and Equipment	498	1,390	174	—	2,062
Goodwill, Net	—	3	426	—	429
Intangible Assets	—	—	33	—	33
Other Assets	71	78	48	(82)	115
Noncurrent Assets of Discontinued Operations	—	—	157	—	157
Investments in Subsidiaries	1,055	—	—	(1,055)	—
Total Assets	\$ 6,012	\$ 3,434	\$ 1,555	\$ (3,338)	\$ 7,663
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$ 1,997	\$ —	\$ 198	\$ —	\$ 2,195
Accrued compensation and related expenses	80	75	19	—	174
Accrued liabilities	180	469	80	—	729
Accrued income taxes	—	274	181	(81)	374
Current portion of long-term debt	—	—	1	—	1
Current liabilities of discontinued operations	—	—	320	—	320
Intercompany payable	—	780	837	(1,617)	—
Intercompany note payable	—	500	—	(500)	—
Total current liabilities	2,257	2,098	1,636	(2,198)	3,793
Long-Term Liabilities	264	79	26	(82)	287
Long-Term Debt	758	59	11	—	828

Noncurrent Liabilities of Discontinued Operations	—	—	25	—	25
Shareholders' Equity (Deficit)	2,733	1,198	(143)	(1,058)	2,730
Total Liabilities and Shareholders' Equity	\$ 6,012	\$ 3,434	\$ 1,555	\$ (3,338)	\$ 7,663

Condensed Consolidating Balance Sheets
As of March 2, 2002

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,823	\$ 29	\$ 9	\$ —	\$ 1,861
Receivables	196	11	16	(2)	221
Recoverable costs from developed properties	79	—	—	—	79
Merchandise inventories	—	1,710	167	(2)	1,875
Other current assets	215	6	9	(114)	116
Current assets of discontinued operations	—	—	448	—	448
Intercompany receivable	1,327	—	—	(1,327)	—
Intercompany note receivable	500	—	—	(500)	—
Total current assets	4,140	1,756	649	(1,945)	4,600
Net Property and Equipment	558	953	150	—	1,661
Goodwill, Net	—	—	465	—	465
Other Assets	66	14	—	—	80
Noncurrent Assets of Discontinued Operations	—	—	561	—	561
Investments in Subsidiaries	1,044	—	—	(1,044)	—
Total Assets	\$ 5,808	\$ 2,723	\$ 1,825	\$ (2,989)	\$ 7,367
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$ 2,040	\$ —	\$ 164	\$ (2)	\$ 2,202
Accrued compensation and related expenses	81	71	22	—	174
Accrued liabilities	168	374	73	(2)	613
Accrued income taxes	—	276	129	(114)	291
Current portion of long-term debt	2	—	5	—	7
Current liabilities of discontinued operations	—	—	418	—	418
Intercompany payable	—	429	898	(1,327)	—
Intercompany note payable	—	500	—	(500)	—
Total current liabilities	2,291	1,650	1,709	(1,945)	3,705
Long-Term Liabilities	235	69	8	—	312
Long-Term Debt	761	39	8	—	808
Noncurrent Liabilities of Discontinued Operations	—	—	21	—	21
Shareholders' Equity	2,521	965	79	(1,044)	2,521
Total Liabilities and Shareholders' Equity	\$ 5,808	\$ 2,723	\$ 1,825	\$ (2,989)	\$ 7,367

**Condensed Consolidating Statements of Earnings
For the Fiscal Year Ended March 1, 2003**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 1	\$ 19,735	\$ 2,349	\$ (1,139)	\$ 20,946
Cost of goods sold	1	14,935	1,529	(755)	15,710
Gross profit	—	4,800	820	(384)	5,236
Selling, general and administrative expenses	32	4,087	491	(384)	4,226
Operating (loss) income	(32)	713	329	—	1,010
Net interest income (expense)	50	(41)	(5)	—	4
Equity in loss of subsidiaries	(36)	—	—	36	—
(Loss) earnings from continuing operations before income tax expense	(18)	672	324	36	1,014
Income tax expense	8	260	124	—	392
(Loss) earnings from continuing operations	(26)	412	200	36	622
Earnings (loss) from discontinued operations, net of tax	125	—	(566)	—	(441)
Cumulative effect of change in accounting principle for goodwill, net of tax	—	—	(40)	—	(40)
Cumulative effect of change in accounting principle for vendor allowances, net of tax	—	(40)	(2)	—	(42)
Net earnings (loss)	\$ 99	\$ 372	\$ (408)	\$ 36	\$ 99

**Condensed Consolidating Statements of Earnings
For the Fiscal Year Ended March 2, 2002**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 3	\$ 17,410	\$ 1,231	\$ (933)	\$ 17,711
Cost of goods sold	1	13,834	693	(587)	13,941
Gross profit	2	3,576	538	(346)	3,770
Selling, general and administrative expenses	87	2,827	294	(346)	2,862
Operating (loss) income	(85)	749	244	—	908
Net interest income (expense)	79	(63)	2	—	18
Equity in earnings of subsidiaries	574	—	—	(574)	—
Earnings from continuing operations before income tax expense	568	686	246	(574)	926

Income tax (benefit) expense	(2)	263	95	—	356
Earnings from continuing operations	570	423	151	(574)	570
Earnings from discontinued operations, net of tax	—	—	—	—	—
Net earnings	\$ 570	\$ 423	\$ 151	(\$ 574)	\$ 570

**Condensed Consolidating Statements of Earnings
For the Fiscal Year Ended March 3, 2001**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 394	\$ 14,696	\$ 325	\$ (226)	\$ 15,189
Cost of goods sold	178	11,911	110	(22)	12,177
Gross profit	216	2,785	215	(204)	3,012
Selling, general and administrative expenses	41	2,427	137	(204)	2,401
Operating income	175	358	78	—	611
Net interest income (expense)	139	(117)	16	—	38
Equity in earnings of subsidiaries	202	—	—	(202)	—
Earnings from continuing operations before income tax expense	516	241	94	(202)	649
Income tax expense	120	92	36	—	248
Earnings from continuing operations	396	149	58	(202)	401
Loss from discontinued operations, net of tax	—	—	(5)	—	(5)
Net earnings	\$ 396	\$ 149	\$ 53	\$ (202)	\$ 396

**Condensed Consolidating Statements of Cash Flows
For the Fiscal Year Ended March 1, 2003**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash provided by (used in) operating activities from continuing operations	\$ 256	\$ 511	\$ (21)	\$ —	\$ 746
Investing activities					
Additions to property and equipment	(23)	(636)	(66)	—	(725)
Acquisition of business, net of cash acquired	—	(3)	—	—	(3)
Decrease in recoverable costs from developed properties	69	—	—	—	69
Total cash provided by (used in) investing activities from continuing operations	46	(639)	(66)	—	(659)
Financing activities					
Net proceeds from issuance of long-term debt	—	18	—	—	18
Long-term debt payments	(11)	—	(2)	—	(13)
Issuance of common stock	40	—	—	—	40
Change in intercompany receivable/payable	(291)	118	173	—	—
Total cash (used in) provided by financing activities from continuing operations	(262)	136	171	—	45
Net cash used in discontinued operations	—	—	(79)	—	(79)
Increase in cash and cash equivalents	40	8	5	—	53
	1,823	29	9	—	1,861

Cash and cash equivalents at beginning
of year

Cash and cash equivalents at end of year	\$	1,863	\$	37	\$	14	\$	—	\$	1,914
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**Condensed Consolidating Statements of Cash Flows
For the Fiscal Year Ended March 2, 2002**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash provided by operating activities from continuing operations	\$ 665	\$ 652	\$ 226	\$ —	\$ 1,543
Investing activities					
Additions to property and equipment	(284)	(257)	(40)	—	(581)
Acquisition of business, net of cash acquired	—	—	(368)	—	(368)
Decrease in recoverable costs from developed properties	25	—	—	—	25
Total cash used in investing activities from continuing operations	(259)	(257)	(408)	—	(924)
Financing activities					
Net proceeds from issuance of long-term debt	726	—	—	—	726
Long-term debt payments	(2)	(3)	—	—	(5)
Issuance of common stock	48	—	—	—	48
Change in intercompany receivable/payable	(71)	(390)	461	—	—
Total cash provided by (used in) financing activities from continuing operations	701	(393)	461	—	769
Net cash used in discontinued operations	—	—	(270)	—	(270)
Increase in cash and cash equivalents	1,107	2	9	—	1,118
Cash and cash equivalents at beginning of year	716	27	—	—	743
Cash and cash equivalents at end of year	\$ 1,823	\$ 29	\$ 9	\$ —	\$ 1,861

**Condensed Consolidating Statements of Cash Flows
For the Fiscal Year Ended March 3, 2001**

\$ in millions

	Best Buy Co., Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total cash provided by operating activities from continuing operations	\$ 632	\$ 194	\$ 35	\$ —	\$ 861
Investing activities					
Additions to property and equipment	(143)	(491)	(23)	—	(657)
Acquisitions of businesses, net of cash acquired	—	—	(326)	—	(326)
Decrease in recoverable costs from developed properties	(31)	—	—	—	(31)
Increase in other assets	(16)	(1)	2	—	(15)
Investment in subsidiaries	(513)	—	—	513	—
Total cash used in investing activities from continuing operations	(703)	(492)	(347)	513	(1,029)
Financing activities					
Long-term debt payments	(15)	—	(2)	—	(17)
Issuance of common stock	235	—	—	—	235
Investment by parent	—	—	513	(513)	—
Change in intercompany receivable/payable	(139)	280	(141)	—	—
Total cash provided by financing activities from continuing operations	81	280	370	(513)	218
Net cash used in discontinued operations	—	—	(58)	—	(58)
	10	(18)	—	—	(8)

Increase (decrease) in cash and cash equivalents						
Cash and cash equivalents at beginning of year		706		45		751
Cash and cash equivalents at end of year	\$	716	\$	27	\$	743

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information provided under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Nominees and Directors” on pages 6 through 10 of the Proxy Statement is incorporated herein by reference. The information provided under the caption “Section 16(a) Beneficial Ownership Reporting

Compliance” on page 23 of the Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation.

The information set forth under the caption “Executive Compensation” on pages 12 through 20 of the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information provided under the caption “Security Ownership of Certain Beneficial Owners and Management” on pages 6 through 8 of the Proxy Statement is incorporated herein by reference.

The information set forth under the caption “Equity Compensation Plan Information” on page 20 of the Proxy Statement, regarding securities authorized for issuance under equity compensation plans, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information provided under the captions “Nominees and Directors” and “Certain Transactions” on pages 9 through 11 of the Proxy Statement is incorporated herein by reference.

Item 14. Controls and Procedures.

a. Evaluation of disclosure controls and procedures

The term “disclosure controls and procedures” is defined in Rules 13a–14(c) and 15d–14(c) of the Exchange Act. These Rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this report (“Evaluation Date”), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

b. Changes in internal controls

We maintain a system of internal accounting controls that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There have been no significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation thereof.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8–K.

(a) The following documents are filed as part of this report:

1. Financial Statements:

All financial statements as set forth under Item 8 of this report.

2. Supplementary Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts

Other schedules have not been included because they are not applicable or because the information is included elsewhere in this report.

3. Exhibits:

Number	Description	Method of Filing
3.1	Amended and Restated Articles of Incorporation, as amended	(1,2,3,10)
3.2	Amended and Restated By-Laws, as amended	(2,4,5,6,14,16)
4.1	Credit Agreement with U.S. Bank National Association dated March 21, 2002, as amended	(1,16)
4.2	Offer Letter agreement between HSBC Bank Canada and Best Buy Canada Ltd. Magasins Best Buy Ltee, dated September 13, 2002	(1)
4.3	Indenture by and among Best Buy Co., Inc., the subsidiary guarantors named therein and Wells Fargo Bank Minnesota, National Association, dated June 27, 2001, as amended	(1,15)
4.4	Indenture by and among Best Buy Co., Inc., Best Buy Stores, L.P. and Wells Fargo Bank Minnesota, National Association, dated January 15, 2002, as amended and supplemented	(8)
10.1	1994 Full-Time Employee Non-Qualified Stock Option Plan, as amended	(11,17)
10.2	1997 Employee Non-Qualified Stock Option Plan, as amended	(1,9,17)
10.3	1997 Directors' Non-Qualified Stock Option Plan, as amended	(12,17)
10.4	Best Buy Third Amended and Restated Deferred Compensation Plan, effective as of January 1, 2001, as amended	(1)
10.5	Resolutions of the Board of Directors adopting the EVA® Incentive Program for senior officers	(7)
10.6	Resolutions of the Compensation and Human Resources Committee of the Board of Directors adopting the Fiscal Year 2004 Short-term Incentive Plan for senior officers	(1)
10.7	2000 Restricted Stock Award Plan, as amended	(1)
10.8	The Assumed Musicland 1992 Stock Option Plan	(13)
10.9	The Assumed Musicland 1994 Stock Option Plan	(13)
10.10	The Assumed Musicland 1998 Stock Incentive Plan	(13)
12.1	Statements re: Computation of Ratios	(1)
13.1	2003 Annual Report to Shareholders	(1)
21.1	Subsidiaries of the Registrant	(1)
23.1	Consent of Ernst & Young LLP	(1)
99.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer	(1)
99.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer	(1)

(1) Document is filed herewith.

(2) Exhibit so marked was filed with the Securities and Exchange Commission (SEC) on May 24, 1995, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(3) Exhibit so marked was filed with the SEC on May 20, 1994, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(4) Exhibit so marked was filed with the SEC on Nov. 12, 1991, as an exhibit to the Registration Statement on Form S-3 (Registration No. 33-43065) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(5) Exhibit so marked was filed with the SEC on Jan. 13, 1992, as an exhibit to the Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(6) Exhibit so marked was filed with the SEC on May 28, 1997, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(7) Exhibit so marked was filed with the SEC on April 29, 1999, as an exhibit to the preliminary Proxy Statement of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(8) Exhibit so marked was filed with the SEC on February 28, 2002, as an exhibit to the Registration Statement on Form S-3 (Registration No. 333-83562) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(9) Exhibit so marked was filed on August 20, 1998, as an exhibit to the Registration Statement on Form S-8 (Registration No. 333-61897) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(10) Exhibit so marked was filed with the SEC on October 10, 2000, as an exhibit to the Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(11) Exhibit so marked was filed with the SEC on May 27, 1999, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(12) Exhibit so marked was filed with the SEC on January 11, 2000, as an exhibit to the Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(13) Exhibit so marked was filed with the SEC on February 23, 2001, as an exhibit to the Registration Statement on Form S-8 (Registration No. 333-56146) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(14) Exhibit so marked was filed with the SEC on June 1, 2001, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(15) Exhibit so marked was filed with the SEC on September 24, 2001, as an exhibit to the Registration Statement on Form S-3 (Registration No. 333-70060) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(16) Exhibit so marked was filed with the SEC on May 30, 2002, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(17) Exhibit so marked was filed with the SEC on July 12, 1999, as an exhibit to the Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K under the Securities Act of 1933, the Registrant has not filed as exhibits to the Form 10-K certain instruments with respect to long-term debt under which the amount of securities authorized does not exceed 10% of the total assets of the Registrant. The Registrant hereby agrees to furnish copies of all such instruments to the Commission upon request.

(b) Reports on Form 8-K:

(1) Announcement that we expect to realign our Musicland business into our domestic Best Buy stores operations; the position of Musicland president has been eliminated; and Kevin Freeland, the former president of Musicland, has left the company, filed on January 10, 2003.

(2) Filing of amended and restated cautionary statements for purposes of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, filed on January 10, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEST BUY CO., INC.

(Registrant)

By: /s/ Bradbury H. Anderson

Vice Chairman and Chief Executive Officer

Dated: May 29, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on May 29, 2003.

/s/ Bradbury H. Anderson Bradbury H. Anderson	Vice Chairman and Chief Executive Officer (principal executive officer)
/s/ Darren R. Jackson Darren R. Jackson	Executive Vice President — Finance and Chief Financial Officer (principal financial and accounting officer)
/s/ Richard M. Schulze Richard M. Schulze	Chairman and Director
/s/ Robert T. Blanchard Robert T. Blanchard	Director
Jack W. Eugster	Director
/s/ Kathy J. Higgins Victor Kathy J. Higgins Victor	Director
/s/ Elliot S. Kaplan Elliot S. Kaplan	Director
/s/ Allen U. Lenzmeier Allen U. Lenzmeier	Director
/s/ Mark C. Thompson Mark C. Thompson	Director
/s/ Frank D. Trestman Frank D. Trestman	Director
/s/ Hatim A. Tyabji Hatim A. Tyabji	Director

/s/ James C. Wetherbe
James C. Wetherbe

Director

CERTIFICATIONS

I, Bradbury H. Anderson, Vice Chairman and Chief Executive Officer of Best Buy Co., Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Best Buy Co., Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ Bradbury H. Anderson
Vice Chairman and Chief Executive Officer

CERTIFICATIONS

I, Darren R. Jackson, Executive Vice President — Finance and Chief Financial Officer of Best Buy Co., Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Best Buy Co., Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ Darren R. Jackson
Executive Vice President — Finance and Chief Financial Officer

Schedule II
Valuation and Qualifying Accounts
(\$ in millions)

	Balance at Beginning of Period	Charged to Expenses Or Other Accounts	Other*	Balance at End of period**
Fiscal Year Ended March 1, 2003				
Allowance for doubtful accounts	\$ 3	\$ 10	\$ (3)	\$ 10
Fiscal Year Ended March 2, 2002				
Allowance for doubtful accounts	\$ 1	\$ 7	\$ (5)	\$ 3
Fiscal Year Ended March 3, 2001				
Allowance for doubtful accounts	\$ 1	\$ 5	\$ (5)	\$ 1

* Includes bad debt write-offs and recoveries, as well as reserves associated with acquired companies.

** Includes Musicland balances of \$1, \$1, and \$0 at March 1, 2003, March 2, 2002 and March 3, 2001, respectively.

MINNESOTA SECRETARY OF STATE
 NOTICE OF CHANGE OF REGISTERED OFFICE/
 REGISTERED AGENT

[STATE SEAL]

Please read the instructions on the back before completing this form.

1. Entity Name:
 Best Buy Co, Inc.

2. Registered Office Address (No. & Street). List a complete street address or rural route and rural route box number.
 A post office box is not acceptable.

401 Second Avenue South Street	Minneapolis City	MN State	55401 Zip Code
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3. Registered Agent (Registered agents are required for foreign entities but optional for Minnesota entities):

CT Corporation System Inc.
 If you do not wish to designate an agent, you must list "NONE" in this box. DO NOT LIST THE ENTITY NAME.

In compliance with Minnesota Statutes, Section 302A.123, 303.10, 308A.028, 317A.123 or 322B.135 I certify that the above listed company has resolved to change the entity's registered office and/or agent as listed above.

I certify that I am authorized to execute this notice and I further certify that I understand that by signing this notice I am subject to the penalties of perjury as set forth in Minnesota Statutes Section 609.48 as if I had signed this notice under oath.

/s/ Joseph M. Joyce
 Signature of Authorized Person

Name and Telephone Number of a Contact Person: CT Corporation (612) 333-4315
please print legibly

Filing Fee: For Profit Minnesota Corporations, Cooperatives and Limited Liability Companies: \$35.00.

Minnesota Nonprofit Corporations: No \$35.00 fee is due unless you are adding or removing an agent.

[Filing stamp of Minnesota Secretary
 of State dated March 31, 2003]

Non-Minnesota Corporations: \$50.00.

Make checks payable to Secretary of State
 Return to: Minnesota Secretary of State
 180 State Office Bldg.
 100 Rev. Dr. Martin Luther King Jr. Blvd.
 St. Paul, MN 55155-1299
 (651) 296-2803

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this “Amendment”), made and entered into as of October 7, 2002, is by and between Best Buy Co., Inc., a Minnesota corporation (the “Company”), the banks which are signatories hereto (individually, each a “Bank” and collectively, the “Banks”) and U.S. Bank National Association, a national banking association, as agent for the banks party to the Credit Agreement (in such capacity, the “Agent”).

RECITALS

1. The banks party thereto, Company, and the Agent entered into an Amended and Restated Credit Agreement dated as of March 21, 2002 (the “Credit Agreement”); and
2. The Company desires to amend certain provisions of the Credit Agreement, and the Banks and the Agent have agreed to make such amendments, subject to the terms and conditions set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby covenant and agree to be bound as follows:

Section 1. **Capitalized Terms.** Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, unless the context shall otherwise require.

Section 2. **Amendments.** The Credit Agreement is hereby amended as follows:

2.1 **Defined Terms.** Section 1.1 of the Credit Agreement is amended by deleting the definitions of “Cash Flow Leverage Ratio”, “Earnings Before Interest, Income Taxes and Depreciation” and “Interest Coverage Ratio” as they appear therein and by inserting the following defined terms therein in the appropriate alphabetical order:

“**Cash Flow Leverage Ratio**”: at any date of determination, the ratio of (a) the Interest-bearing Indebtedness of the Company and its Subsidiaries, plus eight times Rental and Lease Expense for the Measurement Period ended on such date, to (b) the sum for the Measurement Period ending on such date of (i) Earnings Before Interest, Income Taxes, Depreciation and Amortization and (ii) Rental and Lease Expense, in all cases determined in accordance with GAAP and as set forth in the Company’s financial statements delivered hereunder.

“Earnings Before Interest, Income Taxes, Depreciation and Amortization”: for any period of determination, the consolidated net income of the Company and its Subsidiaries before deductions for income taxes, Net Interest Expense, depreciation and amortization, all as determined in accordance with GAAP, excluding therefrom (a) nonoperating gains (including, without limitation, extraordinary or unusual gains, gains from discontinuance of operations, gains arising from the sale of assets and other nonrecurring gains) of the Company and its Subsidiaries during the applicable period and (b) similar nonoperating losses (including, without limitation, losses arising from the sale of assets and other nonrecurring losses) of the Company and its Subsidiaries during such period.

“Interest Coverage Ratio”: for any Measurement Period, the ratio of (a) the sum of (i) Earnings Before Interest, Income Taxes, Depreciation and Amortization plus (ii) Rental and Lease Expense to (b) the sum of (y) Net Interest plus (z) Rental and Lease Expense.

2.2 **Permitted Liens**. Section 5.12(h) of the Credit Agreement is deleted in its entirety.

2.3 **Schedule 5.13(k)**. Schedule 5.13(k) of the Credit Agreement is hereby amended and restated to read as set forth in Exhibit A hereto, which Exhibit A is hereby made a part of the Credit Agreement as Schedule 5.13(k) thereto.

Section 3. **Effectiveness of Amendments**. The amendments contained in this Amendment shall become effective as of September 30, 2002 upon delivery by the Company of, and compliance by the Company with, the following:

3.1 This Amendment duly executed by the Company, the Agent, and the Majority Banks.

3.2 A consent of each Guarantor in the form of Exhibit B attached to this Amendment, duly executed by such Guarantor.

3.3 The Company shall have satisfied such other conditions as specified by the Banks, including payment of all unpaid legal fees and expenses incurred by the Agent through the date of this Amendment in connection with the Credit Agreement and this Amendment.

Each Bank consents to the execution, delivery and performance by the Agent of the letter dated as of October 1, 2002 given by the Agent in favor of Company and HBSC Bank Canada relating to the Indebtedness described on Exhibit A hereto and acknowledges receipt of copies of the Canadian Loan Documents (as defined therein).

Section 4. **Representations, Warranties, Authority, No Adverse Claim**.

4.1 **Reassertion of Representations and Warranties, No Default**. The Company hereby represents that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties contained in the Credit

Agreement are true, correct and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the Credit Agreement, and (b) there will exist no Default or Event of Default under the Credit Agreement as amended by this Amendment on such date which has not been waived by the Banks.

4.2 **Authority, Validity, No Conflict, No Consent Required**. The Company represents and warrants that the Company has the power and legal right and authority to enter into this Amendment and has duly authorized as appropriate the execution and delivery of this Amendment and other agreements and documents executed and delivered by the Company in connection herewith or therewith by proper corporate authority, and neither this Amendment nor the agreements contained herein contravenes or constitutes a default under any agreement, instrument or indenture to which the Company is a party or a signatory or a provision of the Company's Articles of Incorporation, Bylaws or any other agreement or requirement of law, or result in the imposition of any Lien on any of its property under any agreement binding on or applicable to the Company or any of its property except, if any, in favor of the Banks. The Company represents and warrants that this Amendment constitutes the legal, valid, and binding obligations of the Company, enforceable against the Company in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium, and other similar laws affecting Creditors' rights generally and general principles of equity. The Company represents and warrants that no consent, approval or authorization of or registration or declaration with any person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Company of this Amendment or other agreements and documents executed and delivered by the Company in connection therewith or the performance of obligations of the Company therein described, except for those which the Company has obtained or provided and as to which the Company has delivered certified copies of documents evidencing each such action to the Agent.

4.3 **No Adverse Claim**. The Company warrants, acknowledges and agrees that no events have been taken place and no circumstances exist at the date hereof which would give the Company a basis to assert a defense, offset or counterclaim to any claim of the Banks with respect to the Obligations.

4.4 **Affirmation of Credit Agreement, Further References.** The Banks and the Company each acknowledge and affirm that the Credit Agreement, as hereby amended, is hereby ratified and confirmed in all respects and all terms, conditions and provisions of the Credit Agreement, except as amended by this Amendment, shall remain unmodified and in full force and effect. All references in any document or instrument to the Credit Agreement are hereby amended and shall refer to the Credit Agreement as amended by this Amendment. The Company confirms to the Banks that all of the terms, conditions, provisions, agreements, requirements, promises, obligations, duties, covenants and representations of the Company under any and all other documents and agreements entered into with respect to the obligations under the Credit Agreement are incorporated herein by reference and are hereby ratified and affirmed in all respects by the Company.

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4.5 **Resolution and Incumbency Certificate.** Within 30 days of the date of this Amendment, the Company will furnish to the Agent a copy of the resolutions of the Board of Directors of the Company ratifying the execution, delivery and performance of this Amendment certified as true and accurate by its Secretary or Assistant Secretary, along with a certification by such Secretary or Assistant Secretary (i) certifying that there has been no amendment to the Articles of Incorporation or Bylaws of the Company since true and accurate copies of the same were delivered to the Agent with a certificate of the Secretary of the Company dated March 21, 2002, and (ii) identifying each officer of the Company authorized to execute this Amendment and any other instrument or agreement executed by the Company in connection with this Amendment, and certifying as to specimens of such officer's signature and such officer's incumbency in such offices as such officer holds.

Section 5. **Merger and Integration, Superseding Effect.** This Amendment, from and after the date hereof, embodies the entire agreement and understanding between the parties hereto and supersedes and has merged into this Amendment all prior oral and written agreements on the same subjects by and between the parties hereto with the effect that this Amendment, shall control with respect to the specific subjects hereof and thereof.

Section 6. **Severability.** Whenever possible, each provision of this Amendment and any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted in such manner as to be effective, valid and enforceable under the applicable law of any jurisdiction, but, if any provision of this Amendment or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be held to be prohibited, invalid or unenforceable under the applicable law, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition, invalidity or unenforceability, without invalidating or rendering unenforceable the remainder of such provision or the remaining provisions of this Amendment or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto in such jurisdiction, or affecting the effectiveness, validity or enforceability of such provision in any other jurisdiction.

Section 7. **Successors.** This Amendment shall be binding upon the Company and the Banks and their respective successors and assigns, and shall inure to the benefit of the Company and the Banks and the successors and assigns of the Banks.

Section 8. **Legal Expenses.** As provided in Section 8.03 of the Credit Agreement, the Company agrees to reimburse the Agent, upon execution of this Amendment, for all reasonable out-of-pocket expenses (including attorney' fees and legal expenses of Dorsey & Whitney LLP, counsel for the Agent) incurred in connection with the Credit Agreement, including in connection with the negotiation, preparation and execution of this Amendment and all other documents negotiated, prepared and executed in connection with this Amendment and in enforcing the obligations of the Company under this Amendment and to pay and save the Agent harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of this Amendment, which obligations of the Company shall survive any termination of the Credit Agreement.

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Section 9. **Headings.** The headings of various sections of this Amendment have been inserted for reference only and shall not be deemed to be a part of this Amendment.

Section 10. **Counterparts.** This Amendment may be executed in several counterparts as deemed necessary or convenient, each of which, when so executed, shall be deemed an original, provided that all such counterparts shall be regarded as one and the same document.

Section 11. **Governing Law.** THIS AMENDMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS, THEIR HOLDING COMPANIES AND THEIR AFFILIATES.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

BEST BUY CO., INC.

By /s/ Ryan D. Robinson
Its VP Finance

U.S. BANK NATIONAL ASSOCIATION, as
Agent and as a Bank

By /s/ Sam Pepper
Its Vice President

S-1

WACHOVIA BANK, NATIONAL
ASSOCIATION, f/k/a First Union National Bank

By /s/ Mark S. Supple
Its Vice President

[Signature page to First Amendment to Credit Agreement]

S-2

BANK ONE, NA (MAIN CHICAGO OFFICE)

By /s/ Vincent R. Henchek
Its Director

[Signature page to First Amendment to Credit Agreement]

S-3

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By /s/ Scott D. Bjelde
Its Vice President and Senior Banker

By /s/ Christopher A. Cudak
Its Vice President

[Signature page to First Amendment to Credit Agreement]

S-4

THE BANK OF TOKYO-MITSUBISHI, LTD.,
CHICAGO BRANCH

By /s/ Patrick McCue
Its Vice President & Manager

[Signature page to First Amendment to Credit Agreement]

S-5

CREDIT SUISSE FIRST BOSTON,
CAYMAN ISLANDS BRANCH

By /s/ Bill O'Daly
Its Director

By /s/ Cassandra Droogan
Its Associate

[Signature page to First Amendment to Credit Agreement]

S-6

FLEET NATIONAL BANK

By /s/ Kathleen A. Dimock
Its Director

[Signature page to First Amendment to Credit Agreement]

S-7

THE BANK OF NOVA SCOTIA

By /s/ Keith Rauschenberger
Its Director

[Signature page to First Amendment to Credit Agreement]

S-8

MERRILL LYNCH CAPITAL CORPORATION

By /s/ Stephanie Vallillo
Its Vice President

[Signature page to First Amendment to Credit Agreement]

S-9

EXHIBIT A
TO FIRST AMENDMENT
TO CREDIT AGREEMENT

Schedule 5.13(k)

FUTURE SHOP INDEBTEDNESS

Best Buy Canada Ltd. Magasins Best Buy Ltee. has a CDN\$68,000,000 unsecured revolving operating loan facility from HSBC Canada.

A-1

EXHIBIT B
TO FIRST AMENDMENT
TO CREDIT AGREEMENT

CONSENT OF GUARANTORS

Each of the undersigned have guaranteed payment and performance of the obligations of BEST BUY CO., INC., a Minnesota corporation (the "Company"), to U.S. Bank National Association, as agent (the "Agent") and as a Bank, and certain other Banks (the "Banks") under that certain Amended and Restated Credit Agreement dated as of March 21, 2002, between the Company and the Banks ("Credit Agreement"), pursuant to the terms of separate Guaranties executed by the undersigned in favor of the Banks and dated as of March 21, 2002 (as amended, collectively, the "Guaranties" and each individually, a "Guaranty").

Each of the undersigned acknowledges receipt of a copy of the proposed First Amendment to Credit Agreement, dated concurrently herewith (the "First Amendment").

Each of the undersigned confirms, agrees and acknowledges that the Amendment shall in no way impair or limit the rights of the Agent and the Banks under its Guaranty and that obligations of the Company under the Credit Agreement, as amended by the First Amendment, constitute "Obligations" as defined in its Guaranty.

Each of the undersigned confirms that, by its Guaranty, and subject to the terms and conditions of its Guaranty, the undersigned continues to guaranty payment and performance of the obligations of the Company to the Banks under the Credit Agreement, as amended by the First Amendment. The undersigned hereby confirms that its Guaranty remains in full force and effect, enforceable against the undersigned by the Banks, in accordance with its terms.

Dated as of October 7, 2002

BBC PROPERTY CO.

By /s/ Ryan D. Robinson
Its VP Finance

BEST BUY STORES, L.P.
By: BBC Property Co.

Its General Partner

By /s/ Ryan D. Robinson
Its VP Finance

BEST BUY INVESTMENT CO.

By /s/ Ryan D. Robinson
Its VP Finance

September 13, 2002

Best Buy Canada Ltd.
8800 Glenlyon Parkway
Burnaby, British Columbia
V5J 5K3

Attention: Kevin Layden
President and Chief Operating Officer

Dear Sirs:

On the basis of the financial statements and other information provided by Best Buy Canada Ltd. Magasins Best Buy Ltée. (formerly known as Future Shop Ltd. Future Shop Ltée.) in connection with your request for continued financing, HSBC Bank Canada (the “**Bank**”) has authorized and hereby offers to make available the following credit facilities (collectively, the “**Loans**”) on the terms and conditions indicated below:

1. **Borrower:**

Best Buy Canada Ltd. Magasins Best Buy Ltée (the “**Borrower**”)

2. **Guarantors:**

2.1. **Best Buy Co., Inc. (“Best Buy Co.”)**

2.2. **Best Buy Stores, L.P. (“Stores L.P.”)**

3. **Credit Facilities:**

3.1. **The existing Operating Loan and Bulge Facility (each as defined in the offer letter dated August 15, 2000, as amended or supplemented by offer letters dated May 7, 2001, October 26, 2001 and November 28, 2001 (collectively, the “Prior Offer Letter”)) and the outstanding term loan with an unpaid balance of CDN \$11,660,000 (the “Term Loan”) shall be replaced with a committed 364 day revolving operating loan in the principal amount of CDN \$50,000,000 (the “Operating Loan”), which Operating Loan shall be available on the terms and conditions set out herein for a 364 day term (the “Operating Term”) commencing on the date of acceptance of this Offer Letter by the Borrower and which shall, if the Borrower so elects, include a bank guarantee and letter of credit facility in the principal amount of up to CDN \$10,000,000 (the “Documentary Credit Sub-Facility”),**

it being understood that, without limiting any of the other terms and conditions of this Offer Letter, including, without limitation, the Margin Requirements set out below, the maximum principal amount available to the Borrower under the Operating Loan, including the face amount of any outstanding Letters of Credit or Bankers' Acceptances issued by the Bank shall not at any time exceed CDN \$50,000,000;

3.2. The existing F/X Facility (as defined in the Prior Offer Letter) shall be replaced with a demand foreign exchange contract line of credit (the "F/X Facility") under which the Aggregate F/X Credit Risk (as defined below) shall at no time exceed CDN \$5,000,000 (the "F/X Credit Limit").

3.3. A new CDN \$13,000,000 electronic funds transfer line (the "EFT Limit") shall be available independent and exclusive from the Operating Loan;

3.4. The CDN \$15,000,000 Bulge Facility, the Term Loan (under which the amount of CDN \$11,660,000 is outstanding as at September 13, 2002) and the Swap Facility (all as described in the Prior Offer Letter) shall be fully repaid and cancelled.

4. Definitions and Interpretation:

The capitalized terms used in this Offer Letter shall have the meanings given to such terms either in the body of this Offer Letter or at the end of Schedule "A" attached hereto ("**Schedule "A"**"), whichever is applicable, and Schedule "A", any additional schedules and all of the provisions thereof are hereby incorporated into and shall form an integral part of this Offer Letter.

5. Purpose:

5.1. The Operating Loan shall be used to assist in financing the general corporate purposes of the Borrower and to repay in full the Term Loan and the Swap Facility;

5.2. The F/X Facility shall be used to assist the Borrower in hedging against currency fluctuations. In particular, the F/X Facility shall be used to enable the Borrower to enter into forward exchange contracts with the Bank for the purchase or sale of U.S. Dollars (or other major currencies approved by the Bank) having terms to maturity of up to one year (any one such forward exchange contract being hereinafter referred to as a "F/X Contract"); and

5.3. The EFT Limit will be used to facilitate the Borrower making its bi-weekly payroll obligations to its employees.

6. Availability:

6.1. So long as there is no Event of Default (as defined below) and subject to the Margin Requirements (as defined below) and upon satisfaction of the Conditions Precedent specified below, the Operating Loan shall, at the Borrower’s option, be made available by way of:

6.1.1 direct advances, in either Canadian Dollars or U.S. Dollars, or any combination thereof, by way of current account overdraft;

6.1.2 Bankers’ Acceptances in face amounts of not less than CDN \$500,000 and in integral multiples of CDN \$100,000 and otherwise pursuant to section 4 of Schedule “A”; and

6.1.3 Canadian Dollar or U.S. Dollar Letters of Credit (as defined in Schedule “A”) issued under the Documentary Credit Sub-Facility,

or any combination thereof.

6.2. Upon satisfaction of the Conditions Precedent set out below, the F/X Facility shall be made available to the Borrower by way of the Bank entering into F/X Contracts with and at the request of the Borrower, provided that the Aggregate F/X Credit Risk applicable to all F/X Contracts entered into by the Bank and in effect at any given time shall not exceed the F/X Credit Limit specified under the heading “Credit Facilities” above, namely, CDN \$5,000,000. For the purposes of this Offer Letter, “Aggregate F/X Credit Risk” means the aggregate of the F/X Credit Risk Values applicable to all F/X Contracts entered into by the Bank and remaining in effect at any given time; “F/X Credit Risk Value” means the value obtained when the face value of a given F/X Contract (converted to Canadian Dollars, where applicable, in accordance with the Bank’s standard rates of conversion) is multiplied by the F/X Credit Risk Factor assigned by the Bank to such F/X Contract; “F/X Credit Risk Factor” means the foreign exchange credit risk factor with respect to any particular F/X Contract, expressed as a percentage, as determined by the Bank from time to time in its absolute discretion, based upon the term to maturity of the applicable F/X Contract and the Bank’s assessment of the risk associated with the market for the subject currency(ies).

For clarification purposes:

6.2.1 based on the F/X Credit Risk Factors utilized by the Bank and the F/X Credit Limit applicable to the F/X Facility, the Borrower would at the date hereof be permitted to enter into 12-month U.S. Dollar F/X Contracts having an aggregate value of up to approximately US \$28,000,000, provided that the aggregate value of the F/X Contracts which the Borrower may be entitled to enter into at any given time will

6.2.2 as at September 10, 2002, the F/X Credit Risk Factor is 29% and the conversion rate for purposes of determining the value of the U.S. Dollar F/X Contracts is 1.6.

7. **Margin Requirements:**

In addition to the loan limits specified under the heading Credit Facilities above, the amounts available to the Borrower under the Loans shall be limited by the following margin requirements (the “Margin Requirements”).

The aggregate of:

- 7.1. **100% of the Canadian Dollar advances outstanding under the Operating Loan;**
- 7.2. **the Canadian Dollar Equivalent of 100% of the U.S. Dollar advances outstanding under the Operating Loan;**
- 7.3. **100% of the face amounts of all Canadian Dollar Banker’s Acceptances made available and outstanding under the Operating Loan;**
- 7.4. **100% of the face amounts of all Canadian Dollar Letters of Credit issued and outstanding under the Documentary Credit Sub–Facility; and**
- 7.5. **the Canadian Dollar Equivalent of the face amounts of 100% of the U.S. Dollar Letters of Credit issued and outstanding under the Documentary Credit Sub–Facility;**

shall at no time exceed the aggregate of:

- 7.6. **50% of Acceptable Inventory; and**
- 7.7. **75% of Acceptable Receivables.**

8. **Repayment:**

All amounts outstanding under the Loans, including the liabilities of the Bank under any Letters of Credit issued and outstanding under the Documentary Credit Sub–Facility, any Bankers’ Acceptances issued and outstanding under the Operating Loan, any F/X Contracts entered into and outstanding under the F/X Facility and any amounts outstanding under the EFT Limit, shall, at the option of the Bank, immediately come due and be payable upon the occurrence of an Event of Default (as defined below) provided that:

- 8.1. **all amounts outstanding under the Operating Loan shall be repaid by no later than the date on which the Operating Term expires;**

8.2. all amounts advanced by the Bank as a result of any demand for payment under any Letter of Credit issued under the Documentary Credit Sub-Facility shall be repaid forthwith upon demand by the Bank;

8.3. all amounts advanced by the Bank upon the maturity of any Bankers' Acceptance shall be repaid forthwith upon demand by the Bank;

8.4. any and all liabilities of or losses suffered by the Bank in connection with any F/X Contract shall be paid to the Bank by the Borrower on demand, provided that unless and until otherwise demanded, the Borrower shall fulfill all of its obligations under all F/X Contracts as and when they become due;

8.5. all amounts outstanding under the EFT Limit shall be repaid by no later than the date on which the Operating Term expires; and

8.6. interest on the Loans shall be payable as hereinafter set out.

9. **Interest and Fees:**

9.1. Accrued interest on the daily balance of the principal advanced under the Loans and remaining unpaid from time to time, including, without limitation, all direct advances and amounts outstanding as a result of unpaid liabilities pursuant to paragraphs 8.1 through 8.4 inclusive above, shall be payable on the last day of each month at a rate equal to the Bank's Prime Rate plus one quarter of one percent (0.25%) per annum, in the case of monies advanced in Canadian Dollars, and the Bank's U.S. Base Rate plus one quarter of one percent (0.25%) per annum, in the case of monies advanced in U.S. Dollars, calculated monthly from the date of advance, both before and after demand, default and judgment, until actual payment. By accepting this Offer Letter, the Borrower acknowledges that the Bank's Prime Rate was four and one-half of one percent (4.5%) per annum and that the "Bank's U.S. Base Rate" was five and one-quarter of one percent (5.25%) per annum, in each case as at September 10, 2002. A certificate of a Vice-President or Assistant Vice-President of the Bank shall be, absent manifest error, conclusive evidence of the Bank's Prime Rate or the Bank's U.S. Base Rate from time to time;

9.2. The Borrower shall pay to the Bank:

9.2.1 at the time of issuance by the Bank of each Letter of Credit under the Documentary Credit Sub-Facility, the Bank's prevailing fees in respect thereof which, in any event, shall be not less than 1.25% per annum of the face amount of the Letter of Credit calculated over the term thereof;

9.2.2 at the time of presentation for acceptance of each Bankers' Acceptance, a stamping fee of 1.50% per annum of the face amount of each Bankers' Acceptance calculated over the term thereof;

9.2.3 a monthly standby fee equal to 0.125% per annum of that portion of the Operating Loan which remains un-utilized on a daily basis, such fee to be calculated daily and payable on the last day of each month during the Operating Term;

9.2.4 a fee of 0.10% of the principal amount authorized and available under the Operating Loan upon the annual renewal of the Loans; and

9.2.5 the Bank's prevailing activity fees existing from time to time in respect of such matters as extensions of review dates due to delay in delivery of financial information, late management information systems reporting, and the Bank's additional requirements such as interim applications;

Notwithstanding anything to the contrary contained herein, the Bank may, at its discretion, make an advance under the Operating Loan, or make a reduction from an advance otherwise requested under the Operating Loan, to pay any interest or fees which have become due and payable under the terms of this Offer Letter.

10. Loan Documents:

The Loans and the Borrower's liabilities and obligations hereunder shall be evidenced and supported by the following documents (the "Loan Documents") completed in a form and content satisfactory to the Bank's solicitors:

10.1 line of credit by way of current account overdraft agreement for execution by the Borrower in the principal amount of CDN \$50,000,000;

10.2 agreement for U.S. Dollar line of credit by way of account overdraft for execution by the Borrower in the principal amount of the United States Dollar Equivalent of CDN \$50,000,000;

10.3 Depository Bills Agreement in respect of Bankers' Acceptances for execution by the Borrower;

10.4 Power of Attorney in respect of Bankers' Acceptances for execution by the Borrower;

10.5 Application and indemnity agreements for execution by the Borrower in respect of the issuance of Letters of Credit under the Documentary Credit Sub-Facility;

10.6. Forward exchange contract agreement for execution by the Borrower in respect of the F/X Contracts entered into under the F/X Facility;

10.7. unlimited guarantee of indebtedness and obligations of the Borrower to the Bank for execution by Best Buy Co.;

10.8. assignment and postponement agreement in respect of any shareholder or other loans or indebtedness made to the Borrower by Best Buy Co. (excluding trade debt as therein defined). For purposes of this agreement, “trade debt” shall include license fees, royalties, expense reimbursements, capital purchases and inventory purchases;

10.9. unlimited guarantee of indebtedness and obligations of the Borrower to the Bank for execution by Stores L.P.;

10.10. confirmation of placement by the Borrower of an all risk insurance policy (including extended coverage from earthquake and flood endorsements) on all buildings, improvements, equipment, inventory and all other tangible assets owned by the Borrower, which policy includes business interruption and public liability insurance in amounts and from an insurer or insurers satisfactory to the Bank;

10.11. subordination agreement (the “FSAI Subordination Agreement”) with respect to any present or future shareholder or other loans (excluding royalties and services and supply debt as described in the agreement) made to the Borrower by Future Shop Acquisition Inc. which FSAI Subordination Agreement shall permit interest only payments due and owing by the Borrower to Future Shop Acquisition Inc. for so long as no Event of Default has occurred or providing the making of any such interest payments will not create an Event of Default;

10.12. such supporting certificates, opinions and other documentation as the Bank and its solicitors may reasonably require.

11. Release of Security

Upon satisfaction of the conditions precedent set forth in section 13 below, any security interests granted by the Borrower to the Bank prior to the date of this Offer Letter (the “**Prior Security Documents**”) shall be released and any assets covered thereby re-conveyed by the Bank to the Borrower and any registrations or filings made with respect to the Prior Security Documents shall also be discharged by the Bank, all at the Borrower’s cost.

12. Conditions of Loans:

12.1. The following covenants, terms and conditions shall apply so long as the Borrower is indebted to the Bank:

12.1.1 The Borrower shall maintain the Margin Requirements specified above;

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12.1.2 The Borrower shall not, without the prior written consent of the Bank:

12.1.2.1 declare or pay dividends on any class or kind of its shares, repurchase or redeem any of its shares, reduce its capital in any way whatsoever or repay shareholder advances (except for the repayment of shareholder advances, interest thereon and trade debt contemplated by the FSAI Subordination Agreement);

12.1.2.2 except in the ordinary course of the Borrower’s business, pay remuneration of any kind, including salaries, management fees and bonuses, to any shareholder of the Borrower or any Affiliate of any shareholder of the Borrower if the payment of such remuneration causes the Borrower to record a pre-tax operating loss or causes the Borrower to be in breach of any Financial Covenants;

12.1.2.3 grant or allow any Lien or other encumbrance, whether fixed or floating, to be registered against or exist on any of the assets of the Borrower except as specifically provided herein and in particular without limiting the generality of the foregoing, shall not grant a trust deed or other instrument in favour of a trustee, other than Existing Liens and Purchase Money Mortgages to a maximum aggregate amount of CDN \$15,000,000;

12.1.2.4 become guarantor or endorser or otherwise become liable upon any note or other obligation other than in the normal course of the Borrower’s business, unless the Borrower is required to deliver a guarantee of the indebtedness of Best Buy Co. to U.S. Bank National Association pursuant to the terms of the U.S. Credit Agreement;

12.1.2.5 permit minimum cash flow ratio as calculated at the end of each fiscal quarter to be less than 1.0:1.0, calculated in accordance with Canadian GAAP. For purposes of this Offer Letter, the minimum cash flow ratio shall mean the quotient arrived at from time to time when dividing the aggregate of:

12.1.2.5.1 the Borrower’s net income plus the aggregate of taxes, depreciation, rental and lease payments, and cash investment in the Borrower made by Best Buy Co.,

by:

- 12.1.2.5.2 capital expenditures incurred by the Borrower, *plus*
- 12.1.2.5.3 building, property, rental and lease expenses of the Borrower, *plus*
- 12.1.2.5.4 principal repayment obligations (excluding repayment of the Term Loan), *plus*
- 12.1.2.5.5 cash interest expense, including inter-company debt

such minimum cash flow ratio to be calculated quarterly on a trailing 12 month basis based upon the Borrower's quarterly unaudited financial statements;

12.1.2.6 consolidate, amalgamate or merge with any other Person, enter into any corporate reorganization or other transaction intended to effect or otherwise permit a material change in its existing organizational documents, liquidate, wind-up or dissolve itself; or

12.1.2.7 make any Investments in joint ventures, partnerships, Subsidiaries or other business ventures, unless such joint venture, partnership, Subsidiary or other business venture is engaged in activities substantially similar or complementary to the business activities of the Borrower as at the date hereof.

12.1.3 The Consolidated Net Worth (of Best Buy Co.) shall not at any time be less than US \$2,000,000,000 minus the aggregate amount (not to exceed US \$1,000,000,000) paid by Best Buy Co. in cash after the date of execution and delivery of the U.S. Credit Agreement to repurchase shares in Best Buy Co.'s common stock pursuant to Best Buy Co.'s stock repurchase programs;

12.1.4 The Cash Flow Leverage Ratio (of Best Buy Co.) shall not (a) at the end of any fiscal year of the Best Buy Co. exceed 3.00 to 1.00 and (b) at the end of each fiscal quarter of Best Buy Co. (other than the last fiscal quarter) during any such fiscal year exceed 3.25 to 1.00;

12.1.5 The Interest Coverage Ratio (of Best Buy Co.), as at the end of any fiscal quarter for the Measurement Period ending on that date, shall not be less than 3.00 to 1.00;

12.1.6 No Change of Control shall occur;

12.2. The Borrower and Best Buy Co. shall cause each Subsidiary that becomes a Restricted Subsidiary (as such terms are defined in the U.S. Credit Agreement) to immediately thereafter execute and deliver to the Bank a guarantee of the indebtedness and obligations of the Borrower to the Bank, under which the quantum of liability shall be unlimited or in such lesser amount as determined by the Bank in consultation with its solicitors;

13. Financial Statements, Reports and Notices:

The Borrower and Best Buy Co. shall from time to time deliver or cause to be delivered to the Bank the following:

13.1. monthly, within 45 days of each calendar month end, a written inventory and receivables statement setting forth the value of the Borrower's accounts receivable and inventory as of the end of such calendar month, with the value of Acceptable Receivables and Acceptable Inventory listed separately; notwithstanding the delivery by the Borrower of the foregoing statement, the Bank may, from time to time and at any time, require the Borrower to additionally provide the Bank with:

13.1.1 internally prepared financial statements for the Borrower, including a balance sheet and income statement, in a form and containing information satisfactory to the Bank;

13.1.2 list of accounts receivable of the Borrower; and

13.1.3 declaration of inventory of the Borrower in accordance with the Bank's format, together with any supporting data that the Bank may reasonably require;

13.2. quarterly, within 45 days of each calendar quarter year end:

13.2.1 internally prepared financial statements for the Borrower, including a balance sheet, income statement and cash flow statement for the Borrower, in a form and containing information satisfactory to the Bank;

13.2.2 internally prepared financial statements for Best Buy Co.; and

13.2.3 compliance certificate from a senior officer of the Borrower in a form acceptable to the Bank, setting forth the manner in which the Borrower has calculated its minimum cash flow and its compliance with paragraph 12.1.2.5;

13.3. annually, within 120 days of Best Buy Co.'s fiscal year end:

13.3.1 aged list of accounts receivable of the Borrower with those accounts outstanding for over 60 days and any holdback monies being listed separately;

13.3.2 unaudited financial statements in respect of the Borrower, including a balance sheet, income statement and comparison to plan, by an accountant acceptable to the Bank, acting reasonably, in accordance with Canadian GAAP;

13.3.3 pro forma financial statements, budget and financial projections in respect of the Borrower for the following fiscal year, which shall include, without limitation, a capital expenditures budget for the Borrower; and

13.3.4 audited Consolidated Financial Statements in respect of Best Buy Co. by an accountant acceptable to the Bank in accordance with US GAAP;

13.4. all financial statements and information required to be delivered by Best Buy Co. and Stores L.P. to U.S. Bank National Association pursuant to the terms of the U.S. Credit Agreement; and

13.5. all additional financial statements and information as and when reasonably requested by the Bank.

Best Buy Co. shall from time to time deliver or cause to be delivered to the Bank the following promptly after any officer of Best Buy Co. or any Subsidiary becomes aware of the same (all capitalized terms shall have the definitions ascribed to them in the U.S. Credit Agreement. For example, the Company means Best Buy Co.):

13.6. any Event of Default or Unmatured Event of Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

13.7. the filing or commencement of, or receipt of notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Company or any Subsidiary which has had or would likely have a Material Adverse Effect on the Company;

13.8. any development affecting or relating to the Company or any Subsidiary, including without limitation any development in litigation, that in the reasonable judgment of the Company has had, or would likely have, a Material Adverse Effect on the Company;

13.9. the issuance by any Governmental Authority of any injunction, order, decision or other restraint prohibiting, or having the effect of prohibiting, the Loans or Letters of Credit, or the initiation of any litigation or similar proceeding seeking any such injunction, order or other restraint;

13.10. the occurrence of any Reportable Event with respect to any Plan and the action which is proposed to be taken with respect thereto, together with a copy of the notice of such Reportable Event to the PBGC;

13.11. any violation as to any environmental matter by the Company or any Subsidiary or the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters (i) in which an adverse determination or result could result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits or other permits held by the Company or any Subsidiary which are material to the operations of the Company or such Subsidiary, or (ii) which will or threatens to impose a material liability on the Company or such Subsidiary to any Person or which will require a material expenditure by the Company or such Subsidiary to cure any alleged problem or violation; or

13.12. the issuance of any Governmental Authority of any injunction, order or decision, or the entry by the Company or any Subsidiary into an agreement with any Governmental Agency, materially restricting the business of the Company or any Subsidiary or concerning any material business practice of the Company or any Subsidiary.

14. Lapse, Cancellation, Annual Review:

This Offer Letter shall lapse and all obligations of the Bank hereunder and in respect of the Loans shall cease, all at the option of the Bank, if there has been, in the opinion of the Bank, a material adverse change in risk or in the financial condition of the Borrower, Best Buy Co. or Stores L.P. or if the conditions precedent hereunder have not been met by October 31, 2002. The Bank shall have the option to at any time, acting reasonably, conduct corporate, personal property registry and Priority Claims searches in respect of the Borrower in such jurisdictions as the Bank deems necessary. Upon the occurrence of an Event of Default, any unadvanced portion of

the Loans shall be immediately cancelled and the Borrower shall, in respect of each, Letter of Credit and Bankers' Acceptance issued under the Loans within 15 days from the date demand is made, either:

14.1. **pay to the Bank the face amount of the applicable Letter of Credit or Bankers' Acceptance, as the case may be; or**

14.2. **pledge in favour of and on terms and conditions acceptable to the Bank, as continuing security for its contingent obligations and liabilities to the Bank in respect of the applicable Letter of Credit or Bankers' Acceptance, as the case may be, cash collateral or a deposit instrument or other liquid collateral security in a form acceptable to the Bank in an amount equal to the face amount of the applicable, Letter of Credit or Bankers' Acceptance.**

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15. **Earlier Offer Letters:**

This Offer Letter shall stand in substitution for and replacement of all previous offer letters issued by the Bank in favour of the Borrower (including the Prior Offer Letter) and the terms and conditions set forth herein shall govern the Loans exclusively and shall supersede the terms and conditions contained in any earlier offer letters issued by the Bank to the Borrower or to any other parties.

This offer may be accepted by the Borrower, and acknowledged by each of the Guarantors, by signing, dating and returning to the Bank by 5:00 p.m. on September 13, 2002 the enclosed copy of this letter executed by the Borrower and each of the Guarantors. The Bank has instructed its solicitors to commence preparation of the Loan Documents.

Yours very truly,
HSBC BANK CANADA

By: /s/ Bruce Clarke
Bruce Clarke
Vice President
Commercial Financial Services

By: /s/ Kerry Hutchinson
Kerry Hutchinson
Senior Account Manager

•••••

AGREED TO AND ACCEPTED THIS 13 DAY OF September 2002.

THE BORROWER:

BEST BUY CANADA LTD. MAGASINS BEST BUY LTÉE.

Per: /s/ Kevin Layden

Per:

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ACKNOWLEDGED AND AGREED TO THIS DAY OF , 2002.

THE GUARANTORS:

BEST BUY CO., INC.

BEST BUY STORES, L.P by its general
partner
BBC PROPERTY CO.

Per: /s/ Darren R. Jackson

Per: /s/ Darren R. Jackson

Per:

Per:

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**SCHEDULE "A" TO OFFER LETTER
FROM HSBC BANK CANADA
TO BEST BUY CANADA LTD. MAGASINS BEST BUY LTÉE.
DATED SEPTEMBER 13, 2002**

1. Representations and Warranties:

Each of the Borrower and the Guarantors represents and warrants to the Bank that:

1.1. each of the Borrower and Best Buy Co. has been duly incorporated and organized, is properly constituted, is in good standing and is entitled to conduct its business in all jurisdictions in which it carries on business or has assets;

1.2. Stores L.P. has been duly established, is properly constituted, is in good standing and is entitled to conduct its business in all jurisdictions in which it carries on business or has assets;

1.3. the execution of the Offer Letter and the Loan Documents and the incurring of liability and indebtedness to the Bank does not and will not contravene:

1.3.1 any Legal Requirement applicable to the Borrower or the Guarantors; or

1.3.2 any provision contained in any other loan or credit agreement or borrowing instrument or contract to which the Borrower or either of the Guarantors is a party;

1.4. all necessary Legal Requirements have been met and all other authorizations, approvals, consents and orders have been obtained with respect to the Loans and the execution and delivery of the Offer Letter and the Loan Documents;

1.5. all financial and other information provided to the Bank in connection with the Loans is true and accurate in all material respects, and each of the Borrower and the Guarantors acknowledges that the offer of credit contained in the Offer Letter is made in reliance on the truth and accuracy of this information and the above representations and warranties; and

1.6. attached as Schedule “B” hereto is a true, accurate and comprehensive corporate structural chart in respect of the Borrower, Best Buy Co., and their Affiliates;

1.7. the Offer Letter and each of the Loan Documents have been or will be, upon execution thereof, duly and validly authorized, execute and delivered by each of the Borrower and the Guarantors;

1.8. The Offer Letter and each of the Loan Documents constitutes, or when executed and delivered will constitute, a legal, valid and binding obligation of each of the Borrower and the Guarantors enforceable against each such party in accordance with its terms, subject to:

1.8.1 **bankruptcy, insolvency and other laws affecting the rights of creditors generally; and**

1.8.2 **the discretionary nature of equitable remedies;**

1.9. **Neither the execution and delivery of the Offer Letter or any of the Loan Documents or any other document contemplated thereby by the Borrower or the Guarantors which is or will be a party thereto, nor the observance or performance of the obligations arising thereunder in accordance therewith does or will:**

1.9.1 **violate or conflict with the organization documents of the Borrower or the Guarantors or with any agreements to which the Borrower or either of the Guarantors is a party thereto;**

1.9.2 **conflict with or violate any Legal Requirement applicable to the Borrower or the Guarantors or their businesses; or**

1.9.3 **result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, acceleration or cancellation of any agreements to which the Borrower or either of the Guarantors is a party, or result in the creation of any Lien on any of the Property.**

2. Interest, Fees and Payment:

2.1. **Interest on the daily balance of principal advanced under the Loans and remaining unpaid from time to time shall be payable by the Borrower as set out in the Offer Letter both before and after demand, default and judgment;**

2.2. **In the case of interest based on the Bank's Prime Rate and the Bank's U.S. Base Rate, interest shall be compounded and payable on the last day of each month;**

2.3. **If the Borrower repays any portion of the Loans made available by way of a Bankers' Acceptance on a date other than the maturity date for such Banker's Acceptance, whether as a result of a demand for repayment by the Bank or otherwise, it shall also concurrently pay to the Bank the applicable Compensating Amount;**

2.4. Interest based on the Bank's U.S. Base Rate shall be computed on the basis of a year of 360 days and for actual days that the amounts are outstanding under the Loans on this basis. For the purpose of the *Interest Act* (Canada), the annual rate of interest to which interest computed on the basis of a year of 360 days is equivalent is the rate of interest as provided in the Offer Letter multiplied by the number of days in such year and divided by 360;

2.5. Upon the maturity of a Bankers' Acceptance, unless another interest rate option is selected by the Borrower, interest shall accrue at the applicable rate in the Offer Letter based on the Bank's Prime Rate or the Bank's U.S. Base Rate, as the case

may be, depending on whether the funds are outstanding in Canadian or U.S. Dollars;

2.6. The fees collected by the Bank in connection with the Loans, or any of them, shall be its property as consideration for the time, effort and expense incurred by it in the review of documents and financial statements, and the Borrower acknowledges and agrees that the determination of these costs is not feasible and that the fees set out in the Offer Letter represent a reasonable estimate of such-costs;

2.7. All payments by the Borrower to the Bank shall be made at the address of the branch of the Bank issuing the Offer Letter or at such other place as the Bank may specify in writing from time to time. Any payment delivered or made to the Bank by 1:00 p.m. local time at the place where such payment is to be made shall be credited as of that day, but if made afterwards shall be credited as of the next day on which the said branch is open for business;

2.8. The obligation of the Borrower to make all payments under the Offer Letter and the Loan Documents shall be absolute and unconditional and shall not be limited or affected by any circumstance, including, without limitation:

2.8.1 any set-off, compensation, counterclaim, recoupment, defence or other right which the Borrower may have against the Bank or anyone else for any reason whatsoever; or

2.8.2 any insolvency, bankruptcy, reorganization or similar proceedings by or against the Borrower.

3. Conditions of Credit:

In addition to the conditions set out in the Offer Letter, the following covenants shall apply until the Loans are repaid in full and cancelled:

3.1. The Borrower shall maintain its corporate status and operate its business in accordance with sound business practice and in compliance in all material respects with all Legal Requirements;

3.2. The Borrower shall maintain or cause to be maintained insurance on all of the Property used in connection with the Business with financially sound and reputable insurance companies or associations, including all-risk property insurance, comprehensive general liability insurance and business interruption insurance, in amounts, with deductibles or retentions, and against risks that would be maintained by a prudent owner carrying on a similar business in a similar location, and shall furnish to the Bank, on written request, satisfactory evidence of the insurance carried by it;

3.3. The Borrower shall:

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3.3.1 pay all Taxes in respect of itself or its Property, as they become due and payable, unless they are being contested in good faith by appropriate proceedings and adequate provision has been made for the payment of any such contested amount;

3.3.2 withhold from each payment made to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom and pay the same to the appropriate tax authority within the time required under any applicable Legal Requirements;

3.3.3 collect from all Persons the amount of all Taxes required to be collected from them and remit the same to the proper tax or other receiving officers within the time required under any applicable Legal Requirements;

3.4. All financial terms and covenants shall be determined in accordance with, Canadian GAAP in the case of financial terms and covenants that are exclusive to the Borrower, and US GAAP in the case of financial terms and covenants that apply to the Guarantors;

3.5. If the amount outstanding under any Loan in Canadian Dollars plus the Canadian Dollar Equivalent of the amount outstanding under any Loan in a currency other than Canadian dollars at any time exceeds the amount authorized under that Loan as provided under the heading “Credit Facilities” in the Offer Letter, the Bank may, from time to time, in its sole discretion:

3.5.1 limit the further utilization of that Loan;

3.5.2 convert all or part of the amount outstanding under that Loan to Canadian Dollars in which event, interest shall accrue and be paid on such converted amounts at the rate set out in the Offer Letter for Canadian dollar advances accruing interest with reference to the Bank’s Prime Rate;

3.5.3 require the Borrower to pay down the excess;

3.6. Any amount payable by the Borrower to the Bank under the Offer Letter or the Loan Documents may be debited to any account of the Borrower with the Bank;

3.7. The Borrower shall indemnify the Bank against any loss incurred by it as a result of any judgment or order being given or made for the payment of any amount due under the Offer Letter or the Loan Documents, where:

3.7.1 such judgment or order is expressed and paid in a currency (the “Judgment Currency”) other than the currency of an outstanding loan (the “Loan Currency”); and

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3.7.2 there is a variation between:

3.7.2.1 the rate of exchange at which the Loan Currency amount is converted into the Judgment Currency for the purposes of such judgment or order; and

3.7.2.2 the rate of exchange at which the Bank is able to purchase the Loan Currency with the amount of the Judgment Currency then actually received by the Bank.

The foregoing indemnity shall constitute a separate and independent obligation of the Borrower and shall apply irrespective of any indulgence granted to the Borrower from time to time, and shall continue in full force and effect notwithstanding any such judgment or order as aforesaid. The term “rate of exchange”, shall include any premiums and costs of exchange payable in connection with the purchase of, or conversion into, the relevant currency.

3.8. Each payment to be made in favour of the Bank in respect of any of the Loans shall be made free and clear and without deduction for or on account of Tax. If any payment made in respect of any of the Loans is required to be made subject to the deduction or withholding of Tax, the sum payable to the Bank with respect to which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Bank receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had such deduction or withholding not have been made or required to have been made. If the Bank is required by law to make any payment on account of Tax (not being a Tax on net income) on or in relation to any amount received or receivable hereunder or otherwise in connection with the Loans, the Borrower shall promptly indemnify the Bank against such payment, together with any interest, penalties and expenses payable or incurred in connection therewith.

4. **Bankers' Acceptances:**

4.1. Upon satisfaction of the Conditions Precedent set out in this Offer Letter and the additional conditions contemplated in this Schedule "A", the Borrower may, by delivering to the Bank notice in form and substance satisfactory to the Bank (the "Required Notice"), make availments of the Operating Loan by way of or convert existing advances remaining outstanding under the Operating Loan into Bankers' Acceptances, subject to the following terms and conditions.

4.2. The Bank will not be obligated to make funds available by way of Banker's Acceptances:

4.2.1 unless the Borrower has provided the Bank with the Required Notice;

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4.2.2 unless such Banker's Acceptance is in a minimum face amount of \$500,000 or any greater amount and in integral multiples of \$100,000;

4.2.3 which are for a term of other than 30, 60, 90, or 180 days or which mature on a day:

4.2.3.1 which is not a Business Day; or

4.2.3.2 which is a date subsequent to the date of maturity or expiry of the Operating Loan under which the subject Bankers' Acceptance is to be created;

requested by the Borrower in relation to an original advance under the Operating Loan (as opposed to a Bankers' Acceptance which the Bank is requested to accept in respect of the conversion of advances previously made by the Bank and remaining outstanding under the Operating Loans or the conversion of an existing Bankers' Acceptance to a new Bankers' Acceptance);

4.2.4 if an Event of Default has occurred, or if the Bank has made demand for payment of any of the Loans; or

4.2.5 if the Bank has, by at least one Business Day prior to the proposed acceptance date for the Bankers' Acceptance, advised the Borrower that, because general market conditions have caused it to become impracticable to do so, the Bank is no longer making funds available by way of Bankers' Acceptances in the ordinary course of its business.

4.3. Each Bankers' Acceptance shall be deemed to be an avilment of the Operating Loan under which such Bankers' Acceptance is created for the term of such Bankers' Acceptance in an amount equal to the face amount thereof.

4.4. The Borrower will pay to the Bank at the time of acceptance of each Bankers' Acceptance under the Operating Loan, a stamping fee equal to 1.50% of the face amount thereof, such fees will be calculated on the basis of a year of 365 days (or 366 days, in the case of a leap year), provided that where the term of such Bankers' Acceptance is greater or less than one year, then such annual fee will be prorated according to the ratio that the number of days from the date on which the applicable Bankers' Acceptance is accepted to the date on which such Bankers' Acceptance matures (inclusive of both such days), bears to 365 days (or 366 days, in the case of a leap year);

4.5. The Borrower will also pay to the Bank in respect of each Bankers' Acceptance its prevailing fees and charges for issuing the same and effecting payment thereunder, and will pay on request all other out-of-pocket disbursements or costs incurred by the Bank in relation to the issuance of, or payment pursuant to each Bankers' Acceptance.

4.6. All Bankers' Acceptances will be issued on and subject to the terms and conditions set forth in the Bank's standard forms relating thereto and issued on such other terms and conditions as are acceptable to the Bank, acting reasonably. The

issuance and availability of Bankers' Acceptances will be subject to such practices, policies, and procedures as the Bank may impose or dictate from time to time. Upon request by the Bank, acting reasonably, the Borrower will forthwith execute and deliver, or cause to be executed and delivered, the Bank's standard forms and all such ancillary or related documents and instruments as the Bank may reasonably require in respect of the creation of and terms and conditions applicable to Bankers' Acceptances.

4.7. Each Bankers' Acceptance processed will be a valid and binding obligation of the Borrower.

4.8. If requested by the Borrower, the Bank will make arrangements for the sale of the Bankers' Acceptances in Canada. The Bank may, at its sole discretion, purchase all or any of the Bankers' Acceptances.

4.9. Unless on or before the date that any moneys become payable by the Bank pursuant to any Bankers' Acceptance, the Borrower has paid to the Bank funds in the amount becoming so payable, the said amount will be deemed to be an advance on that date by the Bank to the Borrower under the Operating Loan as the case may be.

4.10. Upon demand for payment being made under any one or more of the Loans, or upon the occurrence of an Event of Default, the Bank will not make funds available by way of Bankers' Acceptances and the face amount of any Bankers' Acceptances which have not yet matured or become due will thereupon be deemed to have been advanced by the Bank to the Borrower.

4.11. Amounts advanced by the Bank to the Borrower or deemed to have been advanced under paragraph 4.9 or 4.10 will be charged against the Operating Loan, will bear interest at the rate of interest payable under the Operating Loan as the case may be, calculated and payable at the times and in the manner specified under the heading "Repayment" in this Offer Letter.

4.12. The Borrower will not claim any days of grace or require any presentation, demand, protest, or other notice of any kind whatsoever in respect of any Bankers' Acceptance, all of which are hereby expressly waived.

4.13. If the Borrower repays any amount drawn by way of Bankers' Acceptance on a date other than the maturity date for such Bankers' Acceptance, whether as a result of a demand for payment by the Bank or otherwise, it shall also concurrently pay to the Bank the applicable Compensating Amount.

4.14. **If upon the maturity of a Banker's Acceptance, the Borrower fails to convert such maturing Bankers' Acceptance into a new Bankers' Acceptance in accordance with the terms and conditions hereof and the Required Notice, interest shall**

accrue on the amount advanced by the Bank on the maturity of such Bankers' Acceptance at the rate based on the Bank's Prime Rate specified in the Offer Letter.

5. **Events of Default:**

For the purposes of this Offer Letter, any one or more of the following events shall be an "Event of Default" (whether such Event of Default shall be voluntary or involuntary or be effected by operation of law or pursuant to or in compliance with any judgments, decree or order of any court or other rule or regulation of any administrative or governmental body):

5.1. **if the Borrower makes default in any payment within 3 days of the due date of principal, interest or other moneys payable by it hereunder or under any of the Loan Documents, or if the Borrower or either of the Guarantors is in default 30 days after receiving written notice thereof by the Bank in the performance or observance of something required to be done or some covenant or condition required to be observed or performed herein, or under any other Loan Document; or**

5.2. **if an Event of Default (as defined in the U.S. Credit Agreement) occurs under the terms of the U.S. Credit Agreement as amended, supplemented or replaced from time to time provided that if any amendments, supplements or replacements are made to the U.S. Credit Agreement and to the Events of Default defined thereunder, then the Event of Default shall only be deemed to be amended for purposes of this Offer Letter if the amended Events of Default are more onerous on Best Buy Co. than those presently set forth in the U.S. Credit Agreement; or**

5.3. **if any representation or warranty given by the Borrower or by any director or officer of the Borrower is untrue in any material respect; or**

5.4. **if a bankruptcy petition is filed or presented against the Borrower or the Borrower commits or threatens to commit any act of bankruptcy, makes an assignment for the benefit of its creditors, is declared bankrupt, makes a proposal or otherwise takes advantage of provisions for relief under the *Bankruptcy and Insolvency Act* (Canada), the *Companies Creditors' Arrangement Act* (Canada) or similar legislation in**

any jurisdiction; or

5.5. there is instituted by or against the Borrower any formal or informal proceeding for the dissolution or liquidation or winding-up of the affairs of, the Borrower, which proceeding is consented to or acquiesced in by the Borrower or shall not have been dismissed within 30 days; or

5.6. the Borrower ceases to carry on business or makes or agrees to make a bulk sale of assets or commits an act of bankruptcy; or

5.7. a receiver, receiver and manager, receiver-manager or any person with like powers of all or a substantial part of the Property is appointed; or

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5.8. a distress or analogous process is levied upon all or substantially all of the Property or any part thereof and the same shall not have been vacated or stayed within 30 days after the issuance thereof; or

5.9. an order is made or an effective resolution is passed for winding-up the Borrower; or

5.10. the Borrower enters into any reconstruction, reorganization, amalgamation, merger or other similar arrangement with any other person; or

5.11. if in the opinion of the Bank, acting reasonably, there is a Change of Control; or

5.12. any certificate, statement, representation, warranty or audit report herewith, heretofore or hereafter furnished by or on behalf of the Borrower to the Bank, whether in connection with the Offer Letter, the Loan Documents or otherwise, and whether furnished as an inducement to the Bank to extend any credit to or to enter into the Offer Letter, the Loan Documents or otherwise:

5.12.1 proves to have been false in any material respect at the time as of which the facts therein set forth were stated or certified; or

5.12.2 proves to have omitted any substantial contingent or unliquidated liability or claim against the Borrower, the existence of which would materially adversely affect the business of the Borrower;

or, on or before the date of execution of this Offer Letter or the Loan Documents, there shall have been any material adverse change in any of the facts disclosed by any such certificate, statement, representation, warranty or audit report, which change shall not have been disclosed to the Bank at or prior to the time of such execution.

6. General:

6.1. Conditions Precedent – It shall be a condition precedent to the availability of the Loans that the Bank shall have received:

6.1.1 the Loan Documents identified above, completed in form and content satisfactory to the Bank’s solicitors;

6.1.2 a fully executed intercreditor agreement among the Bank, U.S. Bank National Association (as agent under the U.S. Credit Agreement), the Borrower and Best Buy Co. in form and content satisfactory to the Bank and its solicitors;

6.1.3 confirmation that the insurance contemplated under the heading “Loan Documents” above has been renewed on terms and conditions acceptable to the Bank;

6.1.4 evidence satisfactory to the Bank that the Borrower is in compliance in all material respects with all of the covenants, representations and warranties set out in this Offer Letter and the Loan Documents; and

6.1.5 executed copies of the U.S. Credit Agreement and the Indentures governing the Convertible Debentures;

6.2. Currency – In the Offer Letter, words or figures expressed in dollars or the symbol for dollars without any other indication mean Canadian Dollars; provided that:

6.2.1 all advances made available by the Bank under the Loans shall be repaid in the currency in which they are denominated;

6.2.2 interest on advances made under the Loans in Canadian Dollars, stamping fees with respect to Canadian Dollar Bankers' Acceptances and fees with respect to Canadian dollar bank guarantees or Letters of Credit shall be payable in Canadian Dollars; and

6.2.3 interest on U.S. Dollar advances, stamping fees with respect to U.S. Dollars Bankers' Acceptances and fees with respect to U.S. Dollar bank guarantees or Letters of Credit shall be payable in U.S. Dollars;

6.3. Premises Visits – The Bank shall have the right to inspect the Borrower's business premises at all reasonable times, and in any event not less than quarterly; or

6.4. Credit Reporting – The Borrower consents to the obtaining from any credit reporting agency or from any person all information that the Bank may require at any time. The Bank agrees not to disclose any information (the “Non–Public Financial Information”) concerning the Borrower to any credit grantor with whom the Borrower has financial relations or to any credit reporting agency other than information, including consolidated financial statements for the Borrower which is ordinarily available to the Borrower's shareholders. Notwithstanding the foregoing, if the Bank by inadvertence or otherwise discloses the Non–Public Financial Information to any such credit grantor or credit reporting agency, the Bank shall not be liable to the Borrower in any way whatsoever.

6.5. Non–Merger and Conflict – None of the execution, delivery or, where applicable, registration of the Loan Documents or the disbursement of funds under the Loans will in any way merge or extinguish the terms and conditions of the Offer Letter, which terms and conditions will continue in full force and effect. In the event of any inconsistency or conflict between any provision contained in the Offer Letter and any provision contained in any of the Loan Documents, the provisions of the Offer Letter shall prevail, but the omission from the Offer Letter of any provision contained in any of the Loan Documents shall not be considered to be an inconsistency or conflict for the purposes hereof.

6.6. Assignment – The Borrower shall not be entitled to assign any of the rights and benefits conferred by the Offer Letter. The Offer Letter and the Loan Documents may be freely assigned by the Bank, in whole or in part, without the consent of the Borrower.

6.7. Waiver – Failure by the Bank to insist upon strict performance by the Borrower of any obligation or covenant under the Offer Letter or any of the Loan Documents or to exercise any option or right herein or therein shall not be a waiver or relinquishment for the future of such obligation or covenant, option or right, but the same shall remain in full force and effect and the Bank shall have the right to insist upon the strict performance by the Borrower of any and all of the terms and provisions of the Offer Letter and the Loan Documents.

6.8. Variation – No term or requirement of the Offer Letter or any of the Loan Documents may be waived or varied orally or by any course of conduct of any officer, employee, or agent of the Bank. Any amendment to the Offer Letter or any of the Loan Documents must be in writing and signed by a duly authorized officer of the Bank.

6.9. Indemnification and Confidentiality – The Offer Letter is delivered to the Borrower on the understanding that neither the Offer Letter nor its substance shall be disclosed publicly or privately except to counsel, accountants, employees and agents of the Borrower who are specifically involve in the transaction contemplated therein. Without limiting the generality of the foregoing, no such person shall use or refer to the Bank’s name in any disclosure made in connection with any of the transactions contemplated under the Offer Letter without the Bank’s prior written consent.

6.10. Time of Essence – Time shall be of the essence of the Offer Letter.

6.11. each of the Borrower and Best Buy Co. shall promptly notify the Bank of the occurrence of any Event of Default or the occurrence of any event, with the giving of notice, lapse of time, or both, would constitute an Event of Default.

6.12. Legal and Other Expenses – The Borrower shall pay all reasonable legal fees and disbursements in respect of the Loans, the preparation and issuance of the Offer Letter and the Loan Documents, the enforcement and preservation of the Bank’s rights and remedies, all appraisals, insurance consultation, and similar fees, and all other fees and disbursements of the Bank, whether or not the documentation is completed or any funds are advanced under the Loans.

6.13. Notice

Any notice required to be given hereunder or under any other Loan Document shall be in writing and may effectively be given by a party hereto by delivery of such notice to the other party at the address below or at such other address as

either party may in writing notify the other party or by facsimile transmission and confirmed in writing to:

In the case of the Bank:

to the address or telecopier number
of the Lending Branch set out on the
first page hereof

Attention: Senior Vice President & Branch Manager
Telecopier No. 604-641-1808

In the case of the Borrower:

Best Buy Canada Ltd.
8800 Glenlyon Parkway
Burnaby, British Columbia
V5J 5K3

Attention: Kevin Layden
President & Chief Operating Officer
Telecopier No. (604) 412-5240

Notice shall be deemed to have been received by a party within 3 Business Days of delivery to the applicable address contemplated above. Notices by facsimile transmission shall be deemed to have been given upon receipt thereof at the address indicated above.

6.14. Governing Law – This Offer Letter shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

6.15. Counterparts and Telecopy – This offer letter may be signed in counterparts and by telecopy, each of which counterparts shall be deemed to be an original, and all such counterparts and telecopies together shall constitute one and the same instrument.

6.16. Bank’s Solicitors – Legal work and documentation is to be performed on behalf of the Bank by Messrs. Lawson Lundell, Barristers and Solicitors, 1600 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia.

7. Definitions and Interpretation:

In the attached Offer Letter the following terms shall have the following meanings:

7.1. “Acceptable Inventory” means the value based on the lower of cost and fair market value (as reasonably determined by the Bank or its agents) of all materials owned by the Borrower for resale or for the production of goods for resale,

excluding work in process and such materials of the Borrower which are financed by other Persons, and from which the Priority Claims shall be deducted from Acceptable Inventory. As at the date of this Offer Letter (and without limiting the Bank's right at any time to deduct further Priority Claims), it is the Bank's intention to deduct those Priority Claims accorded to suppliers of inventory pursuant to section 81 of the *Bankruptcy and Insolvency Act* (Canada), as amended;

7.2. "Acceptable Receivables" means the aggregate of accounts receivable of the Borrower from customers approved by the Bank from which shall be excluded all accounts receivable:

7.2.1 which have been outstanding or not more than 60 days;

7.2.2 from Affiliates of the Borrower;

7.2.3 which are disputed by the Borrower's customers or a subject to set-off;

7.2.4 from customers from whom other accounts receivable remain outstanding for in excess of 60 days;

7.2.5 accounts receivable from customers resident in the United States,

from which Priority Claims shall be deducted from Acceptable Receivables. As at the date of this Offer Letter (and without limiting the Bank's right to at any time deduct further Priority Claims), it is the Bank's intention to deduct those Priority Claims arising under the *Employment Standards Act* (British Columbia), *Excise Tax Act* (Canada), *Income Tax Act* (Canada) and *Social Service Tax Act* (British Columbia) (and the corresponding legislation in the Province of Quebec);

7.3. "Affiliate" means any party that would, pursuant to the *Income Tax Act* (Canada), as amended, supplemented or replaced from time to time, not be considered to be dealing at "arms length" with the party in question and any partnership or other organization in which the Borrower or the Guarantors or any of their Affiliates has the right to make or control management decisions and shall include any Affiliate of any such Affiliate;

7.4. "Bank's Prime Rate" means the floating annual rate of interest established and recorded as such by the Bank from time to time as a reference rate for purposes of determining floating rates of interest it will charge on loans denominated in Canadian Dollars and made in Canada;

7.5. "Bank's U.S. Base Rate" means the floating annual rate of interest established and recorded as such by the Bank from time to time as a reference rate for the purposes of determining rates of interest it will charge on loans denominated in U.S. Dollars

made in Canada based on a year of 360 days;

7.6. **“Bankers’ Acceptance”** means a depository bill as defined in the *Depository Bills and Notes Act* (Canada) in Canadian Dollars that is in the form of an order signed by the Borrower and accepted by a Lender pursuant to this Agreement or, for Lenders not participating in clearing services contemplated in that Act, a draft or bill of exchange in Canadian Dollars that is drawn by the Borrower and accepted by a Lender pursuant to this Agreement. Orders that become depository bills, drafts and bills of exchange are sometimes collectively referred to in this Agreement as “orders.” Any depository bill may be made payable to “CDS & Co.” and deposited with The Canadian Depository for Securities Limited;

7.7. **“Business Day”** means a day upon which the branch of Bank issuing the Offer Letter is open for business;

7.8. **“Canadian Dollar Equivalent”** means at any time on any date in relation to any amount in a currency other than Canadian dollars, the amount of Canadian dollars required for the Borrower to purchase that amount of such other currency at the spot rate of exchange quoted by the Bank at or about 10:30 a.m. (local Vancouver time) on such date, including all premiums and costs of exchange;

7.9. **“Canadian Dollars”** and **“CDN\$”** each mean lawful currency of Canada;

7.10. **“Canadian GAAP”** means Canadian generally accepted accounting principles, including such principles recommended by the Canadian Institute of Chartered Accountants as contained in the “CICA Handbook”, as the same may be amended, replaced or restated from time to time, and, in the absence of a specific recommendation contained in the “CICA Handbook”, such accounting principles generally accepted in practice in Canada;

7.11. **“Capital Stock”** means, with respect to any Person, any and all present and future shares, partnership or other interests, participations or other equivalent rights in the person’s capital, however designated and whether voting or non-voting;

7.12. **“Cash Flow Leverage Ratio”** means at any date of determination, the ratio of (a) the Interest-bearing Indebtedness of Best Buy Co. and its Subsidiaries, plus eight times Rental and Lease Expense for the Measurement Period ending on such date, to (b) the sum for the Measurement Period ending on such date of (i) Earnings Before Interest, Income Taxes, Depreciation and Amortization and (ii) Rental and Lease Expense, in all cases determined in accordance with US GAAP and as set forth in Best Buy Co.’s consolidated financial statements delivered hereunder;

7.13. **“Change of Control”** means the acquisition of Capital Stock by any Person or group of Persons, beneficially or otherwise (whether by purchase, exchange, merger, consolidation or otherwise), directly or indirectly, in one transaction or in a series of related transactions which Person or group of Persons then on account of such acquisition, legally, beneficially or otherwise owns or holds directly or indirectly 50% or more of the Capital Stock of any of the Borrower or the Guarantors;

7.14. **“Compensating Amount”** means an amount determined by the Bank to be the net cost, if any, incurred by the Bank as a direct result of the payment of any amount owing in respect of a Banker’s Acceptance on any date other than the date of maturity for such Banker’s Acceptance, including, without limitation, the loss or expense sustained or incurred by the Bank relating to such payment. A certificate of a manager or account manager of the Bank shall, absent manifest error, be conclusive evidence of the Compensating Amount from time to time;

7.15. **“Consolidated Financial Statements”** means the consolidated financial statements prepared in respect of Best Buy Co. (and including the Borrower) in accordance with generally accepted accounting principles applied on a consistent basis;

7.16. **“Consolidated Net Worth”** means as of any date of determination, the sum of the amounts set forth on the consolidated balance sheet of Best Buy Co. as the sum of the common stock, preferred stock, additional paid-in capital and retained earnings of Best Buy Co. (excluding treasury stock);

7.17. **“Convertible Debentures”** means the US\$336,000,000 senior unsecured convertible debentures (issued in 2001) and the US\$402,000,000 subordinated convertible debentures (issued in 2002) issued by Best Buy Co.;

7.18. **“Draft”** means a commercial draft of the Bank in a form approved by the Bank made by the Borrower in accordance with the provisions of the Offer Letter;

7.19. **“Earnings Before Interest, Income Taxes, Depreciation and Amortization”** means for any period of determination, the consolidated net income of Best Buy Co. and its Subsidiaries before deductions for income taxes, Net Interest Expense, depreciation and amortization, all as determined in accordance with US GAAP, excluding therefrom (a) non–operating gains (including, without limitation, extraordinary or unusual gains, gains from discontinuance of operations, gains arising from the sale of assets and other nonrecurring gains) of Best Buy Co. and its Subsidiaries during the applicable period and (b) similar non–operating losses (including, without limitation, losses arising from the sale of assets and other nonrecurring losses) of Best Buy Co. and its Subsidiaries during such period;

7.20. **“Existing Liens”** means those Liens described in Schedule “C” attached hereto;

7.21. **“Financial Covenants”** means any of the financial ratios or calculations to be made or maintained by the Borrower or the Guarantors pursuant to this Offer Letter, including without limitation, the calculations and ratios required to be made or maintained in accordance with paragraphs 12.1.2.5, 12.1.3, 12.1.4 and 12.1.5 of the Offer Letter;

7.22. **“Government Authority”** means any government legislature, regulatory authority, agency, commission, board or court or other law, regulation or rule

making entity having or purporting to have jurisdiction on behalf of any nation, state, country or other subdivision;

7.23. **“Guarantee”** means with respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the “primary obligor”) in any manner, whether directly or otherwise: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any direct or indirect security therefor, (b) to purchase property, securities, or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (c) to maintain working capital, equity capital, or other financial statement condition of the primary obligor so as to enable the primary obligor to pay

such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (d) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against loss in respect thereof; provided, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business;

7.24. “Guarantors” means together Best Buy Co. and Stores L.P.;

7.25. “Indebtedness” with respect to any Person at the time of any determination, without duplication, all obligations, contingent or otherwise, of such Person which in conformity with US GAAP should be classified upon the balance sheet of such Person as liabilities, but in any event shall include: (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid or accrued, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all obligations of others secured by any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all capitalized lease obligations of such Person, (h) all obligations of such Person in respect of interest rate protection agreements, (i) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or bankers’ acceptances, (j) all obligations of any partnership or joint venture as to which such Person is or may become personally liable, and (k) all Guarantees by such Person of Indebtedness of others. For clarification purposes, Indebtedness of the Borrower shall include the Indebtedness arising from this Offer Letter;

7.26. “Interest Coverage Ratio” means for any Measurement Period, the ratio of (a) the sum of Best Buy Co.’s (i) Earnings Before Interest, Incomes Taxes, Depreciation and Amortization plus (ii) Rental and Lease Expense to (b) the sum of (i) Net Interest Expense, plus (ii) Rental and Lease Expense;

7.27. “Interest Expense” means for any period of determination, the aggregate consolidated amount, without duplication, of interest paid, accrued (including without limitation, payment in kind interest) or scheduled to be paid in respect of any consolidated Indebtedness of Best Buy Co. and its Subsidiaries, including (a) all but the principal component of payments in respect of conditional sale contracts, capitalized leases and other title retention agreements, and (b) net costs (income) under interest

rate protection agreements, in each case determined in accordance with US GAAP;

7.28. **“Interest Income”** means for any period of determination, the aggregate consolidated amount, without duplication, of interest received, accrued (including without limitation, payment in kind interest) or scheduled to be received by Best Buy Co. and its Subsidiaries, including (a) all but the principal component of payments in respect of conditional sale contracts, capitalized leases and other title retention agreements, and (b) net income (costs) under interest rate protection agreements, in each case determined in accordance with US GAAP;

7.29. **“Interest-bearing Indebtedness”** means at the time of any determination, all of the Indebtedness of Best Buy Co. and its Subsidiaries (a) for borrowed money or (b) to third party financiers to finance the purchase of inventory, to the extent not paid before interest begins to accrue;

7.30. **“Investments”** means all investments, in cash or by delivery of property, made directly or indirectly in any property or assets or in any Persons, whether by acquisition of shares of capital stock, Indebtedness or other obligations or securities or by loan, advance, capital contribution or otherwise;

7.31. **“Letter of Credit”** means a bank guarantee, standby letter of credit or commercial letter of credit in a form satisfactory to the Bank issued by the Bank at the request of any of the Borrowers in favour of the third party to secure the payment or performance of an obligation of the Borrowers or any of them to the third party;

7.32. **“Legal Requirement”** means all laws, statutes, codes, ordinances, orders, awards, judgments, decrees, injunctions, rules, regulations, authorizations, consents, approvals, orders, permits, franchises, licences, directions and requirements of all Governmental Authorities;

7.33. **“Lien”** means, with respect to any item of Property, any security interest, mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such item of Property (including, without limitation, any conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing);

- 7.34. **“Measurement Period” means each period of four fiscal quarters ending on the last day of a fiscal quarter of Best Buy Co.;**
- 7.35. **“Net Interest Expense” means for any period of determination, Interest Expense minus Interest Income.**
- 7.36. **“Offer Letter” means the letter from the Bank to the Borrower to which this Schedule “A” is attached, together with this Schedule “A”, and includes all amendments, supplements and replacements thereof;**
- 7.37. **“Persons” means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;**
- 7.38. **“Priority Claims” means the aggregate of any mortgage, security interest, encumbrance, hypothecation, assignment, Lien or other claim over any item of Property which, in the opinion of the Bank or its solicitors, rank in priority to any claim in or to the Property that the Bank may have pursuant to the Loan Documents or otherwise pursuant to any Government Authority;**
- 7.39. **“Property” means all or any undertaking, property and assets of the Borrower or the Guarantors;**
- 7.40. **“Purchase Money Mortgage” means any Lien, including a lease, created, issued or assumed by the Borrower to secure indebtedness as part of, or issued or incurred to provide funds to pay and not exceeding 100% of the unpaid purchase price (including instalment) of any Property, if the Lien is limited to the Property acquired and is created, issued or assumed substantially concurrently with the acquisition of the Property or in connection with the refinancing of an existing Purchase Money Mortgage, if the principal amount has not increased and the Lien continues to be limited to that Property;**
- 7.41. **“Rental and Lease Expense” means for any period of determination, the aggregate consolidated amount, without duplication of all amounts paid or accrued by Best Buy Co. or any Subsidiary under all capital leases and other leases of real or**

personal property, including net costs (income) under interest rate protection agreements with respect to such amounts, but excluding any portion of such amounts included in calculating Net Interest Expense of Best Buy Co. for such period, in each case determined in accordance with US GAAP;

7.42. “Stock” means all shares, options, warrants, equity interests, equity participations, or other equivalents (regardless of how designated) of or in a corporation, partnership, limited partnership or equivalent entity whether voting or nonvoting or participating or non-participating

7.43. “Subsidiary” means with respect to any Person, any corporation, partnership, trust or other Person of which more than 50% of the outstanding capital stock (or similar interests) having ordinary voting power to elect a majority of the board of directors of such corporation (or similar governing body) (irrespective of whether or not, at the time, capital stock of or other similar interests shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries of such Person;

7.44. “Taxes” includes all present and future taxes, rates, levies or assessments (ordinary or extraordinary), imposts, stamp taxes, royalties, duties, fees, dues, deductions, withholdings, sales taxes or charges, added value charges, charges or taxes on capital or reserves, levied, assessed or imposed by any government or governmental authority, and any restrictions or conditions resulting in a tax and all penalty, interest and other payments on or in respect thereof;

7.45. “U.S. Credit Agreement” means the amended and restated credit agreement dated as of March 21, 2002 by and between Best Buy Co., the lenders from time to time party thereto and U.S. Bank National Association, as agent for the lenders party thereto.

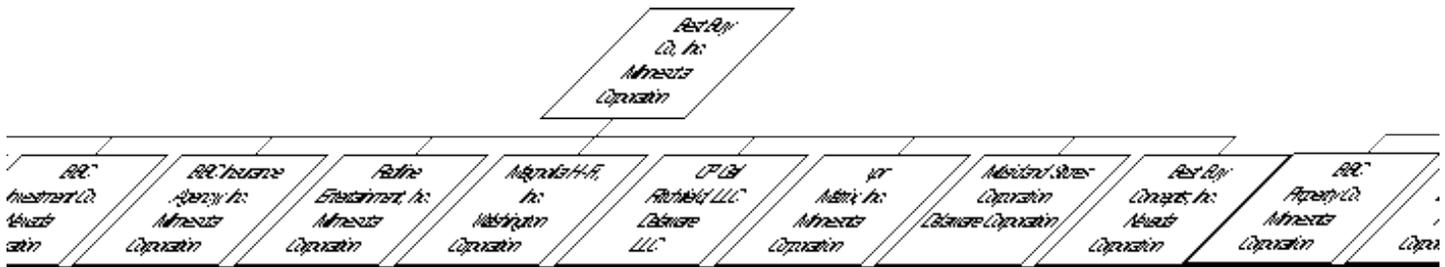
7.46. “U.S. Dollar Equivalent” means – at any time on any date in relation to any amount in a currency other than U.S. Dollars, the amount of U.S. Dollars required for the Borrower to purchase that amount of such other currency at the spot rate of exchange quoted by the Bank at or about 10:30 a.m. (local Vancouver time) on such date, including all premiums and costs of exchange;

7.47. “U.S. Dollars” and “U.S. \$” each mean lawful currency of the United States of America; and

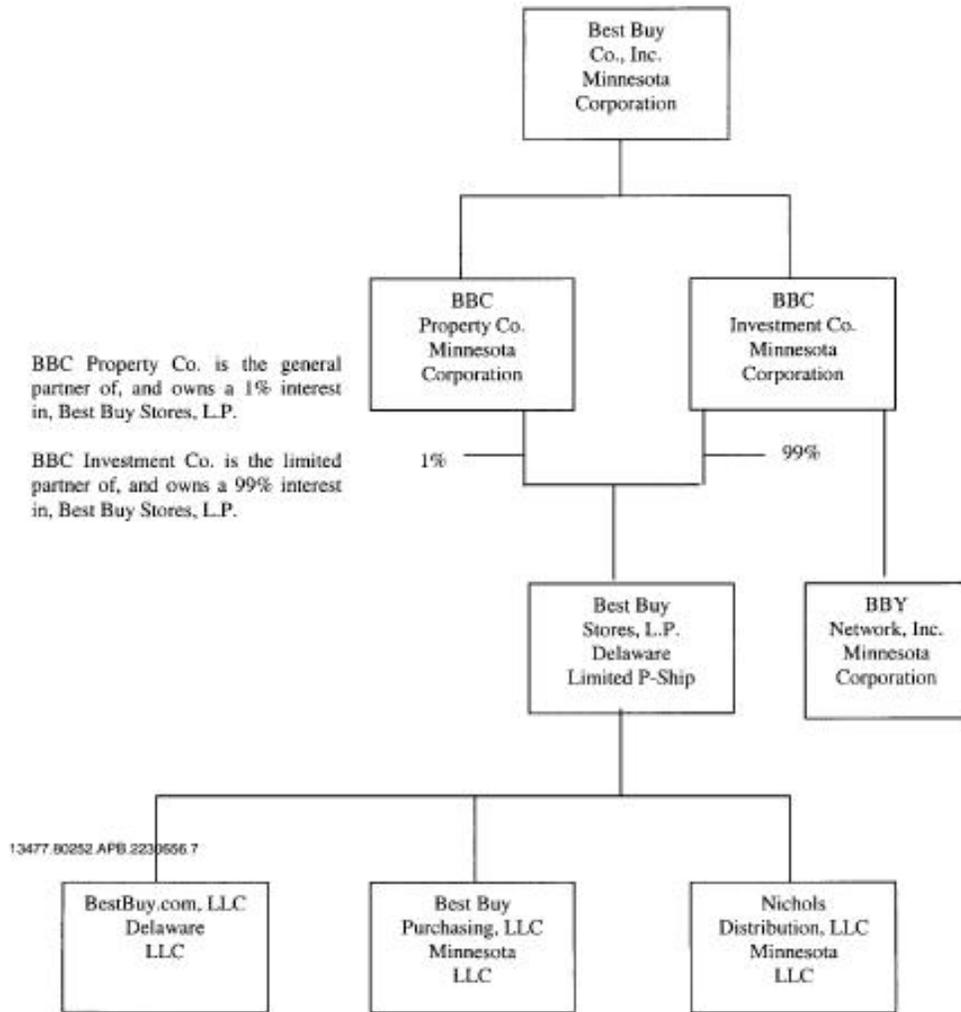
7.48. “US GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of March 21, 2002.

SCHEDULE “B” TO OFFER LETTER
FROM HSBC BANK CANADA
TO BEST BUY CANADA LTD. MAGASINS BEST BUY LTÉE.
DATED SEPTEMBER 13, 2002

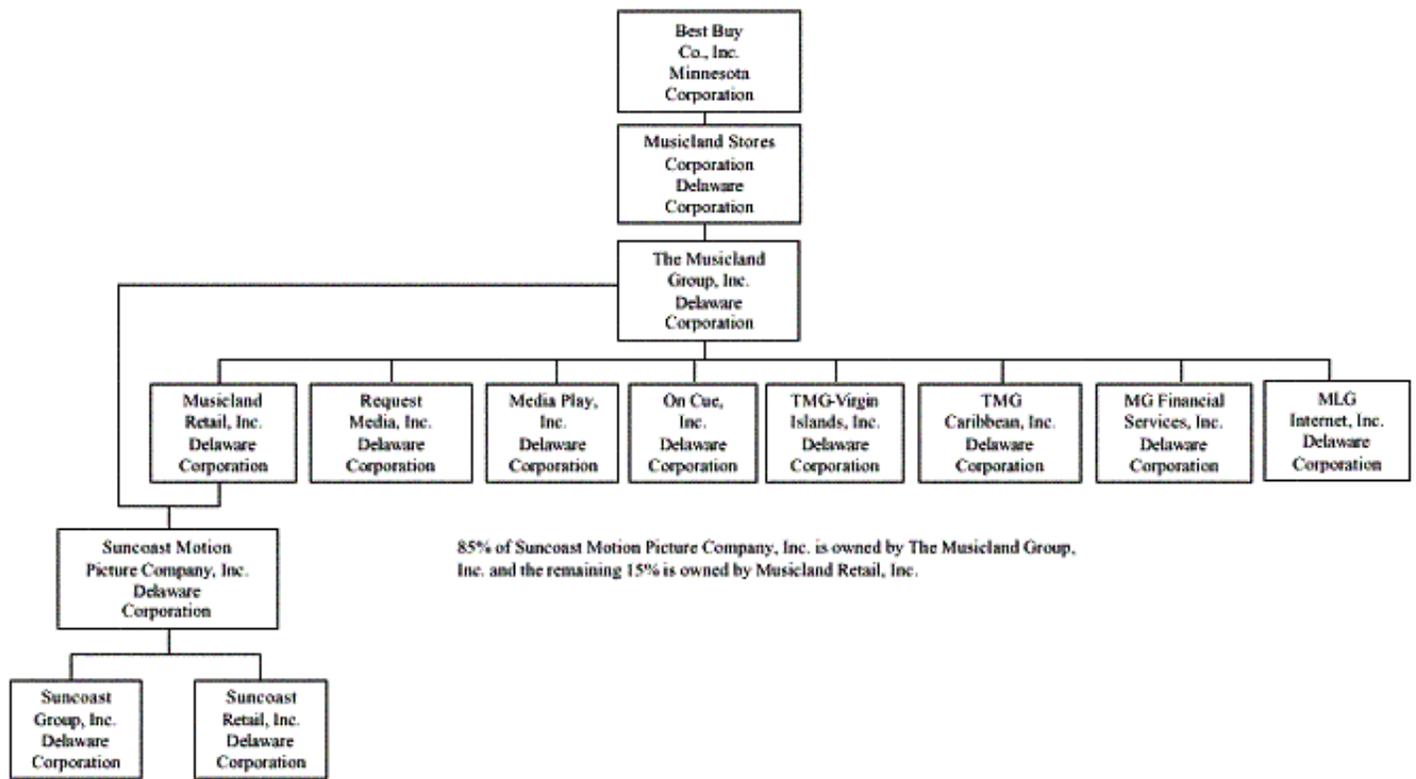
Best Buy Co., Inc. & Directly Owned Subsidiaries Graphic



**BBC Property Co. & BBC Investment Co. Subsidiaries
Graphic**



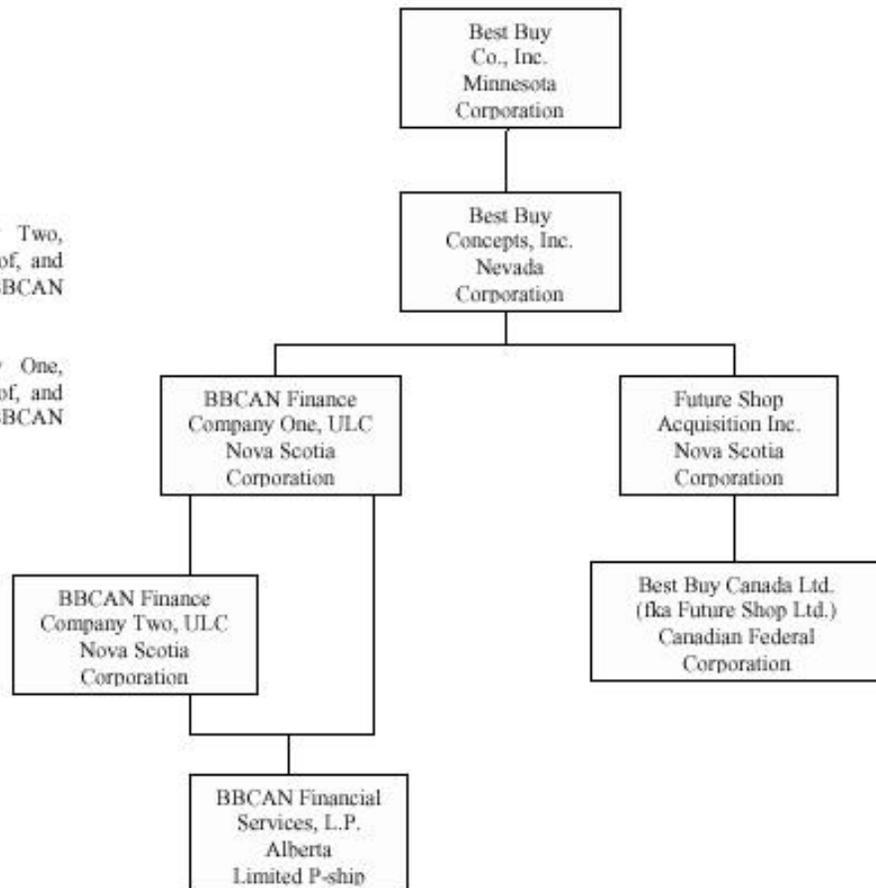
Musicland Stores Corporation & Subsidiaries Graphic



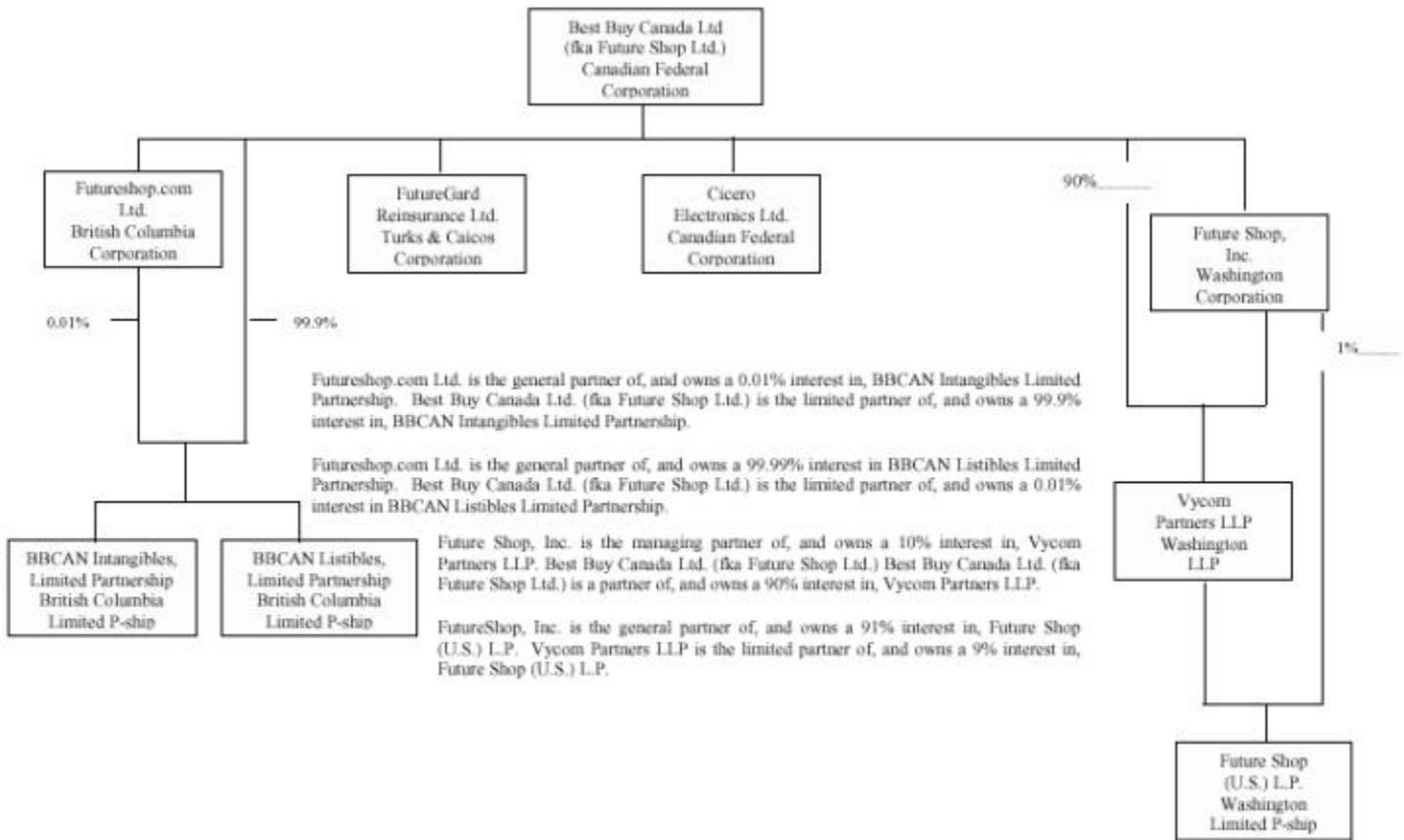
Best Buy Concepts, Inc. & Subsidiaries Graphic

BBCAN Finance Company Two, ULC is the general partner of, and owns a 0.1% interest in, BBCAN Financial Services, L.P.

BBCAN Finance Company One, ULC is the limited partner of, and owns a 99.9% interest in, BBCAN Financial Services, L.P.



Best Buy Canada Ltd. (fka Future Shop Ltd., & Subsidiaries Graphic)



**SCHEDULE "C" TO OFFER LETTER
FROM HSBC BANK CANADA
TO BEST BUY CANADA LTD. MAGASINS BEST BUY LTÉE.
DATED SEPTEMBER 13, 2002**

Existing Liens

1. **Priority claims accorded to suppliers of inventory pursuant to section 81 of the *Bankruptcy and Insolvency Act* (Canada).**

2. **Security granted to specific vendors:**
 - (a) IBM – Security granted on inventory financed by them, which secured indebtedness will not exceed Cdn.\$18,500,000.

3. **Security granted to others:**
 - (a) Canadian Imperial Bank of Commerce has a priority agreement on a pledge of bank balances in the amount of \$800,000, provided in connection with purchasing card facilities.

SUPPLEMENTAL INDENTURE
RELATING TO ADDITIONAL GUARANTEES

SUPPLEMENTAL INDENTURE (this “Supplemental Indenture”), dated as of December 1, 2002, by and among Best Buy Co., Inc. (the “Company”), a Minnesota corporation; Best Buy Stores, L.P., a Delaware limited partnership (the “Existing Guarantor”); BBC Investment Co., a Nevada corporation and BBC Property Co., a Minnesota corporation (the “Additional Guarantors” and, together with the Existing Guarantor, the “Guarantors”) and Wells Fargo Bank Minnesota, National Association, a national banking association, as trustee (the “Trustee”).

WITNESSETH

WHEREAS, the Company and certain of its Subsidiaries have heretofore executed and delivered to the Trustee an indenture (the “Indenture”), dated as of June 27, 2001, providing for the issuance of Convertible Debentures due June 27, 2021 of the Company (the “Securities”).

WHEREAS, Section 4.3 and Article XI of the Indenture provide that under certain circumstances the Company may or must cause certain of its Subsidiaries to execute and deliver to the Trustee a supplement to the Indenture pursuant to which such Subsidiaries shall unconditionally guarantee all of the Company’s Obligations under the Securities pursuant to a Guarantee on the terms and conditions set forth herein; and

WHEREAS, the Additional Guarantors are obligated with respect to Indebtedness under one of the Company’s Credit Facilities and therefore, are obligated to provide Guarantees of the Company’s Obligations under the Securities and the Indenture; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, the Additional Guarantors and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.
 2. Agreement to Guarantee. The Additional Guarantors hereby agree, jointly and severally with the Existing Guarantor, to unconditionally guarantee the Company’s Obligations under the Securities and the Indenture on the terms and subject to the conditions set forth in Article XI of the Indenture and to be bound by all other applicable provisions of the Indenture and the Securities. The Additional Guarantors hereby agree that their
-

Guarantees shall remain in full force and effect notwithstanding any failure to endorse on each Security a notation of such Guarantees. These Guarantees are subject to release as and to the extent provided in Section 11.4 of the Indenture. These Guarantees shall remain in full force and effect irrespective of the release of the Guarantees of any Guarantor other than the Additional Guarantors as provided in Section 11.4 of the Indenture.

3. No Recourse Against Others. No past, present or future director, officer, employee, incorporator, partner, member, shareholder or agent of any Guarantor, as such, shall have any liability for any obligations of the Company or any Guarantor under the Securities, any Guarantee, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations. Each Holder by accepting a Security waives and releases all such liability. Such waiver and release form a part of the consideration for issuance of the Securities and the Guarantees.

4. Governing Law. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the correctness of the recitals of fact contained herein, all of which recitals are made by the Company and the Guarantors.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

BBC INVESTMENT CO.

By: /s/ Ryan D. Robinson
Name: Ryan D. Robinson
Title: Vice President Finance & Treasurer

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BBC PROPERTY CO.

By: /s/ Ryan D. Robinson
Name: Ryan D. Robinson
Title: Vice President — Finance & Treasurer

BEST BUY CO., INC.

By: /s/ Ryan D. Robinson
Name: Ryan D. Robinson
Title: Vice President — Finance & Treasurer

BEST BUY STORES, L.P.

By: BBC PROPERTY CO., its General Partner

By: /s/ Ryan D. Robinson
Name: Ryan D. Robinson

WELLS FARGO BANK MINNESOTA, NATIONAL
ASSOCIATION, as Trustee

By: /s/ Michael T. Lechner
Name: Michael T. Lechner
Title: ASSISTANT VICE PRESIDENT

SUPPLEMENTAL INDENTURE
RELATING TO RELEASE OF GUARANTORS

THIS SUPPLEMENTAL INDENTURE, dated as of December 3, 2001, by and among Best Buy Co., Inc. (the “Company”), a corporation duly organized and existing under the laws of the State of Minnesota, certain of the Company’s subsidiaries, as “Guarantors” under the Indenture referred to below (collectively, the “Existing Guarantors”), and Wells Fargo Bank Minnesota, National Association, a national banking association, as trustee (the “Trustee”).

RECITALS

The Company, the Existing Guarantors and the Trustee are parties to an Indenture dated as of June 27, 2001, (the “Indenture”) providing for the issuance of the Company’s Convertible Debentures due June 27, 2021 (the “Securities”).

Pursuant to the terms of the Indenture, the Board of Directors may designate certain of its subsidiaries as “Unrestricted Subsidiaries” (as defined in the Indenture) for the purpose of releasing such subsidiaries as Guarantors of the Company’s obligations under the Indenture and under the Securities.

Section 11.4(e) of the Indenture provides that the Trustee is authorized to execute any documents reasonably required in order to evidence the release of any Guarantors from their obligations under the Indenture and under the Securities.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, the Existing Guarantors and the Trustee mutually covenant and agree as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Officers’ Certificate; Board Resolution. The Trustee acknowledges receipt of the Officers’ Certificate required by Section 11.4(e) of the Indenture and a Secretary’s Certificate evidencing resolutions of the Company’s Board of Directors designating certain of the Company’s subsidiaries as Unrestricted Subsidiaries.

3. Release of Guarantors. Pursuant to Sections 1.1 and 11.4 of the Indenture, the following subsidiaries of the Company, as Unrestricted Subsidiaries, have been released from their obligations under the Indenture, the Securities and their respective Guarantees:

- BBC Insurance Agency, Inc.;
- BBC Investment Co.;
- BBC Property Co.;
- Best Buy Purchasing LLC;

- BestBuy.Com, Inc.;
- Best Buy Concepts, Inc.;

- Magnolia Hi-Fi, Inc.;
- Musicland Stores Corporation;
- The Musicland Group, Inc.;
- Media Play, Inc.;
- MG Financing Services, Inc.;
- MLG Internet, Inc.;
- Musicland Retail, Inc.;
- On Cue, Inc.;
- Request Media, Inc.;
- Suncoast Group, Inc.;
- Suncoast Motion Picture Company, Inc.;
- Suncoast Retail, Inc.;
- TMG Caribbean, Inc.;
- TMG-Virgin Islands, Inc.; and
- Redline Entertainment, Inc.

4. Continuance of Guarantees. The Company and Best Buy Stores, L.P. acknowledge that their Guarantees shall remain in full force and effect irrespective of the release of the other Existing Guarantors.

5. Governing Law. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

6. Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the correctness of the recitals of fact contained herein, all of which recitals are made by the Company and the Guarantors.

7. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

BEST BUY CO., INC.

By: /s/ Darren R. Jackson
 Name: Darren R. Jackson
 Title: Senior Vice President – Finance,
 Treasurer and Chief Financial Officer

BBC INSURANCE AGENCY, INC.

By: /s/ Darren R. Jackson
 Name: Darren R. Jackson
 Title: Senior Vice President – Finance,
 Treasurer and Chief Financial Officer

BBC INVESTMENT CO.

By: /s/ Darren R. Jackson
 Name: Darren R. Jackson
 Title: Senior Vice President – Finance and
 Treasurer

BBC PROPERTY CO.

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President – Finance and
Treasurer

BEST BUY STORES, L.P.

By: BBC PROPERTY CO., its General Partner

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President

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BEST BUY PURCHASING LLC

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President

BESTBUY.COM, INC.

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President – Finance, Treasurer

BEST BUY CONCEPTS, INC.

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President – Finance, Treasurer

MAGNOLIA HI-FI, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President and Secretary

MUSICLAND STORES CORPORATION

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

THE MUSICLAND GROUP, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

MEDIA PLAY, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

MG FINANCING SERVICES, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

MLG INTERNET, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

MUSICLAND RETAIL, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

ON CUE, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

REQUEST MEDIA, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

SUNCOAST GROUP, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

SUNCOAST MOTION PICTURE COMPANY, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

SUNCOAST RETAIL, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

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TMG CARIBBEAN, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

TMG-VIRGIN ISLANDS, INC.

By: /s/ Joseph M. Joyce
Name: Joseph M. Joyce
Title: Senior Vice President

REDLINE ENTERTAINMENT, INC.

By: /s/ Darren R. Jackson
Name: Darren R. Jackson
Title: Senior Vice President – Finance,
Treasurer

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By: /s/ Michael T. Lechner
Name: Michael T. Lechner
Title: Corporate Trust Officer

BEST BUY CO., INC.

1997
EMPLOYEE NON-QUALIFIED
STOCK OPTION PLAN

2003 AMENDMENT AND RESTATEMENT

A. Purpose.

The purpose of this Employee Non-Qualified Stock Option Plan ("Plan") is to further the growth and general prosperity of Best Buy Co., Inc. (the "Company"), and its directly and indirectly wholly-owned subsidiaries (collectively, the "Companies") by enabling current key employees of the Companies, who have been or will be given responsibility for the administration of the affairs of the Companies and upon whose judgment, initiative and effort the Companies were or are largely dependent for the successful conduct of their business, to acquire shares of the common stock of the Company under the terms and conditions and in the manner contemplated by this Plan, thereby increasing their personal involvement in the Companies and enabling the Companies to obtain and retain the services of such employees. Options granted under the Plan are intended to be options which do not meet the requirements of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

B. Administration.

This Plan shall be administered by the Compensation and Human Resources Committee (the "Committee") of the Company's Board of Directors (the "Board"). Options may not be granted to any person while serving on the Committee unless approved by a majority of the disinterested members of the Board. Subject to such orders and resolutions not inconsistent with the provisions of this Plan as may from time to time be issued or adopted by the Board, the Committee shall have full power and authority to interpret the Plan and, to the extent contemplated herein, shall exercise the discretion granted to it regarding participation in the Plan and the number of shares to be optioned and sold to each participant.

All decisions, determinations and selections made by the Committee pursuant to the provisions of the Plan and applicable orders and resolutions of the Board shall be final.

C. Eligibility and Participation.

Options may be granted under the Plan to (i) key executive personnel, including officers, senior management employees and members of the Board who are employees of any of the Companies; (ii) staff employees, including managers, supervisors, and their functional equivalents for: warehousing, service, merchandising, leaseholds, installation, and finance and administration; (iii) line management employees, including retail store and field managers, supervisors and their functional equivalents; and (iv) any employee having served the Companies

continuously for a period of not less than ten (10) years. The Committee shall grant to such participants options to purchase shares in such amounts as the Committee shall from time to time determine.

D. Shares Subject to the Plan.

Subject to adjustment as provided in Section E. herein, an aggregate of 60,000,000 shares of \$0.10 par value common stock of the Company shall be subject to this Plan from authorized but unissued shares of the Company. Such number and kind of shares shall be appropriately adjusted in the event of any one or more stock splits, reverse stock splits or stock dividends hereafter paid or declared with respect to such stock. If, prior to the termination of the Plan, shares issued pursuant hereto shall have been repurchased by the Company pursuant to this Plan, such repurchased shares shall again become available for issuance under the Plan.

Any shares which, after the effective date of this Plan, shall become subject to valid outstanding options under this Plan may, to the extent of the release of any such shares from option by termination or expiration of option(s) without valid exercise, be made the subject of additional options under this Plan.

E. Adjustments Upon Changes in Capitalization.

In the event of a merger, consolidation, reorganization, stock dividend, stock split, or other change in corporate structure or capitalization affecting the common stock of the Company, an appropriate adjustment may be made in the number and kind of shares subject to and the exercise prices of options granted under the Plan as determined by the Committee.

F. Terms and Conditions of Options.

The Committee shall have the power, subject to the limitations contained in this Plan, to prescribe any terms and conditions in respect of the granting or exercise of any option under this Plan and, in particular, shall prescribe the following terms and conditions:

- (1) Each option shall state the number of shares to which it pertains.
- (2) The price at which shares shall be sold to participants hereunder (the "Exercise Price") shall be the Fair Market Value of the Company's common stock on the date of grant. Except as otherwise provided herein, payment of the Exercise Price shall be made (a) if payment is made by check payable to the Company, at the time the shares are sold hereunder, or (b) if payment is made pursuant to an irrevocable election to surrender outstanding shares of common stock of the Company which have a Fair Market Value on the date of surrender equal to the Exercise Price of the shares as to which the option is being exercised, no later than the settlement date for the shares sold in the market to cover the Exercise Price, or (c) by a combination thereof, unless an option is exercised in connection with a deferral election pursuant to the Deferred Compensation Plan, defined below, in which case payment of the Exercise Price shall be made as provided in Section N herein. However, the provisions of subparts (b) and (c) of this

Section F.(2) shall not be applicable to options granted to directors, officers or employees of Companies that are resident in Canada within the meaning of applicable federal or provincial tax laws of that country.

- (3) The vested portion of an option shall be exercisable in whole or in part with respect to the shares included therein until the earlier of (a) the close of business on the tenth day prior to the proposed effective date of (i) any merger or consolidation of the Company with any other corporation or entity as a result of which the holders of the common stock of the Company will own less than a majority voting control of the surviving corporation; (ii) any sale of substantially all of the assets of the Companies or (iii) any sale of common stock of the Company to a person not a shareholder on the date of issuance of the option who thereby acquires majority voting control of the Company, subject to any such transaction actually being consummated, or (b) the close of business on the date ten (10) years after the date the option was granted. The Company shall give written notice to the optionee not less than 30 days prior to the proposed effective date of any of the transactions described in (a) above.

- (4) Except in the event of disability, death or normal retirement, an option shall be exercisable with respect to the shares included therein not earlier than the date one (1) year following the date of grant of the option, nor later than the date ten (10) years following the date of grant of the option; provided, however, that during the second through fourth years following the date of grant, the optionee may exercise such optionee's right to acquire only twenty-five percent (25%) of the shares subject to such option together with any shares that the optionee had previously been able to acquire; and provided further, however, that in the event of a change in status of an employee from full-time or part-time to occasional/seasonal, such employee shall continue to have the right to exercise an option following such change in status but only to the extent of the shares available for acquisition on the date of such change in status (the "Change in Status Date").

(5) Except as in the event of disability, death or normal retirement, an option may be exercised only by the optionee while such optionee is, and has continually been, since the date of the grant of the option, an employee of any of the Companies; provided, however, that a former employee shall continue to have the right to exercise an option for a period of thirty (30) days following such termination to the extent of the shares available for acquisition on the date of such former employee's termination but in no event later than the date ten (10) years after the date of grant of such option. Such thirty (30) day period commences on the date such optionee first ceases regular and active employment with any of the Companies. For greater certainty, a Company may, but has no obligation to, notify any such optionee as to when they have ceased to be regularly and actively employed by any of the Companies, and such notice shall be conclusive evidence of such cessation. If the continuous employment of an optionee terminates by reason of disability, death or normal retirement, an option granted hereunder held by the disabled, deceased or retired employee may be exercised to the extent of all shares subject to the option (or, with respect to a disabled, deceased or retired occasional/seasonal employee, to the extent of the shares available for acquisition on the

Change in Status Date) within one (1) year following the date of disability or death or five (5) years following the date of normal retirement, but in no event later than ten (10) years after the date of grant of such option, by the disabled or retired employee or the person or persons to whom the deceased employee's rights under such option shall have passed by will or by the applicable laws of descent and distribution. For purposes of this Plan only, (a) an employee shall be deemed "disabled" if the employee is unable to perform his or her usual duties for the Companies as a result of physical or mental disability, and such inability to perform continues or is expected to continue for at least twelve (12) consecutive months, and (b) "normal retirement" shall mean retirement on or after age 60 so long as the employee has served the Companies continuously for at least the three (3) years immediately preceding retirement. Notwithstanding the foregoing, the changes made in Sections F(4) and (5) pursuant to the amendments hereto adopted on April 24, 1998 (relating to the vesting of options in the event of normal retirement), shall be effective only for options granted hereunder on and after April 24, 1998.

(6) An option shall be exercised when notice of such exercise, either in writing or orally, has been given to the Company at its principal business office or to its designated agent by the person entitled to exercise the option and full payment for the shares with respect to which the option is exercised has been received by the Company. Until the stock certificates are issued, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to optioned shares, notwithstanding the exercise of the option.

(7) Each optionee shall be obligated to comply with all applicable policies of the Companies, as may be added or amended by the Companies from time to time, and to maintain the confidentiality of all of the confidential and proprietary information of the Companies. In the event of a breach by the optionee of any of such obligations, all of the optionee's options granted pursuant to the Plan and all rights thereunder shall immediately terminate, including without limitation the 30-day grace period following termination of the optionee's employment as provided in Section F(5). This Section F(7) shall be effective only for options granted hereunder on and after April 16, 1999..

G. Options Not Transferrable.

Options under the Plan may not be sold, pledged, assigned or transferred in any manner, whether by operation of law or otherwise except by will or the laws of descent, and may be exercised during the lifetime of an optionee only by such optionee.

H. Amendment or Termination of the Plan.

The Board may amend this Plan from time to time as it may deem advisable and may at any time terminate the Plan, provided that any such termination of the Plan shall not adversely affect options already granted and such options shall remain in full force and effect as if the Plan had not been terminated.

I. Agreement and Representations of Optionees.

As a condition precedent to the exercise of any option or portion thereof, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required under the Securities Act of 1933 or any other applicable law, regulation or rule of any governmental agency.

In the event legal counsel to the Company renders an opinion to the Company that shares for options exercised pursuant to this Plan cannot be issued to the optionee because such action would violate any applicable federal or state securities laws, then in that event the optionee agrees that the Company shall not be required to issue said shares to the optionee and shall have no liability to the

optionee other than the return to optionee of amounts tendered to the Company upon exercise of the option.

J. Effective Date and Termination of the Plan.

The Plan shall become effective as of April 18, 1997, if approved thereafter by the Company's shareholders. The Plan shall terminate on the earliest of:

- (1) The date when all the shares available under the Plan shall have been acquired through the exercise of options granted under the Plan; or
- (2) Ten (10) years after the date of approval of the Plan by the Company's shareholders; or
- (3) Such other earlier date as the Board may determine.

K. Withholding Taxes.

The Companies shall have the right to take any action that may be necessary in the opinion of the Companies to satisfy all obligations for the payment of any federal, state or local taxes of any kind, including FICA taxes, required by law to be withheld with respect to the exercise of an option granted hereunder. If stock is withheld or surrendered to satisfy tax withholding, such stock shall be the Fair Market Value of the Company's common stock on the date of exercise; provided, however, that no stock may be withheld or surrendered to satisfy tax withholding obligations under applicable laws of Canada or any province thereof.

L. Fair Market Value.

"Fair Market Value" shall mean the last reported sale price of the Company's common stock on the date of grant, as quoted on by the New York Stock Exchange. If the Company's common stock ceases to be listed for trading on the New York Stock Exchange, "Fair Market Value" shall mean the value determined in good faith by the Board.

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M. Compliance with Rule 16b-3 and Section 162(m).

With respect to employees subject to Section 16 of the Securities Exchange Act of 1934, as amended, or Section 162(m) of the Code, transactions under the Plan are intended to comply with all applicable conditions of such Rule 16b-3 and avoid loss of the deduction referred to in paragraph (1) of such Section 162(m). Anything in the Plan to the contrary notwithstanding, to the extent any provision of the Plan or action by the Committee fails to so comply or avoid the loss of such deduction, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

N. Deferral of Option Gain.

Participants in the Company's Deferred Compensation Plan, effective as of April 1, 1998 (the "Deferred Compensation Plan"), may be able to defer the gain, if any, upon exercise of options granted hereunder pursuant to and in accordance with the terms of the Deferred Compensation Plan. To the extent that the Deferred Compensation Plan permits a participant to defer any gain with respect to an option, the Exercise Price must be satisfied utilizing shares of the Company's common stock held at least six months prior to exercise. In the event a deferral election is made with respect to an option, if the optionee is unable to deliver the requisite number of shares of the Company's common stock to cover the full Exercise Price prior to the expiration of such option, the portion of the option that corresponds to the portion of the full Exercise Price not covered shall be forfeited.

O. Form of Option.

Options shall be issued in substantially the form as the Committee or the Board may approve.

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Best Buy Co., Inc.
Third Amended and Restated
Deferred Compensation Plan
Master Plan Document

Effective January 1, 2001

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**BEST BUY CO., INC.
THIRD AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN**

Effective January 1, 2001

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Best Buy Co., Inc., a Minnesota corporation, and its subsidiaries. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

The Plan was initially adopted effective as of April 1, 1998. The Plan was amended and restated effective October 1, 1998, and subsequently amended and restated effective July 1, 1999. The Plan is being amended and restated effective January 1, 2001 (i) to eliminate the minimum deferral amount requirement, (ii) to specifically authorize separate investment allocation among the Measurement Funds for existing Account Balance sums and future contributions, (iii) to allow Participants to change their investment elections daily rather than monthly, (iv) to remove the list of Measurement Funds from the Plan, (v) to make certain administrative changes relating to the enrollment process, (vi) to remove superfluous provisions relating to stock option gain deferral, and (vii) to make certain other clarifying modifications.

**ARTICLE 1
Definitions**

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 “Account Balance” shall mean, with respect to a Participant, a credit on the records of the Company equal to the sum of (i) the Deferral Account balance, (ii) the vested Company Contribution Account balance and (iii) the vested Company Matching Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 “Accounting Firm” shall have the meaning set forth in Section 3.8.
- 1.3 “Annual Deferral Amount” shall mean that portion of a Participant’s Base Annual Salary, Bonus and Directors Fees that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant’s Retirement, Disability

(if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year’s Annual Deferral Amount shall be the actual amount withheld prior to such event.

- 1.4 “Base Annual Salary” shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee’s gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant’s gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.5 “Beneficiary” shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.6 “Beneficiary Designation Form” shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.7 “Board” shall mean the board of directors of the Company.

1.8 “Bonus” shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer’s bonus and cash incentive plans, excluding stock options.

1.9 “Business Day” shall mean any day other than Saturday, Sunday or any legal holiday observed by the New York Stock Exchange.

1.10 “Change in Control” shall mean the first to occur of any of the following events:

(a) Any “person” (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 (“Exchange Act”)) becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the Company’s capital stock entitled to vote in the election of directors;

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(b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who at the beginning of such period constitute the board of directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (a), (c), (d) or (e) of this Section) whose election by the board of directors or nomination for election by the Company’s stockholders was approved by a vote of at least three-fourths ($\frac{3}{4}$ ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(c) The shareholders of the Company approve any consolidation or merger of the Company, other than a consolidation or merger of the Company in which the holders of the common stock of the Company immediately prior to the consolidation or merger hold more than fifty percent (50%) of the common stock of the surviving corporation immediately after the consolidation or merger;

(d) The shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(e) The shareholders of the Company approve the sale or transfer of all or substantially all of the assets of the Company to parties that are not within a “controlled group of corporations” (as defined in Code Section 1563) in which the Company is a member.

1.11 “Claimant” shall have the meaning set forth in Section 14.1.

1.12 “Code” shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.13 “Committee” shall mean the committee described in Article 12.

1.14 “Company” shall mean Best Buy Co., Inc., a Minnesota corporation, and any successor to all or substantially all of the Company’s assets or business.

1.15 “Company Contribution Account” shall mean (i) the sum of the Participant’s Company Contribution Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant’s Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant’s Company Contribution Account.

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1.16 “Company Contribution Amount” shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.

1.17 “Company Matching Account” shall mean (i) the sum of all of a Participant’s Company Matching Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant’s Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant’s Company Matching Account.

1.18 “Company Matching Amount” for any one Plan Year shall be the amount determined in accordance with Section 3.6.

1.19 “Deduction Limitation” shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are “subject to the Deduction Limitation” under this Plan. If the Company determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Company to

ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Company may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.9 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Company in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Code Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.20 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.21 "Director" shall mean any member of the board of directors of any Employer.

1.22 "Directors Fees" shall mean the annual fees paid by any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors.

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1.23 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

1.24 "Disability Benefit" shall mean the benefit set forth in Article 8.

1.25 "Election Form and Plan Agreement" shall mean the form(s) established from time to time by the Committee that a Participant completes, signs and returns (or completes and submits online) to the Committee to indicate participation in the Plan and/or to make an election under the Plan. The terms of any Election Form and Plan Agreement may be different for any Participant, and any Election Form and Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by the Company, the Employer and the Participant.

1.26 "Employee" shall mean a person who is an employee of any Employer. The term "Employee" does not include any person performing services purportedly as an independent contractor, consultant, or "leased" worker, even if such person alleges or is found to be a "common-law employee" of the Company and/or any of its subsidiaries, and such persons are not eligible to participate in the Plan.

1.27 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) whose Employees and/or Directors have been selected by the Board to participate in the Plan.

1.28 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.29 "401(k) Plan" shall be that certain Best Buy Co., Inc. Retirement Savings Plan dated October 1, 1990 and adopted by the Company, as it may be amended from time to time.

1.30 "In-Service Distribution" shall mean the payout set forth in Section 4.1.

1.31 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who properly completes and submits an Election Form and Plan Agreement and a Beneficiary Designation Form, (iv) whose Election Form and Plan Agreement and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Election Form and Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be

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treated as a Participant in the Plan or have an Account Balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.32 “Plan” shall mean the Company’s Deferred Compensation Plan, which shall be evidenced by this instrument, as it may be amended from time to time.

1.33 “Plan Year” shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.34 “Pre-Retirement Survivor Benefit” shall mean the benefit set forth in Article 6.

1.35 “Quarterly Installment Method” shall be a quarterly installment payment over the number of quarters selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the close of business on the last business day of the quarter. The quarterly installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of quarterly payments due the Participant. By way of example, if the Participant elects a forty (40) quarter Annual Installment Method, the first payment shall be one-fortieth (1/40th) of the Account Balance, calculated as described in this definition. The following quarter, the payment shall be one-thirty-ninth (1/39th) of the Account Balance, calculated as described in this definition. Each quarterly installment shall be paid on or as soon as practicable after the last business day of the applicable quarter. Unless the Committee determines otherwise, quarterly installment payments shall be drawn on a pro-rata basis from each of the applicable Measurement Funds used to determine amounts to be credited or debited to the Participant’s Account Balance pursuant to Section 3.9 below.

1.36 “Retirement”, “Retire(s)” or “Retired” shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the attainment of age sixty (60); and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the attainment of age seventy (70). If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least five years prior to Retirement and in accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee.

1.37 “Retirement Benefit” shall mean the benefit set forth in Article 5.

1.38 “Termination Benefit” shall mean the benefit set forth in Article 7.

1.39 “Termination of Employment” shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held; provided, however, that such a Participant may elect, at least five years before cessation of employment with all Employers and in accordance with the policies and procedures established by the Committee, to be treated for purposes of this Plan as having experienced a Termination of Employment at the time he or she ceases employment with all Employers as an Employee.

1.40 “Trust” shall mean one or more trusts established pursuant to that certain Master Trust Agreement, dated as of April 1, 1998 between the Company and the trustee named therein, as amended from time to time.

1.41 “Unforeseeable Financial Emergency” shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant’s property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.42 “Years of Service” shall mean the total number of years in which a Participant has been employed by one or more Employers, as defined in Article IV of the 401(k) Plan.

ARTICLE 2

Selection, Enrollment, Eligibility

2.1 **Selection by Committee.** Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.

2.2 **Enrollment Requirements.** As a condition to participation, each selected Employee or Director shall complete, sign and return (or complete and submit online, to the extent available) to the Committee an Election Form and Plan Agreement and a Beneficiary Designation Form, all within thirty (30) days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 **Eligibility; Commencement of Participation.** Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and

required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on the first day of the pay period commencing in the Plan Year following the date on which the Employee or Director completes all enrollment requirements. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the pay period commencing in the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 **Termination of Participation and/or Deferrals.** If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit subject to Article 7 and terminate the Participant's participation in the Plan.

ARTICLE 3
Deferral Commitments/Company Matching/Crediting/Taxes

3.1 **Minimum Deferral.** There is no minimum amount for deferral of Base Annual Salary, Bonus or Director's Fees under the Plan. If no election is made, the amount deferred shall be zero.

3.2 **Maximum Deferral.**

(a) **Base Annual Salary, Bonus and Directors Fees.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Bonus and/or Directors Fees up to the following maximum percentages for each deferral elected:

Deferral	Maximum Amount
Base Annual Salary	75%
Bonus	100%
Directors Fees	100%

(b) Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount, with respect to Base Annual Salary, Bonus and Directors Fees shall be limited to the amount of

compensation not yet earned by the Participant as of the date the Participant submits an Election Form and Plan Agreement to the Committee for acceptance.

3.3 **Election to Defer; Effect of Election Form and Plan Agreement.**

(a) **Elections.** For each Plan Year, the Participant shall make an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form and Plan Agreement must be completed and submitted by the Participant, timely delivered to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made. If no such Election Form and Plan Agreement is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

(b) **Effect of Termination on Pending Election.** Upon the occurrence of a Termination of Employment, any pending election shall be automatically terminated.

3.4 **Withholding of Annual Deferral Amounts.** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as may be adjusted from time to time for increases and decreases in Base Annual Salary. The Bonus and/or Directors Fees portion of the Annual Deferral Amount shall be withheld at the time the Bonus or Directors Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 **Company Contribution Amount.** For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Company Contribution Amount for that Plan Year. The Company Contribution Amount, if any, shall be credited as of the date(s) selected by the Company.

3.6 **Company Matching Amount.** For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit to each Participant's Company Matching Account a Company Matching Amount for any Plan Year equal to a percentage of all or a portion of the Participant's Annual Deferral Amount for such Plan Year. Such Company Matching Amount may, but need not be, coordinated with any matching contribution made to the 401(k) Plan on the Participant's behalf for the plan year of the 401(k) Plan that corresponds to the Plan Year. The Company Matching Amount, if any, shall be credited as of the date(s) selected by the Company, which may, but need not be, the same date(s) that matching contributions are credited under the 401(k) Plan.

3.7 **Investment of Trust Assets.** The trustees of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable trust agreements, including the disposition of Company stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.8 **Vesting.**

- (a) A Participant shall at all times be one hundred percent (100%) vested in his or her Deferral Account.
- (b) A Participant shall be vested in his or her Company Contribution Account, if any, and any earnings credited thereon pursuant to Section 3.9 below, in accordance with the vesting schedule established by the Company in its sole discretion.
- (c) A Participant shall be vested in his or her Company Matching Account, and any earnings credited thereon pursuant to Section 3.9 below, as follows: (i) with respect to all benefits under this Plan other than the Termination Benefit, a Participant's vested Company Matching Account shall equal one hundred percent (100%) of such Participant's Company Matching Account; and (ii) with respect to the Termination Benefit, a Participant's Company Matching Account shall vest on the basis of the Participant's Years of Service at the time the Participant experiences a Termination of Employment, in accordance with the following schedule:

Years of Service at Date of Termination of Employment	Vested Percentage of Company Matching Account
Less than 2 years	0%
2 years or more, but less than 3	20%
3 years or more, but less than 4	40%
4 years or more, but less than 5	60%
5 years or more	100%

- (d) Notwithstanding anything to the contrary contained in this Section 3.8, in the event of either (i) a Change in Control, or (ii) a termination of the Plan as described in Section 11.1 below, a Participant's Company Contribution Account and Company Matching Account shall immediately become one hundred percent (100%) vested (if it is not already vested in accordance with the above vesting schedules).
- (e) Notwithstanding subsection (d), the vesting schedule for a Participant's Company Contribution Account and Company Matching Account shall not be accelerated upon a Change in Control to the extent that the Committee determines that such acceleration would cause the deduction limitations of Section 280G of the Code to

become effective. In the event that all of a Participant's Company Contribution Account and/or Company Matching Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within fifteen (15) business days of such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Code Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

3.9 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance, which solely for purposes of this Section 3.9 shall include the Participant's Company Contribution Account and Company Matching Account regardless of vesting status, in accordance with the following rules:

(a) **Election of Measurement Funds.** A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form and Plan Agreement, one or more Measurement Fund(s) (as described in Section 3.9(c) below) to be used to determine the additional amounts to be credited or debited to his or her Account Balance for the first day in which the Participant commences participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, the Participant may (but is not required to) elect, by submitting an Election Form and Plan Agreement to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. The Participant may change the percentage of future contributions to be invested in each Measurement Fund and/or elect to have all or part the Participant's previously invested Account Balance transferred among the Measurement Funds at any time. If an election is made in accordance with this Subsection (a), it shall be effective as soon as administratively practicable after the election is made. Generally, an election shall become effective on the day such election is made if such election is received before 3:00 PM CT on any Business Day, and any election received after 3:00 PM CT on a Business Day, or any election received on a day other than a Business Day, shall be effective as of the next Business Day. Any election shall continue thereafter

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for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with this Subsection (a).

(b) **Proportionate Allocation.** In making any election described in Section 3.9(a) above, the Participant shall specify on the Election Form and Plan Agreement, in increments of one percentage point (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(c) **Measurement Funds.** The Participant may elect one or more measurement funds described in the Election Form and Plan Agreement and/or accompanying Plan enrollment materials, based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the calendar month that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

(d) **Crediting or Debiting Method.** The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any day were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such day, on the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such day, on the Business Day prior to the distribution, at the closing price on such prior Business Day. The Participant's Company Matching Amount shall be credited to his or her Company Matching Account for purposes of this Section 3.9(d) as of the close of business on the date(s) that matching contributions are credited under the 401(k) Plan. The Participant's Company Contribution Amount shall be credited to his or her Company Contribution Account on any date(s) selected by the Company.

(e) **No Actual Investment.** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for

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measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the trustees of the Trust, in their own discretion, decide to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a

Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company, and where applicable, the Participant's Employer.

3.10 **FICA and Other Taxes.**

(a) **Annual Deferral Amounts.** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.10.

(b) **Company Matching and Contribution Amounts.** When a Participant becomes vested in a portion of his or her Company Matching Account or Company Contribution Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account in order to comply with this Section 3.10.

3.11 **Distributions.** The Company, or the trustees of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Company and the trustees of the Trust.

ARTICLE 4
In-Service Distribution; Unforeseeable Financial Emergencies

4.1 **In-Service Distribution.** In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "In-Service Distribution" from the Plan with respect to all or a portion of such Annual Deferral Amount. Subject to the Deduction Limitation, the In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount for which the Participant has elected to receive an In-Service Distribution plus or minus amounts credited or debited in the manner provided in Section 3.9 above on that amount, determined at the time that the In-Service Distribution becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out during a sixty (60) day period commencing immediately after the last day of any Plan Year designated by the Participant that is at least five Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a five year In-Service Distribution is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2001, the five year In-Service Distribution would become payable during a sixty (60) day period commencing no earlier than January 1, 2007.

4.2 **Other Benefits Take Precedence Over In-Service Distribution.** Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 **Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.** If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within sixty (60) days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.

ARTICLE 5
Retirement Benefit

5.1 **Retirement Benefit.** Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance.

5.2 **Payment of Retirement Benefit.** A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form and Plan Agreement to receive the Retirement Benefit in a lump sum or pursuant to a Quarterly Installment Method of twenty (20), forty (40) or sixty (60) quarters. If the Participant's Account Balance at the time of Retirement is

less than \$10,000, the Committee, at its discretion, may allow the Retirement Benefit to be paid in a lump sum. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form and Plan Agreement to the Committee, provided that any such Election Form and Plan Agreement is submitted at least 3 years prior to the Participant's Retirement and is accepted by the Committee in its sole discretion. The Election Form and Plan Agreement most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than sixty (60) days after the last day of the Plan Year in which the Participant Retires. Any payment made shall be subject to the Deduction Limitation.

5.3 **Death Prior to Completion of Retirement Benefit.** If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary (i) over the remaining number of quarters and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (ii) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's unpaid remaining Account Balance.

ARTICLE 6

Pre-Retirement Survivor Benefit

6.1 **Pre-Retirement Survivor Benefit.** Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.

6.2 **Payment of Pre-Retirement Survivor Benefit.** A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form and Plan

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Agreement whether the Pre-Retirement Survivor Benefit shall be received by his or her Beneficiary in a lump sum or pursuant to a Quarterly Installment Method of twenty (20) or forty (40) quarters. The Participant may annually change this election to an allowable alternative payout period by submitting a new Election Form and Plan Agreement to the Committee, which form must be accepted by the Committee in its sole discretion. The Election Form and Plan Agreement most recently accepted by the Committee prior to the Participant's death shall govern the payout of the Participant's Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then such benefit shall be paid in a lump sum. Despite the foregoing, if the Participant's Account Balance at the time of his or her death is less than \$25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, in a lump sum or pursuant to a Quarterly Installment Method of not more than twenty (20) quarters. The lump sum payment shall be made, or installment payments shall commence, no later than sixty (60) days after the last day of the Plan Year in which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7

Termination Benefit

7.1 **Termination Benefit.** Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance (with vesting determined as of the date of the Participant's Termination of Employment), if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.

7.2 **Payment of Termination Benefit.** If the Participant's Account Balance at the time of his or her Termination of Employment is less than \$25,000, payment of his or her Termination Benefit shall be paid in a lump sum. If his or her Account Balance at such time is equal to or greater than that amount, the Participant may request and the Committee, in its sole discretion, may allow the Termination Benefit to be paid in a lump sum or pursuant to a Quarterly Installment Method of twenty (20) quarters. The lump sum payment shall be made, or installment payments shall commence, no later than sixty (60) days after the last day of the Plan Year in which the Participant experiences the Termination of Employment. Any payment made shall be subject to the Deduction Limitation.

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ARTICLE 8

Disability Waiver and Benefit

8.1 **Disability Waiver.**

(a) **Waiver of Deferral.** A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Bonus and/or Directors Fees for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) **Return to Work.** If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form and Plan Agreement is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 **Continued Eligibility; Disability Benefit.** A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, or in the service of an Employer as a Director, and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have experienced a Termination of Employment, or in the case of a Participant who is eligible to Retire, to have Retired, at any time (or in the case of a Participant who is eligible to Retire, as soon as practicable) after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her Account Balance at the time of the Committee's determination; provided, however, that should the Participant otherwise have been eligible to Retire, he or she shall be paid in accordance with Article 5. The Disability Benefit shall be paid in a lump sum within sixty (60) days of the Committee's exercise of such right. Any payment made shall be subject to the Deduction Limitation.

8.3 **Short-Term Disability Waiver.** If a Participant qualifies for and receives short-term disability benefits under any short-term disability plan maintained by Participant's Employer, the Participant shall continue to be considered employed by the Employer for purposes of this Plan and the Participant shall be excused from making deferrals under the

Plan until the earlier of the date the short-term disability benefits expire or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 9 **Beneficiary Designation**

9.1 **Beneficiary.** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

9.2 **Beneficiary Designation; Change; Spousal Consent.** A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary of at least fifty percent (50%) of the Participant's benefits, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

9.3 **Acknowledgment.** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

9.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

9.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its

discretion, to cause the Company to withhold such payments until this matter is resolved to the Committee's satisfaction.

9.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant.

ARTICLE 10 **Leave of Absence**

10.1 **Paid Leave of Absence.** If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.4.

10.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11 **Termination, Amendment or Modification**

11.1 **Termination.** Although the Company anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Company will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Company reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of the participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to the Employees and/or Directors of any Employer, the Election Form and Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate, and such affected Participants (i) shall immediately become one hundred percent (100%) vested in their Company Contribution Accounts and Company Matching Accounts as provided in Section 3.8(d) above (subject to Section 3.8(e)), and (ii) shall have their Account Balances (determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a

Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination) paid to them as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of the Employees and/or Directors of an Employer, the Company shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to a Quarterly Installment Method of up to sixty (60) quarters, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of the Employees and/or Directors of an Employer, the Company shall be required to pay such benefits in a lump sum. After a Change in Control, the Company shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any benefits to which a Participant or Beneficiary has become entitled under the Plan as of the date of termination; provided however, that the Company shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to a Quarterly Installment Method using fewer quarters (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.2 **Amendment.** The Company may, at any time, amend or modify the Plan in whole or in part by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 or Section 12.2 of the Plan shall be effective. The amendment or modification of the Plan shall not adversely affect any benefits to which a Participant or Beneficiary has become entitled under the Plan as of the date of the amendment or modification; provided, however, that the Company shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to a Quarterly Installment Method using fewer quarters (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.3 **Election Form and Plan Agreement.** Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Election Form and Plan Agreement contains benefits or limitations that are not in this Plan document, the Company may only amend or terminate such provisions with the consent of the Participant.

11.4 **Effect of Payment.** The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Election Form and Plan Agreement shall terminate.

ARTICLE 12 **Administration**

12.1 **Committee Duties.** Except as otherwise provided in this Article 12, this Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

12.2 **Administration Upon Change In Control.** For purposes of this Plan, the Company shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the trustee of the Master Trust and approved by the individual who, immediately prior to such event, was the Company's Chief Executive Officer or, if not so identified, the Company's highest ranking officer (the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan assets or assets of the Trust or select any investment manager or custodial firm for the Plan or Trust. Upon and after the occurrence of a Change in Control, the Company must: (i) pay all reasonable administrative expenses and fees of the Administrator; and (ii) supply full and timely information to the Administrator or all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Retirement, Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the trustee of the Master Trust only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

12.3 **Agents.** In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

12.4 **Binding Effect of Decisions.** The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

12.5 **Indemnity of Committee.** The Company shall indemnify and hold harmless the members of the Committee, and any Employee or agent to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

12.6 **Employer Information.** To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 13 **Other Benefits and Agreements**

13.1 **Coordination with Other Benefits.** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 14

Claims Procedures

14.1 **Presentation of Claim.** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received

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by the Claimant. All other claims must be made within one hundred eighty (180) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 **Notification of Decision.** The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;
 - (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and
 - (iv) an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 **Review of a Denied Claim.** Within sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than thirty (30) days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

- (a) may review pertinent documents;
- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

14.4 **Decision on Review.** The Committee shall render its decision on review promptly, and not later than sixty (60) days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within one hundred twenty (120) days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

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- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
- (c) such other matters as the Committee deems relevant.

14.5 **Subsequent Action; Mandatory Arbitration.**

- (a) **Subsequent Action.** A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any subsequent action with respect to any claim for benefits under this Plan.
- (b) **Mandatory Arbitration.** Any controversy or claim arising out of or relating to this Plan shall be resolved by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be by a single arbitrator experienced in the matters at issue and selected by the parties in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be held in such place in Minneapolis, Minnesota, as may be specified by the arbitrator

(or any place agreed to by the parties and the arbitrator). The decision of the arbitrator shall be final and binding as to any matters submitted under this Article 14; provided, however, if necessary, such decision may be enforced in any court having jurisdiction over the subject matter or over any of the parties to this Plan. All costs and expenses incurred in connection with any such arbitration proceeding (including reasonable attorneys' fees) shall be borne by the party against which the decision is rendered. If the arbitrator's decision is a compromise, the determination of which party or parties bears the costs and expenses incurred in connection with such arbitration proceeding shall be made by the arbitrator on the basis of the arbitrator's assessment of the relative merits of the parties' positions.

ARTICLE 15 **Establishment of The Trust**

15.1 **Establishment and Funding of the Trust.** The Company shall establish the Trust. The Company shall at least annually transfer over to the Trust such assets as the Company determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts, Company Contribution Amounts, and Company Matching Amounts for the Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances

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for all periods prior to the transfer, taking into consideration the value of the assets in such Trust at the time of the transfer.

15.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Company, the Participants, and the creditors of the Company and, where applicable, creditors of Employers other than the Company, to the assets transferred to the Trust. The Company shall at all times remain liable to carry out its obligations under the Plan.

15.3 **Distributions From the Trust.** The Company's obligations under the Plan may be satisfied with assets of the Trust distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Company's obligations under this Plan.

ARTICLE 16 **Miscellaneous**

16.1 **Status of Plan.** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

16.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of the Company's assets shall be, and remain, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

16.3 **Employer Liability.** The Company's liability for the payment of benefits, and the obligation of any Employer, shall be defined only by the Plan and the Election Form and Plan Agreements, as entered into between the Company, the Employer (if different from the Company) and a Participant. Neither the Company nor an Employer shall have any obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Election Form and Plan Agreement.

16.4 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be,

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unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

16.5 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be

retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

16.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

16.7 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

16.8 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

16.9 **Governing Law.** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Minnesota without regard to its conflicts of laws principles.

16.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Best Buy Co., Inc.
Office of the General Counsel
7075 Flying Cloud Drive
Eden Prairie, MN 55344

with a copy to:

Elliot S. Kaplan, Esq.
Robins, Kaplan, Miller & Ciresi L.L.P.
2800 LaSalle Plaza
800 LaSalle Avenue
Minneapolis, MN 55402

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

16.11 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Company and, where applicable, the Participant's Employer, their respective successors and assigns, and the Participant and the Participant's designated Beneficiaries.

16.12 **Spouse's Interest.** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

16.13 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

16.14 **Incompetence.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

16.15 **Court Order.** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made

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by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

16.16 Distribution in the Event of Taxation.

(a) **In General.** If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the Administrator of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), the Company shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within ninety (90) days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) **Trust.** If the Trust terminates in accordance with Section 3.6(e) of such Trust and benefits are distributed from such Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.17 **Insurance.** The Company, on its own behalf or on behalf of the trustees of the Trust, and, in its sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the trustees may choose. The Company or the trustees of any of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Company shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Company has applied for insurance.

16.18 **Legal Fees To Enforce Rights After Change in Control.** The Company is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder

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or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company irrevocably authorizes such Participant to retain counsel of his or her choice at the expense of the Company to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Third Amended and Restated Plan document effective as of January 1, 2001.

Best Buy Co., Inc., a Minnesota corporation

By: /s/ Richard M. Schulze
Richard M. Schulze
Chief Executive Officer

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DEFERRED COMPENSATION PLAN

JANUARY 1, 2003

This First Amendment to the Best Buy Co., Inc. Third Amended and Restated Deferred Compensation Plan (the "Plan") is adopted by the Board of Directors of Best Buy Co., Inc. (the "Company") effective January 1, 2003.

A new Section 4.4 of the Plan is hereby added as follows:

4.4 **Withdrawal Election.** A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal to ten percent (10%) of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, Disability, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Retirement, Disability or death, a Participant's Withdrawal Amount shall be calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within sixty (60) days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan until the first Plan Year following the one (1) year anniversary of the payment of the Withdrawal Amount. The payment of any such Withdrawal Amount shall not be subject to the Deduction Limitation.

IN WITNESS WHEREOF, the Company has signed this First Amendment effective as of January 1, 2003.

Best Buy Co., Inc., a Minnesota corporation

By: /s/ John C. Walden
John C. Walden
Exec VP, Human Capital

CERTIFICATE OF RESOLUTIONS

I, Joseph M. Joyce, the Assistant Secretary of Best Buy Co., Inc., a Minnesota corporation, do hereby certify that the following resolutions were duly adopted by the Compensation and Human Resources Committee of the Board of Directors of this corporation at a meeting held on April 14, 2003, and that said resolutions are still in full force and effect:

WHEREAS, the Compensation and Human Resources Committee of the Board of Directors of the corporation (the "Committee") is responsible for the review and approval of incentive plans applicable to the corporation's employees, including senior executives; and

WHEREAS, since April 1999, senior executives of the corporation have received incentive compensation under the corporation's EVA Incentive Program; and

WHEREAS, management recommends that starting in fiscal year 2004, senior executives earn incentive compensation under a new short-term incentive plan; and

WHEREAS, the Committee approves management's recommendation;

RESOLVED, that effective March 2, 2003, the corporation adopts the Best Buy Short-Term Incentive Plan (the "Plan") containing the specifications set forth in Exhibit A.

FURTHER RESOLVED, that commencing with fiscal year 2004, senior officers of the corporation, excluding the Chief Executive Officer and Chief Operating Officer, will cease to participate in the EVA Incentive Program and will instead be entitled to participate in the Plan.

Dated: May 28, 2003.

/s/ Joseph M. Joyce
Joseph M. Joyce
Assistant Secretary

FY04 Short-Term Incentive Plan:

Funding Gate

$$\begin{array}{cccccc}
 \text{Enterprise or} & & \text{Team} & & \text{Individual} & & \text{Bonus} \\
 \text{Business Unit} & \times & \text{Performance} & \times & \text{Performance} & = & \text{Multiplier} \\
 \text{Performance} & & & & & & \\
 & & & & & & [\text{max.2.00}]
 \end{array}$$

Features of Proposed Plan Applicable to Officers (Vice Presidents and Above)

- 3 elements for 3 performance levels — Enterprise (or Business Unit), Team, and Individual — each weighted equally
- The product of the performance “scores” for each element is multiplied against the others to produce an overall incentive multiplier (multiplicative vs. additive formula)
- Enterprise or Business Unit EVA Performance sets the initial “funding”
- Team and or Individual Performance can increase or decrease the multiplier
- Team Performance is the average score of 2–4 Team-specific financial, operational and customer metrics
- Individual Performance is scored by an overall performance rating derived from a newly created performance appraisal process
- The incentive is capped at 2 times the incentive target (% of base salary)

Incentive Opportunity

EVA Performance Against Plan	Incentive Earned (% of Target)
64%	0%
70%	17% – 43%
75%	28% – 72%
80%	39% – 100%
85%	39% – 100%
90%	39% – 100%
95%	45% – 115%
97%	50% – 130%
100%	56% – 144%
102%	56% – 144%
105%	62% – 158%
110%	67% – 173%
115%	73% – 187%
120%	78% – 200%
125%	78% – 200%
130%	78% – 200%
136%	78% – 200%
140%	78% – 200%
145%	78% – 200%
150%	78% – 200%

BEST BUY CO., INC.
2000 RESTRICTED STOCK AWARD PLAN

2001 Amendment and Restatement

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**BEST BUY CO., INC.
2000 RESTRICTED STOCK AWARD PLAN**

2001 Amendment and Restatement

Section 1. Purpose of Plan. The purpose of the Best Buy Co., Inc. 2000 Restricted Stock Award Plan (the “Plan”) is to advance the interests of Best Buy Co., Inc. (the “Company”) and its shareholders by enabling the Company and its Affiliates to attract and retain persons of ability to perform services for the Company and its Affiliates by providing an incentive to such individuals through equity participation in the Company and by rewarding such individuals who contribute to the achievement by the Company and its Affiliates of their respective economic objectives.

Section 2. Certain Definitions. The following terms will have the meanings set forth below, unless the context clearly otherwise requires:

- (a) “Affiliate” means any “parent corporation” or “subsidiary corporation” of the Company as defined by Sections 424(e) and 424(f) of the Code.
 - (b) “Board” means the Board of Directors of the Company.
 - (c) “Change in Control” means an event described in Section 10(a) of the Plan.
 - (d) “Code” means the Internal Revenue Code of 1986, as amended.
 - (e) “Committee” means the group of individuals administering the Plan, as provided in Section 3 of the Plan.
 - (f) “Common Stock” means the common stock of the Company, par value \$.10 per share.
 - (g) “Disability” means the inability of the Participant to perform his or her usual duties for the Company or its Affiliates as a result of physical or mental disability, and such inability to perform continues or is expected to continue for at least twelve (12) consecutive months.
 - (h) “Eligible Recipients” means all employees of the Company or any Affiliate and any directors, consultants and independent contractors of the Company or any Affiliate.
 - (i) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
 - (j) “Participant” means an Eligible Recipient who receives one or more Restricted Stock Awards under the Plan.
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(k) “Restricted Stock Award” means an award of Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that is subject to the restrictions on transferability and the risk of forfeiture imposed by the provisions of such Section 6.

(l) “Retirement” means termination of employment or service with the Company or any of its Affiliates on or after age 60 so long as the employee has served the Company or any of its Affiliates continuously for at least the three (3) years immediately preceding retirement.

(m) “Securities Act” means the Securities Act of 1933, as amended.

Section 3. Plan Administration.

(a) The Committee. The Plan shall be administered by the Compensation and Human Resources Committee (the “Committee”) of the Board. Restricted Stock Awards may not be granted to any person while serving on the Committee unless approved by a majority of the disinterested members of the Board. To the extent consistent with corporate law, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee or the entire Board, may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act.

(b) Authority of the Committee.

(i) In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Restricted Stock Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (A) the Eligible Recipients to be selected as Participants; (B) the nature and extent of the Restricted Stock Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Restricted Stock Award) and the form of written agreement evidencing such Restricted Stock Award; (C) the time or times when Restricted Stock Awards will be granted; and (D) the restrictions and other conditions to which the vesting of Restricted Stock Awards may be subject. The Committee’s determinations need not be uniform, and may be made by it selectively among Eligible Recipients, whether or not such persons are similarly situated. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons, and no member of the Committee or the Board, as applicable, will be liable for any action or determination made in good faith with respect to the Plan or any Restricted Stock Award granted under the Plan.

(ii) The Committee will have the authority under the Plan to amend or modify the terms of any outstanding Restricted Stock Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and

conditions of a Restricted Stock Award or accelerate the vesting or otherwise terminate any restrictions relating to a Restricted Stock Award; provided, however that the amended or modified terms are permitted by the Plan as then in effect and that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification.

Section 4. Shares Available for Issuance.

(a) Maximum Number of Shares Available. The maximum aggregate number of shares of Common Stock that will be available for issuance under the Plan will be One Million (1,000,000) shares of the authorized, but unissued, Common Stock. Such number and kind of shares shall be appropriately adjusted in the event of any one or more stock splits, reverse stock splits or stock dividends hereafter paid or declared with respect to such stock.

(b) Accounting for Restricted Stock Awards. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Restricted Stock Awards will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. Any shares of Common Stock that constitute any portion of a Restricted Stock Award that remains unvested and is forfeited for any reason will automatically again become available for issuance under the Plan.

Section 5. Participation. Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its Affiliates. Restricted Stock Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee.

Section 6. Restricted Stock Awards.

(a) Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion.

(b) Vesting of Restricted Stock Awards. The shares of Common Stock subject to a Restricted Stock Award shall vest, and the forfeiture provisions and restrictions on transfer set forth in this Plan shall terminate, as determined by the Committee in its sole discretion, subject to the following:

(i) No more than twenty-five percent (25%) of the shares will vest upon grant of the Restricted Stock Award;

(ii) No more than an additional twenty-five percent (25%) of the shares will vest on the first anniversary of the date of grant of the Restricted Stock Award, if the Participant has remained in the continuous employ or service of the Company or one of its Affiliates;

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(iii) No more than an additional twenty-five percent (25%) of the shares will vest on the second anniversary of the date of grant of the Restricted Stock Award, if the Participant has remained in the continuous employ or service of the Company or one of its Affiliates;

(iv) No more than an additional twenty-five percent (25%) of the shares will vest on the third anniversary of the date of grant of the Restricted Stock Award, if the Participant has remained in the continuous employ or service of the Company or one of its Affiliates;

The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate.

(c) Rights as a Shareholder. Except as provided in Sections 6(a), 6(d) and 6(e) of the Plan or under the terms of any agreement evidencing a Restricted Stock Award, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 6 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.

(d) Dividends and Distributions. Unless the Committee determines otherwise in its sole discretion (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after the grant of the Restricted Stock Award), any dividends or distributions (including regular quarterly cash dividends, if any) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the shares to which such dividends or distributions relate. In the event the Committee determines not to pay such dividends or distributions currently, the Committee will determine in its sole discretion whether any interest will be paid on such dividends or distributions. In addition, the Committee in its sole discretion may require such dividends and distributions to be reinvested (and in such case the Participants consent to such reinvestment) in shares of Common Stock that will be subject to the same restrictions as the shares to which such dividends or distributions relate. All stock dividends, stock rights, and stock issued upon split-ups or reclassifications of shares of Common Stock shall be subject to the same restrictions as the shares with respect to which such stock dividends, rights, or additional shares are issued, and may be held in custody as provided in Section 6(f).

(e) Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan or agreement evidencing a Restricted Stock Award, no right or interest of any Participant in a Restricted Stock Award prior to the vesting of such Restricted Stock Award will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise.

(f) Enforcement of Restrictions. To enforce the restrictions referred to in this Section 6, the Committee may require the Participant, until the restrictions have lapsed, to keep

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the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent or to maintain evidence of stock ownership, together with duly endorsed stock powers, in a non-certificated book-entry stock account with the Company's transfer agent.

(g) Certificates. A recipient of a Restricted Stock Award shall be issued a certificate or certificates evidencing the shares subject to such Restricted Stock Award. Such certificates shall be registered in the name of the Participant, and may bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock Award, which legend shall be in substantially the following form:

“The transferability of this certificate and the shares represented hereby are subject to the terms and conditions (including forfeiture) of the Best Buy Co., Inc. 2000 Restricted Stock Award Plan and an Agreement entered into between the registered owner and Best

Buy Co., Inc. Copies of such Plan and Agreement are on file in the corporate offices of Best Buy Co., Inc.”

(h) Gifts, Etc. Notwithstanding any other provision of this Section 6, the Committee may permit a gift of shares subject to a Restricted Stock Award to the holder’s spouse, child, stepchild, grandchild or legal dependent, or to a trust whose sole beneficiary or beneficiaries shall be the holder and/or any one or more of such persons; provided, that the donee shall have entered into an agreement with the Company pursuant to which it agrees that such shares shall be subject to the same restrictions in the hands of such donee as it was in the hands of the donor.

Section 7. Agreements. Each Restricted Stock Award granted pursuant to the Plan shall be evidenced by an agreement setting forth the terms and conditions upon which it is granted. Subject to the limitations set forth in the Plan, the Committee may amend any such agreement to modify the terms or conditions governing the Restricted Stock Award evidenced thereby.

Section 8. Effect of Termination of Employment or Other Service.

(a) Termination Due to Death, Disability or Retirement. Except as provided in any agreement evidencing an Restricted Stock Award, in the event a Participant’s employment or other service with the Company and all Affiliates is terminated by reason of death, Disability or Retirement, all Restricted Stock Awards then held by the Participant will become fully vested.

(b) Termination for Reasons Other than Death, Disability or Retirement. Except as provided in any agreement evidencing an Restricted Stock Award, in the event a Participant’s employment or other service is terminated with the Company and all Affiliates for any reason other than death, Disability or Retirement, all Restricted Stock Awards then held by the Participant that have not vested will be terminated and forfeited.

(c) Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 8, upon a Participant’s termination of employment or other service with the Company and all Affiliates, the Committee may, in its sole discretion (which may be

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exercised at any time on or after the date of grant, including following such termination), cause Restricted Stock Awards then held by such Participant to vest and/or continue to vest following such termination of employment or service, in each case in the manner determined by the Committee.

(d) Date of Termination of Employment or Other Service. Unless the Committee otherwise determines in its sole discretion, a Participant’s employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Affiliate for which the Participant provides employment or other service, as determined by the Committee in its sole discretion based upon such records.

Section 9. Payment of Withholding Taxes.

The Company is entitled to (i) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Affiliate), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state and local withholding and employment–related tax requirements attributable to a Restricted Stock Award, including, without limitation, the grant, vesting of, or payment of dividends with respect to, a Restricted Stock Award, or (ii) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to a Restricted Stock Award.

Section 10. Change in Control.

(a) Change in Control. For purposes of this Section 10, a “Change in Control” of the Company will mean the following:

(i) the sale, lease, exchange or other transfer, directly or indirectly, of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company,

(ii) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;

(iii) a merger or consolidation to which the Company is a party if the shareholders of the Company immediately prior to effective date of such merger or consolidation have “beneficial ownership” (as defined in Rule 13d–3 under the Exchange Act), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing (A) more than 50%, but not more than 80%, of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Incumbent Directors (as defined in Section 10(b) below), or (B) 50% or less of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of

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directors (regardless of any approval by the Incumbent Directors);

(iv) any person becomes after the effective date of the Plan the “beneficial owner” (as defined in Rule 13d–3 under the Exchange Act), directly or indirectly, of (A) 20% or more, but not 50% or more, of the combined voting power of the Company’s outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Incumbent Directors, or (B) 50% or more of the combined voting power of the Company’s outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors); or

(v) the Incumbent Directors cease for any reason to constitute at least a majority of the Board.

(b) **Incumbent Directors** . For purposes of this Section 10, “Incumbent Directors” of the Company will mean any individuals who are members of the Board on the effective date of the Plan and any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Incumbent Directors (either by specific vote or by approval of the Company’s proxy statement in which such individual is named as a nominee for director without objection to such nomination).

(c) **Acceleration of Vesting** . Without limiting the authority of the Committee under Section 3(b) of the Plan, if a Change in Control of the Company occurs, then, unless otherwise provided by the Committee in its sole discretion either in an agreement evidencing a Restricted Stock Award at the time of grant or at any time after the grant of a Restricted Stock Award, all outstanding Restricted Stock Awards will become immediately fully vested.

(d) **Limitation on Change in Control Payments** . Notwithstanding anything in Section 10(c) of the Plan to the contrary, if, with respect to a Participant, the acceleration of the vesting of an Restricted Stock Award as provided in Section 10(c) (which acceleration could be deemed a “payment” within the meaning of Section 280G(b)(2) of the Code), together with any other “payments” which such Participant has the right to receive from the Company or any corporation that is a member of an “affiliated group” (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b)(2) of the Code), then the “payments” to such Participant pursuant to Section 10(c) of the Plan will be reduced to the largest amount as will result in no portion of such “payments” being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if a Participant is subject to a separate agreement with the Company or a Affiliate that expressly addresses the potential application of Sections 280G or 4999 of the Code (including, without limitation, that “payments” under such agreement or otherwise will not be reduced or that the Participant will have the discretion to determine which “payments” will be reduced), then the limitations of this Section 10(d) will not apply, and any “payments” to a Participant pursuant to Section 10(c) of the Plan will be treated as “payments” arising under such separate agreement.

Section 11. Rights of Eligible Recipients and Participants.

(a) **Employment or Service**. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Affiliate to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Affiliate.

(b) **Non-Exclusivity of the Plan**. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

Section 12. Securities Law and Other Restrictions. Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Restricted Stock Awards granted under the Plan, unless (i) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (ii) there has been obtained any other consent, approval or permit from any other regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities laws or other restrictions.

Section 13. Plan Amendment, Modification and Termination. The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Restricted Stock Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no amendments to the Plan will be effective without

approval of the shareholders of the Company if shareholder approval of the amendment is then required under the Exchange Act or the rules of any stock exchange on which the Company's securities are listed. No termination, suspension or amendment of the Plan may adversely affect any outstanding Restricted Stock Award without the consent of the affected Participant.

Section 14. Shareholder Approval. Any Restricted Stock Award granted under the Plan prior to the date on which the Plan is approved by shareholders holding at least a majority of the voting stock of the Company represented in person or by proxy at a duly held shareholders' meeting shall be contingent upon such approval.

Section 15. Effective Date and Duration of the Plan. The effective date of the Plan shall be the date the Plan is approved by the shareholders of the Company. The Plan will terminate at midnight on the tenth anniversary of the date prior to such effective date and may be terminated prior to such time by Board action. No Restricted Stock Award will be granted after

such termination. Restricted Stock Awards outstanding upon termination of the Plan may continue to become free of restrictions, in accordance with their terms.

Section 16. Miscellaneous.

(a) Governing Law. The validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota.

(b) Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the Participants.

Ratio of Earnings to Fixed Charges
(\$ in millions)

	Mar. 1, 2003	Mar. 2, 2002	Mar. 3, 2001	Feb. 26, 2000	Feb. 27, 1999
Ratio of Earnings to Fixed Charges:					
Earnings:					
Net earnings	\$ 99	\$ 570	\$ 396	\$ 347	\$ 216
Discontinued operations, net of tax	441	—	5	—	—
Change in accounting principles, net of tax	82	—	—	—	—
Income tax expense	392	356	248	216	136
Earnings from continuing operations before income tax expense	1,014	926	649	563	352
Fixed Charges:					
Interest portion of rental expense	132	110	86	68	56
Interest expense	24	10	6	5	21
Total fixed charges	156	120	92	73	77
Less:					
Capitalized interest	(5)	(1)	—	—	—
Fixed charges in earnings	151	119	92	73	77
Earnings available for fixed charges	1,165	1,045	741	636	429
<u>Ratio of earnings to fixed charges</u>	7.68	8.83	8.05	8.62	5.56

Note: Computation is based on continuing operations

11-Year Financial Highlights

\$ in millions, except per share amounts

Fiscal Year(1)	2003(2)	2002(3)	2001(3)	2000	1999	1998
Statement of Earnings Data						
Revenue	\$ 20,946	\$ 17,711	\$ 15,189	\$ 12,494	\$ 10,065	\$ 8,338
Gross profit	5,236	3,770	3,012	2,393	1,815	1,312
Selling, general and administrative expenses	4,226	2,862	2,401	1,854	1,464	1,146
Operating income	1,010	908	611	539	351	166
Earnings (loss) from continuing operations	622	570	401	347	216	82
Loss from discontinued operations, net of tax	(441)	—	(5)	—	—	—
Cumulative effect of change in accounting principles, net of tax(2)	(82)	—	—	—	—	—
Net earnings (loss)	99	570	396	347	216	82
Per Share Data(4)						
Continuing operations	\$ 1.91	\$ 1.77	\$ 1.26	\$ 1.09	\$ 0.69	\$ 0.30
Discontinued operations	(1.36)	—	(0.02)	—	—	—
Cumulative effect of accounting changes	(0.25)	—	—	—	—	—
Net earnings (loss)	0.30	1.77	1.24	1.09	0.69	0.30
Common stock price:						
High	53.75	51.47	59.25	53.67	32.67	10.20
Low	16.99	22.42	14.00	27.00	9.83	1.44
Operating Statistics						
Comparable store sales change(5)	2.4%	1.9%	4.9%	11.1%	13.5%	2.0%
Gross profit rate	25.0%	21.3%	19.8%	19.2%	18.0%	15.7%
Selling, general and administrative expense rate	20.2%	16.2%	15.8%	14.8%	14.5%	13.7%
Operating income rate	4.8%	5.1%	4.0%	4.3%	3.5%	2.0%
Year-End Data						
Working capital(6)	\$ 1,074	\$ 895	\$ 214	\$ 453	\$ 662	\$ 666
Total assets(6)	7,663	7,367	4,840	2,995	2,532	2,070
Long-term debt, including current portion(6)	834	820	296	31	61	225
Convertible preferred securities	—	—	—	—	—	230
Shareholders' equity	2,730	2,521	1,822	1,096	1,034	536
Number of stores						
U.S. Best Buy stores	548	481	419	357	311	284
Magnolia Hi-Fi stores	19	13	13	—	—	—
Musicland stores	1,195	1,321	1,309	—	—	—
International stores	112	95	—	—	—	—
Total retail square footage (000s)						
U.S. Best Buy stores	24,243	21,599	19,010	16,205	14,017	12,694
Magnolia Hi-Fi stores	189	133	133	—	—	—
Musicland stores	8,305	8,806	8,772	—	—	—
International stores	2,375	1,923	—	—	—	—

\$ in millions, except per share amounts

Fiscal Year(1)	1997	1996	1995	1994(2)	1993
Statement of Earnings Data					
Revenue	\$ 7,758	\$ 7,215	\$ 5,080	\$ 3,007	\$ 1,620
Gross profit	1,046	934	690	457	284
Selling, general and administrative expenses	1,006	814	568	380	248
Operating income	40	120	122	77	36
Earnings (loss) from continuing operations	(6)	46	58	42	20
Loss from discontinued operations, net of tax	—	—	—	—	—
Cumulative effect of change in accounting principles, net of tax(2)	—	—	—	(1)	—
Net earnings (loss)	(6)	46	58	41	20
Per Share Data(4)					
Continuing operations	\$ (0.02)	\$ 0.18	\$ 0.21	\$ 0.17	\$ 0.10
Discontinued operations	—	—	—	—	—
Cumulative effect of accounting changes	—	—	—	—	—
Net earnings (loss)	(0.02)	0.18	0.21	0.17	0.10
Common stock price:					
High	4.37	4.94	7.54	5.24	2.61
Low	1.31	2.13	3.69	1.81	0.78
Operating Statistics					
Comparable store sales change(5)	(4.7%)	5.5%	19.9%	26.9%	19.4%
Gross profit rate	13.5%	12.9%	13.6%	15.2%	17.5%
Selling, general and administrative expense rate	13.0%	11.3%	11.2%	12.6%	15.3%
Operating income rate	0.5%	1.7%	2.4%	2.6%	2.2%
Year-End Data					
Working capital(6)	\$ 563	\$ 585	\$ 609	\$ 363	\$ 119
Total assets(6)	1,740	1,892	1,507	952	439
Long-term debt, including current portion(6)	238	230	241	220	54
Convertible preferred securities	230	230	230	—	—
Shareholders' equity	429	430	376	311	182
Number of stores					
U.S. Best Buy stores	272	251	204	151	111
Magnolia Hi-Fi stores	—	—	—	—	—
Musicland stores	—	—	—	—	—
International stores	—	—	—	—	—
Total retail square footage (000s)					
U.S. Best Buy stores	12,026	10,771	8,041	5,072	3,250
Magnolia Hi-Fi stores	—	—	—	—	—
Musicland stores	—	—	—	—	—
International stores	—	—	—	—	—

Please read this table in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition, beginning on page 20, and the Consolidated Financial Statements and Notes, beginning on page 42. Certain prior-year amounts have been reclassified to conform to the current-year presentation. Fiscal 2003, 2002 and 2001 results reflect the classification of Musicland's financial results as discontinued operations.

(1) Both fiscal 2001 and 1996 included 53 weeks. All other periods presented included 52 weeks.

(2) Effective on March 3, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. During the second quarter of fiscal 2003, we completed the required goodwill impairment testing and recognized an after-tax, non-cash impairment charge of \$40 that is reflected in our fiscal 2003 financial results as a cumulative effect of a change in accounting principle. Also effective on March 3, 2002, we changed our method of accounting for vendor allowances in accordance with Emerging Issues Task Force (EITF) Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. The change resulted in an after-tax, non-cash charge of \$42 that also is reflected in our fiscal 2003 financial results as a cumulative effect of a change in accounting principle. Refer to note 1 on page 51 in the Notes to Consolidated Financial Statements. Prior fiscal years have not been restated to reflect the pro forma effects of these changes. During fiscal 1994, we adopted SFAS No. 109, *Accounting for Income Taxes*, resulting in a cumulative effect adjustment of \$1.

(3) During the third quarter of fiscal 2002, we acquired the common stock of Future Shop Ltd. During the fourth quarter of fiscal 2001, we acquired the common stock of Musicland Stores Corporation (Musicland) and Magnolia Hi-Fi, Inc. (Magnolia Hi-Fi). The results of operations of these businesses are included from their dates of acquisition. As noted previously, Musicland's financial results are included in discontinued operations.

(4) Earnings per share is presented on a diluted basis and reflects a three-for-two stock split in May 2002; two-for-one stock splits in March 1999, May 1998 and April 1994; and a three-for-two stock split in September 1993.

(5) Includes revenue at stores and Internet sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales change excludes Musicland revenue, which is included in discontinued operations.

(6) Includes both continuing and discontinued operations.

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

Overview

Best Buy Co., Inc. is a specialty retailer with fiscal 2003 revenue from continuing operations of \$20.9 billion. We operate two reportable segments: Domestic and International. The Domestic segment includes U.S. Best Buy and Magnolia Hi-Fi, Inc. (Magnolia Hi-Fi) stores. U.S. Best Buy stores offer a wide variety of consumer electronics, home-office equipment, entertainment software and appliances, operating 548 stores in 48 states at the end of fiscal 2003. Magnolia Hi-Fi is a high-end retailer of audio and video products with 19 stores in Washington, Oregon and California. Magnolia Hi-Fi was acquired in the fourth quarter of fiscal 2001.

The International segment was established in connection with our acquisition of Future Shop Ltd. (Future Shop) in November of fiscal 2002. At the end of fiscal 2003, the International segment consisted of 104 Future Shop stores operating in all Canadian provinces and eight Canadian Best Buy stores operating in Ontario. Future Shop and Canadian Best Buy stores offer products similar to that of U.S. Best Buy stores.

During the fourth quarter of fiscal 2001, we acquired Musicland Stores Corporation (Musicland). Musicland is primarily a mall-based national retailer of prerecorded music, movies and other entertainment-related products. Musicland operated 1,195 stores in 48 states, the U.S. Virgin Islands and Puerto Rico at the end of fiscal 2003. During the fourth quarter of fiscal 2003, we committed to a plan to sell our interest in Musicland. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, Musicland's financial results have been classified as discontinued operations in our consolidated financial statements for all periods presented. For additional information regarding our discontinued operations, refer to note 2 of the Notes to Consolidated Financial Statements on page 52.

All three acquisitions described above were accounted for using the purchase method. Under this method, net assets and results of operations of those businesses were included in our consolidated financial statements from their respective dates of acquisition.

Fiscal 2003 and 2002 each included 52 weeks, while fiscal 2001 included 53 weeks.

Unless otherwise noted, the following discussion relates only to results from continuing operations, and comparisons are with fiscal 2002 results as-adjusted. As-adjusted information presents the results of operations as though Future Shop had been acquired at the beginning of fiscal 2002. In addition, the as-adjusted results conform the accounting for vendor allowances to the new method adopted in fiscal 2003. All periods presented also reflect the classification of Musicland's financial results as discontinued operations.

Strategic Vision

Our vision is to make life fun and easy. Our business strategy is to bring technology and consumers together in a retail environment that focuses on educating consumers on the features and benefits of technology and entertainment, while maximizing overall profitability. We believe our stores offer consumers meaningful advantages in terms of environment, product value, selection and service, all of which advance our objective of gaining market share. The Future Shop and Magnolia Hi-Fi acquisitions provide us with access to new distribution channels and new customers.

During fiscal 2003, we formalized four strategic priorities that we believe will further enhance our business model over the next several years. The four strategic priorities are:

- Customer Centricity
- Efficient Enterprise
- Win the Home with Service

Customer Centricity

Our customers are at the core of all of our business strategies. In short, customer centricity means putting the customer at the center of everything we do. The customer centricity strategy includes tailoring our store experience to the specific product needs of our customers. We want to leverage our customer knowledge and tailor product and service offerings to meet our customers' specific product and service needs. Our goal is to provide the "complete solution" to our customers and to provide them with products that can be integrated with their lifestyle.

Efficient Enterprise

Our business has grown substantially over the past five years, with revenue from continuing operations increasing from \$8.3 billion to \$20.9 billion. We have made significant investments in our infrastructure, including people and technology, to support business growth. As we move forward, we are developing an operating model that is agile and flexible and is anticipated to deliver sustained productivity gains. This model includes leveraging our existing investments and continually managing our expense structure to ensure it meets the current and future needs of our business.

Win the Home with Service

This strategy focuses on creating a market-leadership position in delivering lifestyle-based solutions for our customers, including selection, installation and integration of multiple technologies. Our customers' consumer electronics needs are becoming more complex with the continued development of new products and the need to access multiple networked technologies within the home. We are committed to selling, installing and supporting technologies that create an integrated digital home. We believe this approach will differentiate us from many of our competitors who sell technology products but do not provide installation and support services. Our goal is to create a life-long relationship with our customers that focuses on product selection, home integration, service and future technology upgrades.

Win Entertainment

Another strategic priority is to gain market share in the rapidly changing entertainment category. This category includes music, movies, video game hardware and software, subscriptions and other related products. The development and delivery of entertainment products have undergone significant changes in recent years. New video game platforms have generated strong revenue. Conversely, industry-wide prerecorded music sales have experienced double-digit declines in each of the past two years as consumers continue to download music directly from the Internet. The Win Entertainment strategy includes supporting the development and delivery of new entertainment-related products through multiple distribution channels and increasing our market share. We want to be the consumers' preferred choice when purchasing entertainment products.

Planned Sale of Musicland Business

We have committed to a plan to sell our interest in Musicland. We determined that the interests of our shareholders, employees, vendors and landlords would be best served by a sale of the business. Accordingly, we have retained a national investment banking firm to identify potential buyers and to market actively our interest in Musicland. We also have retained additional professionals to assist in other areas of the plan. The sale of our interest in Musicland will allow us to focus on our consumer electronics stores, which are the core growth and profit drivers for our business.

The original strategy behind the Musicland acquisition was to bring Best Buy's core competencies in retailing consumer electronics to new consumer segments, including segments typically underserved by our Best Buy stores. Musicland's mall-based stores and rural market locations gave us access to more young people and more rural communities. In addition, we believed integrating certain administrative and support functions within our existing infrastructure could increase the overall profitability of the Musicland business. However, for a number of reasons, the Musicland business did not meet our financial objectives. First, Musicland was not as successful as we hoped in selling digital products,

even at Best Buy prices, because many consumers assumed that products sold in a mall-based environment were not price-competitive. Second, we did not anticipate such steep and protracted declines in sales of prerecorded music or significant declines in mall traffic. Third, Musicland reduced the assortment of CDs at its stores, a move that had increased inventory turns and profits at our Best Buy stores, but the reduced music assortment led to the loss of some core customers. Fourth, Musicland was

successful in introducing DVD movies and video gaming at Sam Goody stores; however, these products carry a lower gross profit rate than CDs and did not provide incremental profits sufficient to make the Musicland business viable.

Significant Accounting Matters

During fiscal 2003, certain accounting matters significantly impacted our reported financial results and related presentation.

In fiscal 2003, we recorded the significant non-cash charges summarized in the table below (\$ in millions):

Significant Fiscal 2003 Non-Cash Charges, Net of Tax	Continuing Operations	Discontinued Operations	Total
Cumulative effect of change in accounting principle for goodwill	\$ 40	\$ 308	\$ 348
Long-lived asset impairment charge	—	102	102
Cumulative effect of change in accounting principle for vendor allowances	42	8	50
Significant fiscal 2003 non-cash charges, net of tax	\$ 82	\$ 418	\$ 500

The \$348 million goodwill impairment charge relates to our adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, at the beginning of fiscal 2003. In accordance with SFAS No. 142, we completed the required goodwill impairment testing in the second quarter of fiscal 2003. As a result of the testing, we determined that the asset carrying value of our Musicland and Magnolia Hi-Fi businesses exceeded their current fair values. The resulting after-tax, non-cash impairment charge was \$348 million (\$1.07 per diluted share), of which \$308 million was associated with Musicland and \$40 million was associated with Magnolia Hi-Fi. The charge represented a complete write-off of the goodwill associated with these businesses. For additional information regarding the change in accounting for goodwill, refer to Change in Accounting Principles—Goodwill and Vendor Allowances in note 1 in the Notes to Consolidated Financial Statements on page 51.

During the fourth quarter of fiscal 2003, we incurred a \$102 million after-tax, non-cash impairment charge (\$166 million before tax), related to a reassessment of the carrying value of Musicland's long-lived assets, in accordance with SFAS No. 144. We included this non-cash charge in discontinued operations.

During fiscal 2003, we changed our method of accounting for vendor allowances in accordance with Emerging Issues Task Force (EITF) Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. The adoption of EITF No. 02-16 was accounted

for as a cumulative effect of a change in accounting principle effective on March 3, 2002, the beginning of fiscal 2003. The cumulative effect of the change in accounting for vendor allowances resulted in an after-tax, non-cash, charge to net earnings of \$50 million, of which \$8 million was associated with Musicland and included in discontinued operations.

The change in accounting for vendor allowances also impacted the timing of vendor allowances recognized during interim periods of fiscal 2003 and the classification of vendor allowances in our statement of earnings. Based on EITF No. 02-16, vendor allowances generally are recognized in earnings when the product is sold or the service is performed. Prior to the adoption of EITF No. 02-16, we generally recognized vendor allowances based on the provisions of the specific vendor agreement. The change in accounting method reduced fiscal 2003 earnings from continuing operations by \$1 million, due to the timing of recognizing vendor allowances. Also, as a result of recognizing the majority of vendor allowances in cost of goods sold rather than in selling, general and administrative expenses (SG&A), our fiscal 2003 gross profit rate increased by 3.4% of revenue and our fiscal 2003 SG&A rate increased by 3.4% of revenue. For additional information regarding the change in accounting for vendor allowances, refer to "Change in Accounting Principles—Goodwill and Vendor Allowances" in note 1 of the Notes to Consolidated Financial Statements on page 51.

For information regarding the impact of EITF No. 02-16 on our fiscal 2003 annual and quarterly results and fiscal 2002 annual and fourth quarter results, refer to our Current Reports on Form 8-K filed with the Securities and Exchange Commission on April 3, 2003, and April 7, 2003.

Results of Operations Fiscal 2003 Summary

- Earnings from continuing operations increased 10% in fiscal 2003 to \$622 million, compared with \$564 million in the prior fiscal year. The increase was driven by a 13% increase in revenue and a modest improvement in our gross profit rate, partially offset by a higher SG&A rate.
- Revenue increased 13% in fiscal 2003 to \$20.9 billion, compared with \$18.5 billion in the prior fiscal year. The increase was primarily due to the opening of 67 new U.S. Best Buy stores and 17 new stores in our International segment, as well as a 2.4%

comparable store sales increase.

- Our gross profit rate increased slightly in fiscal 2003 to 25.0% of revenue, compared with 24.9% of revenue in the prior fiscal year, primarily due to a higher-margin revenue mix, partially offset by a more promotional environment.
- The SG&A rate increased to 20.2% of revenue in fiscal 2003, compared with 20.0% of revenue in the prior fiscal year. The increase was primarily due to increased expenses in our International segment related to the launch of Canadian Best Buy stores and to improving the future efficiency and profitability of our International segment. The SG&A rate in the Domestic segment was relatively flat as compared with the prior fiscal year.
- Our fiscal 2003 results also were impacted by significant non-cash charges discussed in the Significant Accounting Matters section on page 22. Significant non-cash charges totaled \$500 million after-tax, including \$418 million related to discontinued operations.
- In fiscal 2003, the loss from discontinued operations totaled \$441 million, net of tax, and included significant non-cash charges of \$418 million, net of tax. Discontinued operations also included a \$72 million operating loss, before asset impairment charge, primarily attributable to revenue declines at Musicland's mall-based stores.

Consolidated Results

The following table presents selected consolidated financial data for each of the past three fiscal years (\$ in millions, except per share amounts):

	2003	As-Adjusted 2002(1)	2002	2001
Revenue	\$ 20,946	\$ 18,506	\$ 17,711	\$ 15,189
Revenue % change	13%	N/A	17%	22%
Comparable stores sales % change(2)	2.4%	N/A	1.9%	4.9%
Gross profit as a % of revenue	25.0%	24.9%	21.3%	19.8%
SG&A as a % of revenue	20.2%	20.0%	16.2%	15.8%
Operating income	\$ 1,010	\$ 903	\$ 908	\$ 611
Operating income as a % of revenue	4.8%	4.9%	5.1%	4.0%
Earnings from continuing operations	\$ 622	\$ 564	\$ 570	\$ 401
Loss from discontinued operations, net of tax	(441)	—	—	(5)
Cumulative effect of change in accounting principles, net of tax	(82)	—	—	—
Net earnings	99	564	570	396
Diluted earnings per share—continuing operations	\$ 1.91	\$ 1.75	\$ 1.77	\$ 1.26
Diluted earnings per share	\$ 0.30	\$ 1.75	\$ 1.77	\$ 1.24

Note: All periods presented reflect the classification of Musicland's financial results as discontinued operations.

(1) As-adjusted information conforms the accounting for vendor allowances to the fiscal 2003 method and is reflected as if Future Shop had been acquired at the beginning of fiscal 2002. As-adjusted data is unaudited.

(2) Includes revenue at stores and Internet sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales change excludes Musicland revenue, which is included in discontinued operations.

Continuing Operations

Fiscal 2003 Results Compared with Fiscal 2002

Net earnings from continuing operations for fiscal 2003 increased 10% to \$622 million, compared with \$564 million in fiscal 2002 on an as-adjusted basis and \$401 million in fiscal 2001. Earnings per diluted share from continuing operations increased to \$1.91 in fiscal 2003, compared with \$1.75 as adjusted in fiscal 2002 and \$1.26 in fiscal 2001.

The increase in earnings from continuing operations was primarily driven by a 13% revenue increase and a slight improvement in the gross profit rate, partially offset by a higher SG&A rate. The revenue increase resulted from the opening of 67 U.S. Best Buy, eight Canadian Best Buy and nine Future Shop stores in the past 12 months, a full year of revenue from new stores opened in fiscal 2002, as well as a 2.4% comparable store sales gain. Approximately four-fifths of the increase in revenue was due to the opening of new stores in the past two fiscal years. The remainder of the increase was due to the comparable store sales gain.

Our gross profit rate in fiscal 2003 increased slightly to 25.0% of revenue, versus 24.9% of revenue in the prior fiscal year. The improvement in the gross profit rate was primarily due to a more profitable revenue mix at U.S. Best Buy stores, including increased revenue from higher-margin digital products. A more promotional environment limited improvement in the gross profit rate.

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Our SG&A rate was 20.2% of revenue in fiscal 2003, an increase of 0.2% of revenue over the prior fiscal year's rate. The increase in the SG&A rate was primarily due to increased expenses in our International segment to support strategic initiatives, including the launch of Best Buy stores in Canada and investments intended to improve the future efficiency and profitability of our International segment. The SG&A rate also increased due to the deleveraging effect of a modest comparable store sales increase, as operating expenses increased at a faster rate than comparable store sales. In addition, the SG&A rate was negatively impacted by higher consulting expenses, increased depreciation expenses related to technology investments, and lease termination and asset impairment charges associated with vacating existing corporate facilities in connection with the relocation to our new corporate campus in fiscal 2004. Increases in the SG&A rate were partially offset by expense-saving initiatives implemented in the second half of fiscal 2003, reduced performance-based compensation and expense leverage from opening new stores in existing markets.

Fiscal 2002 Results Compared with Fiscal 2001

The discussion and analysis of fiscal 2002 results compared with fiscal 2001 reflects the classification of Musicland's results as discontinued operations, but does not reflect the new accounting method for vendor allowances adopted in fiscal 2003.

Fiscal 2002 revenue increased 17% to \$17.7 billion, compared with \$15.2 billion in fiscal 2001. Approximately two-thirds of the revenue increase, compared with the prior fiscal year, was due to the addition of 62 U.S. Best Buy stores during fiscal 2002 and a full year of revenue from stores opened in fiscal 2001.

Approximately one-tenth of the revenue increase was attributable to a 1.9% comparable store sales increase at U.S. Best Buy stores. The remainder of the revenue increase was principally due to the inclusion of revenue from the International segment due to the acquisition of Future Shop in the third quarter of fiscal 2002. The 1.9% comparable store sales increase in fiscal 2002 was offset by the inclusion of an extra week of operations in fiscal 2001, which increased fiscal 2001 revenue by approximately \$280 million.

The gross profit rate in fiscal 2002 increased to 21.3% of revenue, compared with 19.8% of revenue in fiscal 2001. Approximately half of the increase was due to a more profitable sales mix; the remainder of the increase was due to reduced markdowns resulting from improved supply chain management and more effective promotional strategies, as well as lower costs associated with consumer financing offers.

The fiscal 2002 SG&A rate increased to 16.2% of revenue compared with 15.8% of revenue in fiscal 2001. This increase was primarily due to operating expenses increasing at a faster rate than comparable store sales, as well as increased performance-based compensation, higher depreciation expenses related to capital investments and increased charitable giving. The increase was partially offset by reduced outside consulting costs, improved productivity and the absence of certain non-recurring expenses incurred in fiscal 2001 for the relaunch of BestBuy.com™, our entry into the New York market and the write-off of certain e-commerce investments.

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Segment Performance

Domestic

The following table presents selected financial data for the Domestic segment for each of the past three fiscal years (\$ in millions):

Segment Performance Summary (unaudited)	2003	As-Adjusted 2002(1)	2002	2001(2)
Revenue	\$ 19,303	\$ 17,115	\$ 17,115	\$ 15,189
Comparable stores sales % change(3)	2.4%	1.9%	1.9%	4.9%

Gross profit as a % of revenue	25.0%	24.9%	21.2%	19.8%
SG&A as a % of revenue	19.8%	19.8%	16.0%	15.8%
Operating income	\$ 1,002	\$ 876	\$ 886	\$ 611
Operating income as a % of revenue	5.2%	5.1%	5.2%	4.0%

Note: All periods presented reflect the classification of Musicland's financial results as discontinued operations.

- (1) As-adjusted information conforms the accounting for vendor allowances to the fiscal 2003 method.
- (2) Includes results of operations of Magnolia Hi-Fi since its acquisition in the fourth quarter of fiscal 2001.
- (3) Includes revenue at stores and Internet sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales change excludes Musicland revenue, which is included in discontinued operations.

Domestic operating income increased 14% to \$1.0 billion in fiscal 2003, compared with \$876 million in fiscal 2002 on an as-adjusted basis. The increase in operating income was primarily due to the addition of 67 new U.S. Best Buy stores in the past 12 months, a full year of revenue from new stores opened in fiscal 2002 and a slight improvement in the gross profit rate.

Domestic revenue increased to \$19.3 billion in fiscal 2003, a 13% increase over fiscal 2002 revenue of \$17.1 billion. Approximately four-fifths of the revenue increase was due to new U.S. Best Buy stores opened in the past two fiscal years. The remainder of the revenue increase was attributable to the 2.4% comparable store sales gain for the fiscal year. The comparable store sales gain was primarily the result of revenue gains in the entertainment software and consumer electronics product categories, partially offset by revenue declines in the home office and appliances categories. Comparable store sales gains in the entertainment software category were driven by double-digit comparable store sales increases in video gaming hardware and software and DVD movies. The growth in the entertainment software category was partially offset by weak sales of prerecorded music resulting from the continuing trend of downloading music via Internet sites and increasing consumer awareness of CD recording technology. The consumer electronics category experienced a mid-single-digit comparable store sales increase, fueled by increased digital product revenue. Digital product revenue comprised 22% of the revenue mix in fiscal 2003, compared with 17% the prior fiscal year. Within the consumer electronics category, digital televisions and digital cameras were the primary products driving the comparable store sales gain. Declines in revenue from analog televisions and VCR players, products being replaced by new technology, partially offset gains generated in other consumer electronics product groups. Comparable store sales in the home office category declined slightly, primarily due to continued weakness in sales of desktop computers and reduced prices for computer peripherals. The decline was partially offset by

increased revenue from notebook computers and MP3 players. Appliance revenue experienced a high-single-digit comparable store sales decline due to reduced consumer demand and increased competition.

The Domestic gross profit rate increased to 25.0% of revenue in fiscal 2003, compared with 24.9% of revenue the prior fiscal year. The gross profit rate improvement was mainly due to a more profitable revenue mix at U.S. Best Buy stores. Revenue in the higher-margin consumer electronics category experienced larger increases than revenue in the home office category, which generally includes lower-margin products. In addition, the gross profit rate benefited modestly from improved supply chain management. The gross profit rate was negatively impacted by gross profit rate declines in the home office product category, partially due to promotional pressure on desktop computers, the largest product group in the category.

The fiscal 2003 SG&A rate for the Domestic segment was 19.8% of revenue, consistent with the prior fiscal year. The SG&A rate was negatively impacted by the deleveraging effect of a modest comparable store sales increase; increased depreciation expense related to technology investments; and investments in personnel and outside consultants to support strategic initiatives and business growth. In addition, the SG&A rate was impacted by lease termination and asset impairment charges associated with vacating existing corporate facilities in connection with the relocation to our new corporate campus in fiscal 2004. These factors were offset by expense reductions initiated in the second half of fiscal 2003 and additional expense leverage resulting from opening new stores in existing markets.

The following table reconciles Domestic stores open at the beginning and end of fiscal 2003:

	Total Stores at End of Fiscal 2002	Stores Opened	Stores Closed	Total Stores at End of Fiscal 2003
U.S. Best Buy stores	481	67	—	548
Magnolia Hi-Fi stores	13	6	—	19

Total	494	73	—	567
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The following table reconciles Domestic stores open at the beginning and end of fiscal 2002:

	Total Stores at End of Fiscal 2001	Stores Opened	Stores Closed	Total Stores at End of Fiscal 2002
U.S. Best Buy stores	419	62	—	481
Magnolia Hi-Fi stores	13	—	—	13
Total	432	62	—	494

During fiscal 2003, we opened 67 new U.S. Best Buy stores, including 33 stores in our 45,000-square-foot format and 34 stores in our smaller-market formats. At the end of fiscal 2003, we operated 548 U.S. Best Buy stores compared with 481 stores at the end of fiscal 2002. In addition, we remodeled three U.S. Best Buy stores and expanded one U.S. Best Buy store during fiscal 2003, compared with three remodeled stores and two expanded stores in fiscal 2002. Magnolia Hi-Fi opened six new stores during fiscal 2003 and operated 19 stores at the end of the fiscal year. Magnolia Hi-Fi did not remodel or expand any stores during fiscal 2003 or 2002.

International

The following table presents selected financial data for the International segment for each of the past two fiscal years (\$ in millions):

Segment Performance Summary (unaudited)	2003	As-Adjusted 2002(1)	2002(2)
Revenue	\$ 1,643	\$ 1,391	\$ 596
Comparable stores sales % gain(3)	4.3%	N/A	17.4%
Gross profit as a % of revenue	25.0%	25.0%	23.4%
SG&A as a % of revenue	24.5%	23.1%	19.7%
Operating income	\$ 8	\$ 27	\$ 22
Operating income as a % of revenue	0.5%	1.9%	3.7%

(1) As-adjusted information presents the results of operations as though Future Shop had been acquired at the beginning of fiscal 2002 and conforms the accounting for vendor allowances to the fiscal 2003 method.

(2) Reflects results of operations of Future Shop subsequent to its acquisition in November of fiscal 2002.

(3) Includes revenue at stores and Internet sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales gain excludes the impact of fluctuations in the foreign currency exchange rates.

The International segment generated operating income of \$8 million in fiscal 2003, compared with \$27 million on an as-adjusted basis in the prior fiscal year. The decline in operating income was primarily due to higher SG&A, partially offset by increased gross profits resulting from revenue growth.

International revenue increased 18% to \$1.6 billion, compared with \$1.4 billion last fiscal year. New store openings and a 4.3% comparable store sales gain drove the increase in revenue. Approximately four-fifths of the revenue gain was attributable to the opening of new stores in the past two fiscal years. The remainder of the revenue gain was due to the comparable store sales gain. The comparable store sales gain was driven by increased revenue from entertainment software and consumer electronics products, which includes rapidly expanding revenue from digital products.

The International gross profit rate was 25.0% of revenue in fiscal 2003, unchanged from the prior fiscal year. The gross profit rate benefited from a shift in the revenue mix to higher-margin digital products and accessories. The benefit from the higher-margin revenue mix was offset by rising costs for third-party credit in the latter part of the fiscal year and a more promotional environment.

The SG&A rate for the International segment increased to 24.5% of revenue, compared with 23.1% of revenue in the prior fiscal year. The SG&A rate increase was primarily due to expenses associated with launching Canadian Best Buy stores and strategic investments intended to improve the future efficiency and profitability of International operations. The SG&A rate increase was partially offset by expense leverage due to new store openings and the comparable store sales gain.

The following table reconciles International stores open at the beginning and end of fiscal 2003:

	Total Stores at End of Fiscal 2002	Stores Opened	Stores Closed	Total Stores at End of Fiscal 2003
Future Shop stores	95	9	—	104
Canadian Best Buy stores	—	8	—	8
Total	95	17	—	112

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The following table reconciles International stores open at the beginning and end of fiscal 2002:

	Total Stores at End of Fiscal 2001	Stores Acquired Fiscal 2002	Stores Opened	Stores Closed	Total Stores at End of Fiscal 2002
Future Shop stores	—	91	4	—	95
Canadian Best Buy stores	—	—	—	—	—
Total	—	91	4	—	95

During fiscal 2003, we finalized the allocation of the Future Shop purchase price to the assets and liabilities acquired. The primary adjustments to the preliminary purchase price allocation were to assign value to the “Future Shop” trade name as a result of our decision to operate stores in Canada under both the Best Buy and Future Shop trade names and to adjust the extended service contract liability assumed as of the date of acquisition based on additional information. The final purchase price allocation resulted in a \$5 million decrease to goodwill from our preliminary allocation. For more information regarding the final purchase price allocation, refer to note 3 of the Notes to Consolidated Financial Statements on page 54.

During the fourth quarter of fiscal 2003, we completed our annual impairment testing of the goodwill recorded in our International segment and determined that no impairment existed based on expectations for the business and the prevailing retail environment.

Discontinued Operations

During the fourth quarter of fiscal 2003, we committed to a plan to sell our interest in Musicland. In accordance with SFAS No. 144, we have reported the results of operations and financial position of Musicland in discontinued operations. Fiscal 2003, 2002 as adjusted, 2002 and 2001, reflect the classification of Musicland’s financial results as discontinued operations.

The results from discontinued operations for the past three fiscal years are as follows (\$ in millions):

Discontinued Operations Performance Summary (unaudited)	2003	As-Adjusted 2002(1)	2002	2001(2)
Revenue	\$ 1,727	\$ 1,886	\$ 1,886	\$ 138
Operating (loss) income before impairment	(72)	31	29	(7)
Long-lived asset impairment charge	(166)	—	—	—
Operating (loss) income	(238)	31	29	(7)
Interest expense	(6)	(20)	(19)	(1)
(Loss) earnings before income tax expense	(244)	11	10	(8)
Income tax (benefit) expense(3)	(119)	11	10	(3)
Loss before cumulative effect of accounting changes, net of tax	(125)	—	—	(5)
Cumulative effect of changes in accounting principles, net of tax	(316)	—	—	—

Loss from discontinued operations, net of tax	\$	(441)	\$	—	\$	—	\$	(5)
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- (1) As-adjusted information conforms the accounting for vendor allowances to the fiscal 2003 method.
- (2) Reflects results of operations of Musicland subsequent to its acquisition in the fourth quarter of fiscal 2001.
- (3) Fiscal 2003 includes a \$25 million tax benefit resulting from the differences between the basis of assets and liabilities for financial reporting and income taxes arising at acquisition which will be realized upon the disposition of Musicland.

Musicland incurred an operating loss of \$72 million before impairment in fiscal 2003 compared with \$31 million of operating income on an as-adjusted basis in the prior fiscal year. The decline in operating income was primarily due to reduced revenue and a lower gross profit rate. The reduced revenue resulted from the continued decline in revenue from prerecorded music, a reduction in the number of customers visiting shopping malls and increased competition from discount stores and big-box retailers. The gross profit rate declined in fiscal 2003 as a result of a change in the revenue mix at Musicland stores, due to increased revenue from lower-margin DVD movies and video gaming hardware and software and decreased revenue from higher-margin prerecorded music. In addition, a more promotional environment negatively impacted Musicland's gross profit rate. The loss from discontinued operations, net of tax, was \$441 million in fiscal 2003, compared with break-even results in fiscal 2002 as adjusted and a \$5 million loss in fiscal 2001, which included results of operations only subsequent to the date of acquisition.

In fiscal 2003, the \$441 million loss from discontinued operations, net of tax, includes significant non-cash charges totaling \$418 million. The charges include a \$308 million after-tax goodwill impairment charge, an \$8 million after-tax charge related to the change in accounting for vendor allowances and a \$102 million after-tax charge (\$166 million before tax) related to impairment of long-lived assets. In addition, discontinued operations includes a \$23 million net loss from operations comprised of a \$72 million operating loss before asset impairment charge, \$6 million of interest expense and \$55 million of income tax benefit. The \$55 million income tax benefit includes \$25 million resulting from differences between the basis of assets and liabilities for financial reporting and income taxes arising at acquisition which will be realized upon disposition of Musicland. Refer to the Significant Accounting Matters section on page 22 for additional details.

The fiscal 2003 loss from discontinued operations excludes future operating results and any future gains or losses resulting from the potential sale of our interest in Musicland. The final financial impact of the planned sale of our interest in Musicland is dependent upon the results of negotiations with the ultimate buyer(s).

Additional Consolidated Results

Net Interest Income

Net interest income from continuing operations decreased to \$4 million in fiscal 2003, compared with \$18 million in fiscal 2002. The decrease in net interest income was primarily due to lower yields on short-term investments and a full year of interest expense associated with convertible debentures issued during fiscal 2002.

Net interest income from continuing operations declined to \$18 million in fiscal 2002, compared with \$38 million in fiscal 2001. The decrease in net interest income was primarily due to lower yields on short-term investments, as average interest rates declined by more than 200 basis points in fiscal 2002 compared with fiscal 2001. The impact of lower yields was partially offset by higher average cash balances resulting from strong operating cash flows and net proceeds from the issuance of convertible debentures.

Effective Income Tax Rate

Our effective income tax rate from continuing operations increased to 38.7% in fiscal 2003, as compared with 38.4% in the prior year on an as-adjusted basis. The increase in the effective income tax rate in fiscal 2003 was primarily due to increased tax expense related to our International segment and a slight increase in the effective state income tax rate.

Our effective income tax rate in fiscal 2002 was 38.4%, up slightly from 38.3% in fiscal 2001. Historically, our effective income tax rate has been impacted primarily by the taxability of investment income and state income taxes.

Liquidity and Capital Resources

Summary

Despite a challenging economic environment in fiscal 2003, our financial condition at the end of the year was strong and positioned us well for fiscal 2004. Cash and cash equivalents totaled \$1.9 billion at the end of fiscal 2003, a slight increase from the end of fiscal 2002. Working capital, the excess of current assets over current liabilities, increased to \$1.1 billion at the end of fiscal 2003, compared with \$895 million at the end of fiscal 2002. In addition, our long-term debt-to-capitalization ratio declined slightly to 23% at the end of fiscal 2003, as compared with 24% at the end of fiscal 2002.

A component of our long-term strategy is our capital expenditure program. This program includes, among other things, investments in new stores, store remodeling, store relocations and expansions, new distribution facilities and information technology enhancements. During fiscal 2003, we invested \$725 million in property and equipment in continuing operations, including opening 90 new stores; remodeling, relocating and/or expanding 17 stores; continued construction of our new corporate campus; and improvements to our distribution centers and information systems.

Cash Flows

Cash provided by operating activities from continuing operations was \$746 million in fiscal 2003, compared with \$1.5 billion in fiscal 2002 and \$861 million in fiscal 2001. The decrease in operating cash flows in fiscal 2003, compared with the prior fiscal year, was primarily due to the decrease in cash provided from changes in operating assets and liabilities, partially offset by increased earnings from continuing operations. Earnings from continuing operations increased to \$622 million in fiscal 2003 as compared with \$570 million in the prior fiscal year. Receivables increased due to the addition of new stores, timing of payments and increased cooperative advertising receivables. Merchandise inventories increased in fiscal 2003, primarily due to the addition of new stores and improved in-stock positions.

Accounts payable decreased slightly, primarily due to the timing of vendor payments and increased business volume. These decreases in cash were partially offset by cash provided by higher accrued income taxes resulting from the increase in earnings from continuing operations and an increase in other liabilities due to business growth and increased gift card liabilities.

Cash used in investing activities from continuing operations was \$659 million in fiscal 2003, compared with \$924 million and \$1.0 billion in fiscal 2002 and 2001, respectively. In fiscal 2003, we used cash for construction of new retail locations, information systems, distribution center improvements, and other additions to property, plant and equipment, including continued construction of our new corporate campus. The primary purposes of the cash investment activity were to support our expansion plans, to improve our operational efficiency and to enhance shareholder value. In fiscal 2002, we used cash for investments in property, plant and equipment and the acquisition of Future Shop.

Cash provided by financing activities from continuing operations was \$45 million in fiscal 2003, compared with \$769 million in fiscal 2002 and \$218 million in fiscal 2001. The change was primarily due to the issuance of convertible debentures in fiscal 2002. We raised \$726 million, net of offering expenses, through the issuance of convertible debentures in fiscal 2002. Fiscal 2001 included a \$200 million investment in our common stock by Microsoft Corporation. For more information regarding the convertible debentures, refer to note 4 of the Notes to Consolidated Financial Statements on page 55.

Cash used in discontinued operations was \$79 million in fiscal 2003, compared with \$270 million and \$58 million in fiscal 2002 and 2001, respectively. The change in cash used in fiscal 2003, as compared to fiscal 2002, primarily related to the repayment of \$274 million of long-term debt in fiscal 2002.

Sources of Liquidity

Funds generated by continuing operations and existing cash and cash equivalents continue to be our most significant sources of liquidity. Based on current levels of operations, we believe funds generated from the expected results of continuing operations and available cash and cash equivalents will be sufficient to finance anticipated expansion plans and strategic initiatives for the next fiscal year. In addition, our revolving credit facilities are available for additional working capital needs or investment opportunities. There can be no assurance, however, that we will continue to generate cash flow at or above current levels or that we will be able to maintain our ability to borrow under the revolving credit facilities.

We have a \$200 million unsecured revolving credit facility scheduled to mature in March 2005, of which \$197 million was available at March 1, 2003. Outstanding letters of credit reduce amounts available under this facility. We also have a \$200 million inventory financing line. At March 1, 2003, approximately \$174 million was available under the inventory credit facility. Borrowings under this line are collateralized by a security interest in certain merchandise inventories approximating the outstanding borrowings. We received no advances under the \$200 million credit facility in fiscal 2003, 2002 or 2001. In addition, we have a \$37 million unsecured credit

facility related to International operations scheduled to mature in September 2003. At March 1, 2003, \$15 million was available under this credit facility. Our current plans are to renew the \$37 million unsecured credit facility during fiscal 2004.

We offer our customers extended financing through a third-party financial institution. The use of financing encourages consumers to purchase selected products and promotes our business. The third-party institution assumes the risk of collection from our customers and has no recourse against us for any uncollectible amounts. Generally, these financing offers allow customers to purchase products with repayment terms ranging from 90 days to 18 months without a finance charge. Our contract with the third-party financial institution extends through January 2009. If the contract were to be unexpectedly terminated or canceled, we would contract with an alternative third-party financial institution or directly provide our customers with extended financing.

Our credit ratings as of March 1, 2003, were as follows:

Rating Agency	Rating	Outlook
Fitch	BBB	Stable
Moody's	Baa3	Stable
Standard & Poor's	BBB-	Negative

Factors that can impact our credit ratings include changes in our operating performance, the economic environment, conditions in the retail and consumer electronics industries, our financial position and changes in our business strategy. We do not currently foresee any reasonable circumstances under which our credit ratings would be significantly downgraded. If a downgrade were to occur, it could adversely impact, among other things, our future borrowing costs, access to capital markets, vendor financing terms and future new store occupancy costs. In addition, the conversion rights of the holders of our convertible debentures could be accelerated if our credit ratings were to be downgraded.

Off-Balance-Sheet Financing

Other than in connection with executing operating leases, we do not have any off-balance-sheet financing. We finance a portion of our new-store development program through sale-leaseback transactions, which involve selling stores to unrelated parties and then leasing the stores back under leases that are accounted for as operating leases in accordance with SFAS No. 13, *Accounting for Leases*. A summary of our operating lease obligations by fiscal year is included in the Contractual Obligations and Available Commercial Commitments section below.

We view our long-term debt-to-capitalization ratio as an important indicator of our creditworthiness. Our long-term debt-to-capitalization ratio, which represents the ratio of total long-term debt to total capitalization (total long-term debt plus total

shareholders' equity), was 23% in fiscal 2003, compared with 24% in fiscal 2002. The ratio of total long-term debt to total capitalization including operating lease obligations (rental expenses for all operating leases multiplied by eight), was 67% in fiscal 2003, compared with 66% in fiscal 2002. Total long-term debt, including operating lease obligations, was \$5.5 billion at March 1, 2003, and \$5.0 billion at March 2, 2002. The long-term debt-to-capitalization ratio, including operating lease obligations, is not in accordance with, or preferable to, the ratio determined in accordance with accounting principles generally accepted in the United States.

Contractual Obligations and Available Commercial Commitments

The following tables present information regarding contractual obligations by fiscal year (\$ in millions):

Continuing Operations

	Payments Due					
	2004	2005	2006	2007	2008	Thereafter
Operating leases	\$ 413	\$ 395	\$ 363	\$ 347	\$ 340	\$ 2,576
Long-term debt	1	1	61	1	1	764
Purchase commitments	20	—	—	—	—	—
Total	\$ 434	\$ 396	\$ 424	\$ 348	\$ 341	\$ 3,340

Discontinued Operations

	Payments Due					
	2004	2005	2006	2007	2008	Thereafter
Operating leases	\$ 92	\$ 89	\$ 68	\$ 54	\$ 44	\$ 147
Long-term debt	—	—	—	—	5	—
Purchase commitments	—	—	—	—	—	—
Total	\$ 92	\$ 89	\$ 68	\$ 54	\$ 49	\$ 147

Note: For more information regarding long-term debt, operating leases and purchase commitments, refer to notes 4, 7 and 11, respectively, in the Notes to Consolidated Financial Statements beginning on page 47.

The following table presents information regarding available commercial commitments and their expiration dates by fiscal year for continuing operations only; there are no available commercial commitments related to discontinued operations (\$ in millions):

	Amount	Expires				
		2004	2005	2006	2007	Thereafter
Lines of credit(1)	\$ 212	\$ 15	\$ —	\$ 197	\$ —	\$ —
Inventory financing line(2)	174	174	—	—	—	—
Total	\$ 386	\$ 189	\$ —	\$ 197	\$ —	\$ —

(1) \$3 of our \$200 line of credit was committed to stand-by letters of credit, and \$22 of our \$37 line was utilized.

(2) \$26 of the inventory financing line was utilized.

Debt and Capital

In fiscal 2002, we sold convertible debentures due June 27, 2021, and January 15, 2022, with an initial principal amount at maturity of \$492 million and \$402 million, respectively. The proceeds from the offerings, net of offering expenses, were \$726 million. We may redeem, and holders of the debentures may require us to purchase, all or part of the debentures on certain dates or upon the occurrence of certain events as specified in the respective indentures. In addition, in the event that certain conditions are satisfied, holders may surrender their debentures for conversion, which would increase the number of shares of our

common stock outstanding and have a dilutive impact on our reported earnings per share. The shares related to the convertible debentures were not included in our diluted earnings-per-share computation in fiscal 2003 or 2002, as the criteria for conversion of the debentures were not met. For additional information regarding the convertible debentures, refer to note 4 of the Notes to Consolidated Financial Statements on page 55.

Our ability to access our credit facilities is subject to our compliance with the terms and conditions of the credit facilities, including financial covenants. The financial covenants require us to maintain certain financial ratios and a minimum net worth. As of the end of fiscal 2003, we were in compliance with all such covenants. In the event we were to default on any of our other debt, it would constitute a default under our credit facilities as well.

Our decision to own or lease real estate is based on an assessment of our financial liquidity, capital structure, our desire to own or to lease the location and the alternative that results in the highest returns to our shareholders. For those sites developed using working capital, we often sell and lease back those properties under long-term lease agreements. Through the end of fiscal 2003, \$59 million in leases related to new stores had been financed under the master lease program. The master lease program is now complete and there will be no further new store development under this program. The program is set to expire on January 1, 2006, and is renewable for one year, subject to lenders' consent.

In fiscal 2000, our Board of Directors authorized the purchase of up to \$400 million of our common stock from time to time through open-market purchases. The stock purchase program has no stated expiration date. Approximately 2.9 million shares were purchased under this plan during fiscal 2000 at a cost of \$100 million. No additional purchases were made under the stock purchase program in fiscal 2003, 2002 or 2001.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time the consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with generally accepted accounting principles. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in note 1 of the Notes to Consolidated Financial Statements on page 47. Management believes that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results. Management has reviewed these critical accounting policies and related disclosures with our independent auditor and the Audit Committee of our Board of Directors.

Inventory Reserves

We maintain inventory at the lower of cost or market. Markdown reserves are established based primarily on forecasted consumer demand, inventory aging and technological obsolescence. If our estimates regarding consumer demand are inaccurate or changes in technology impact demand for certain products in an unforeseen manner, we may be exposed to losses in excess of our established reserves that could be material.

We also establish inventory loss reserves. Independent physical inventory counts are taken on a regular basis to ensure the amounts reflected in our consolidated financial statements are properly stated. During the interim period between physical inventory counts, we accrue for anticipated physical inventory losses on a location-by-location basis, based on a number of factors, including historical results and current inventory loss trends.

If our estimates regarding inventory losses are inaccurate, we may be exposed to losses in excess of our established reserves that could be material.

We have not made any material changes in the accounting methodology used to establish our markdown or inventory loss reserves during the past three years.

Long-Lived Assets

Long-lived assets such as property and equipment, intangible assets and investments are reviewed for impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. When evaluating long-lived assets for potential impairment, we first compare the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset, an impairment loss calculation is completed. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated fair value, which may be based on future cash flows (discounted and with interest charges). An impairment loss is recorded if the amount of the asset's carrying value exceeds the asset's estimated fair value.

Our impairment loss calculation contains uncertainty because management must use judgment to forecast estimated fair values and to determine the useful lives of the assets. If actual results are not consistent with our assumptions and estimates regarding these factors, we may be exposed to losses that could be material.

Effective on March 3, 2002, we adopted SFAS No. 144. The adoption of SFAS No. 144 did not have a significant impact on our net earnings or financial position. For further discussion regarding the financial impact subsequent to adoption, see the Significant Accounting Matters section on page 22 and note 2 of the Notes to Consolidated Financial Statements on page 52.

Goodwill

We review goodwill for potential impairment annually and when events or changes in circumstances indicate the carrying value of the goodwill might exceed its current fair value. We determine fair value using widely accepted valuation techniques, including discounted cash flow and market multiple analyses. These types of analyses require us to make certain assumptions and estimates regarding industry economic factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our most current business strategy in light of present industry and economic conditions, as well as future expectations. If actual results are not consistent with our assumptions and estimates, we may be exposed to a goodwill impairment charge that could be material.

Effective on March 3, 2002, we adopted the provisions of SFAS No. 142, which eliminated the systematic amortization of goodwill. SFAS No. 142 also required that goodwill be reviewed for impairment at adoption and at least annually thereafter. For further discussion regarding the financial impact of the initial adoption, see the Significant Accounting Matters section on page 22 and note 1

of the Notes to Consolidated Financial Statements on page 51.

Costs Associated with Exit Activities

We adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, on January 1, 2003. Since adoption, the present value of costs associated with location closings, primarily future lease costs, real estate taxes and common area maintenance, are charged to earnings when a location is vacated. When applicable, the liability is reduced by estimated future sublease income. Prior to our adoption of SFAS No. 146, a liability for location closings was recognized when management made the commitment to relocate or to close the location. The adoption of SFAS No. 146 did not have a significant impact on our net earnings or financial position.

The calculation of our location closing liability requires us to make assumptions and to apply judgment regarding the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments, and the amount and timing of potential future sublease income.

When making these assumptions, we consider a number of factors, including historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions. If actual results are not consistent with our assumptions and judgments, we may be exposed to additional charges that could be material.

Extended Service Contract Liabilities

All of our extended service contracts are sold to customers on behalf of an unrelated third party, without recourse. However, we assumed a liability for certain self-insured extended service contracts when we acquired Future Shop in the third quarter of fiscal 2002. The remaining term of these extended service contracts vary by product and extend up to four years.

Liabilities have been established for the self-insured extended service contracts based on a number of factors, including historical trends in product failure rates and the expected material and labor costs necessary to provide the services. See note 11 in the Notes to Consolidated Financial Statements on page 63 for further discussion of the extended service contract liabilities.

The accounting for self-insured extended service contracts requires us to make assumptions and to apply judgment when estimating the product failure rates and expected material and labor costs necessary to provide the services. If actual results are not consistent with the assumptions and judgments used to calculate the extended service contract liability, we may be exposed to additional charges that could be material.

Self-Insured Liabilities

We are self-insured for certain losses related to health, workers' compensation and general liability insurance, although we maintain stop-loss coverage with third-party insurers to limit our total liability exposure.

When estimating our self-insurance liabilities, we consider a number of factors, including historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. Periodically, management reviews its assumptions and the valuations provided by independent third-party actuaries to determine the adequacy of our self-insured liabilities. Our self-insured liabilities contain uncertainties because management must make assumptions and apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date. If actual results differ from the assumptions and judgment we have used to calculate the self-insured liabilities, we may be exposed to additional charges that could be material.

We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three years.

Tax Contingencies

We are frequently audited by domestic and foreign tax authorities. These audits include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with our various filing positions, including state and local taxes, we record reserves for probable exposures. As of the end of fiscal 2003, three open tax years were undergoing examination by the United States Internal Revenue Service and two open years with Revenue Canada.

The estimate of our tax contingencies liability contains uncertainty because management must use judgment to estimate the exposure associated with our various filing positions. To the extent we prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period could be materially impacted. Although management believes that the estimates discussed above are reasonable, actual results could differ from our estimates, and we may be exposed to a charge that could be material.

Pending Accounting Standards

A discussion of pending accounting standards is included in note 1 of the Notes to Consolidated Financial Statements on page 52.

Outlook for Fiscal 2004

Looking forward to fiscal 2004, we are projecting earnings growth from continuing operations of approximately 14% to 16%, with earnings per diluted share increasing from \$1.91 per diluted share in fiscal 2003 to approximately \$2.17 to \$2.22 per diluted share in fiscal 2004. We expect the earnings growth to be driven by an 11% to 13% increase in revenue from continuing operations and an increase in our operating income rate to approximately 4.9% to 5.0% of revenue, compared with 4.8% in fiscal 2003. Due to the uncertainty regarding the timing of the planned sale of our interest in Musicland, our fiscal 2004 outlook excludes the financial impact of our discontinued operations. Our outlook is based on certain assumptions regarding future economic conditions and the geo-political environment. Differences in actual economic conditions or the geo-political environment compared with our assumptions could have a material impact on our fiscal 2004 operating results.

We are projecting fiscal 2004 revenue growth from continuing operations of approximately 11% to 13%, with revenue increasing from \$20.9 billion in fiscal 2003 to approximately \$23.5 billion in fiscal 2004. We expect new store growth and modest comparable store sales gains in the second half of fiscal 2004 will drive the revenue growth. For both our Domestic and International segments, we anticipate comparable store sales gains in the low single digits, fueled by consumer demand for digital products and an improved economic environment.

Our fiscal 2004 outlook reflects a modest improvement in our gross profit rate. The anticipated improvement is based on a more profitable revenue mix resulting from the expected increase in higher-margin digital product revenue. Digital product revenue is forecasted to increase to approximately 25% of our fiscal 2004 revenue mix, compared with 22% in fiscal 2003. In addition, planned improvements in inventory management, processing efficiencies and product sourcing initiatives are expected to contribute to the modest gross profit rate improvement. Our outlook assumes that the promotional levels in fiscal 2004 will be similar to those experienced in fiscal 2003.

Our fiscal 2004 SG&A rate is expected to remain essentially even with fiscal 2003. Continued improvements in the SG&A rate resulting from efficiency initiatives launched in the second half of fiscal 2003 are expected to offset higher depreciation and amortization expenses resulting from capital spending in fiscal 2003 and 2004.

We anticipate net interest expense for fiscal 2004 of approximately \$10 million, compared with \$4 million of net interest income in fiscal 2003 due to forecasted lower yields on our cash investments and reduced capitalized interest as a result of completing construction of our new corporate campus in the first quarter of fiscal 2004.

Our effective tax rate in fiscal 2004 is expected to be approximately 38.3%, slightly lower than our fiscal 2003 effective tax rate of 38.7%.

Capital expenditures in fiscal 2004 are expected to be approximately \$700 million, exclusive of amounts expended on property development that will be recovered through the sale and lease back of the properties. The capital expenditures will support the opening of approximately 60 new U.S. Best Buy stores, with approximately half in our 45,000-square-foot format and the remainder in our smaller-market formats. Capital expenditure plans for our Domestic segment also include opening four new Magnolia Hi-Fi stores, remodeling three U.S. Best Buy stores and expanding one U.S. Best Buy store. Our International segment capital expenditure plans include opening 11 to 13 new Canadian Best Buy stores and four Future Shop stores, as well as relocating four Future Shop stores. Capital expenditures in fiscal 2004 also will include approximately \$130 million in technology investments intended to improve our customer service capabilities and to increase operating efficiencies. The technology investments include the launch of a new platform for BestBuy.com, our online business associated with Best Buy stores, which will support initiatives aimed at improving the customer experience. Our technology investments are expected to remain relatively consistent over the next few fiscal years as we begin to leverage recently implemented systems.

Quarterly Results and Seasonality

Similar to many retailers, our business is seasonal. Revenue 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 our future quarterly results.

The following tables show selected unaudited quarterly operating results for each quarter of fiscal 2003.

(\$ in millions, except per share amounts)

Quarter	1st	2nd	3rd	4th	Fiscal Year
Fiscal 2003 as revised(1)(2)					
Revenue	\$ 4,202	\$ 4,624	\$ 5,131	\$ 6,989	\$ 20,946
Comparable store sales change(3)	6.5%	2.6%	0.7%	1.2%	2.4%
Gross profit	\$ 1,080	\$ 1,153	\$ 1,250	\$ 1,753	\$ 5,236
Operating income	129	129	140	612	1,010
Earnings from continuing operations	79	79	86	378	622
Loss from discontinued operations, net of tax	(330)	(17)	(27)	(67)	(441)
Cumulative effect of change in accounting principle	(82)	—	—	—	(82)
Net (loss) earnings	(333)	62	59	311	99
Diluted (loss) earnings per share:					
Continuing operations	0.24	0.24	0.27	1.16	1.91
Discontinued operations	(1.01)	(0.05)	(0.08)	(0.21)	(1.36)
Cumulative effect of accounting changes	(0.25)	—	—	—	(0.25)
Diluted (loss) earnings per share	(1.02)	0.19	0.18	0.96	0.30

Quarter	1st	2nd	3rd
Fiscal 2003 as previously reported			
Revenue	\$ 4,586	\$ 5,008	\$ 5,505
Comparable store sales change(3)	5.7%	2.0%	(0.4)%
Gross profit	\$ 1,065	\$ 1,129	\$ 1,187
Operating income	115	103	139
Net earnings	70	62	85
Diluted earnings per share	0.22	0.19	0.26

Note: Certain totals may not add due to rounding.

(1) All quarters presented have been revised to reflect the classification of Musicland's financial results as discontinued operations. Refer to note 2 in the Notes to Consolidated Financial Statements beginning on page 52. First-quarter fiscal 2003 results include an after-tax, non-cash impairment charge of \$308 for the full write-off of the goodwill related to our acquisition of Musicland. Fourth-quarter fiscal 2003 includes an after-tax, non-cash impairment charge of \$102 related to a reassessment of the carrying value of Musicland's long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

(2) Effective on March 3, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. During the second quarter of fiscal 2003, we completed the required goodwill impairment testing and recognized an after-tax, non-cash impairment charge of \$40 that is reflected in our revised fiscal 2003 first-quarter financial results as a cumulative effect of a change in accounting principle. Also effective on March 3, 2002, we changed our method of accounting for vendor allowances to reflect the newly adopted accounting principle established in EITF Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. The related after-tax, non-cash charge of \$42 also is reflected in our revised fiscal 2003 first-quarter financial results as a cumulative effect of a change in accounting principle. Refer to note 1 on page 51 in the Notes to Consolidated Financial Statements.

The following tables show selected unaudited quarterly operating results for each quarter of fiscal 2002.

(\$ in millions, except per share amounts)

Quarter	1st	2nd	3rd(4)	4th	Fiscal Year
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Fiscal 2002 as revised(1)										
Revenue	\$	3,312	\$	3,768	\$	4,336	\$	6,295	\$	17,711
Comparable store sales change(3)		(3.1)%		2.8%		1.6%		4.5%		1.9%
Gross profit	\$	708	\$	806	\$	885	\$	1,371	\$	3,770
Operating income		101		157		146		504		908
Earnings from continuing operations		65		98		92		315		570
(Loss) earnings from discontinued operations, net of tax		(10)		(13)		(12)		35		—
Net earnings		55		85		80		350		570
Diluted earnings (loss) per share:(5)										
Continuing operations		0.20		0.30		0.29		0.97		1.77
Discontinued operations		(0.03)		(0.04)		(0.04)		0.11		—
Diluted earnings per share		0.17		0.26		0.25		1.08		1.77

Quarter		1st		2nd		3rd		4th		Fiscal Year
Fiscal 2002 as previously reported										
Revenue	\$	3,697	\$	4,164	\$	4,756	\$	6,980	\$	19,597
Comparable store sales change(3)		(3.1)%		2.8%		1.6%		4.5%		1.9%
Gross profit	\$	846	\$	948	\$	1,028	\$	1,608	\$	4,430
Operating income		90		148		129		570		937
Net earnings		55		85		80		350		570
Diluted earnings per share(5)		0.17		0.26		0.25		1.08		1.77

(3) Includes revenue at stores and Internet sites operating for at least 14 full months, as well as remodeled and expanded locations. Relocated stores are excluded from the comparable store sales calculation until at least 14 full months after reopening. Acquired stores are included in the comparable store sales calculation beginning with the first full quarter following the first anniversary of the date of acquisition. The calculation of the comparable store sales change excludes Musicland revenue, which is included in discontinued operations.

(4) During the third quarter of fiscal 2002, we acquired the common stock of Future Shop Ltd. Future Shop's results of operations were included from the date of acquisition.

(5) The diluted earnings per share amounts have been revised to reflect a three-for-two stock split effected on May 10, 2002.

Common Stock Prices

The following table shows high and low prices of our common stock for each quarter of fiscal 2003 and 2002.

Quarter		1st		2nd		3rd		4th
Fiscal 2003								
High	\$	53.75	\$	46.10	\$	28.40	\$	30.45
Low		44.63		18.50		16.99		22.10
Fiscal 2002								
High	\$	41.57	\$	46.60	\$	48.00	\$	51.47
Low		22.42		35.45		26.68		43.43

Our common stock is traded on the New York Stock Exchange under the ticker symbol BBY. As of March 31, 2003, there were 2,345 holders of record of Best Buy common stock. We have not historically paid, and have no current plans to pay, cash dividends on our common stock. The stock prices above have been revised to reflect a three-for-two stock split effected on May 10, 2002.

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 our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause our 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, weather, foreign currency fluctuation, availability of suitable real estate locations, and the impact of labor markets and new product introductions on our overall profitability. Readers should review our Current Report on Form 8-K filed January 10, 2003, that describes additional important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements made in this annual report.

Consolidated Balance Sheets

\$ in millions, except per share amounts

Assets	March 1, 2003	March 2, 2002
Current Assets		
Cash and cash equivalents	\$ 1,914	\$ 1,861
Receivables	312	221
Recoverable costs from developed properties	10	79
Merchandise inventories	2,046	1,875
Other current assets	188	116
Current assets of discontinued operations	397	448
Total current assets	4,867	4,600
Property and Equipment		
Land and buildings	208	205
Leasehold improvements	719	540
Fixtures and equipment	2,108	1,649
Property under capital lease	54	39
	3,089	2,433
Less accumulated depreciation and amortization	1,027	772
Net property and equipment	2,062	1,661
Goodwill, Net	429	465
Intangible Assets	33	—
Other Assets	115	80
Noncurrent Assets of Discontinued Operations	157	561
Total Assets	\$ 7,663	\$ 7,367

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity	March 1, 2003	March 2, 2002
Current Liabilities		
Accounts payable	\$ 2,195	\$ 2,202
Accrued compensation and related expenses	174	174
Accrued liabilities	729	613
Accrued income taxes	374	291
Current portion of long-term debt	1	7
Current liabilities of discontinued operations	320	418
Total current liabilities	3,793	3,705
Long-Term Liabilities	287	312
Long-Term Debt	828	808
Noncurrent Liabilities of Discontinued Operations	25	21
Shareholders' Equity		
Preferred stock, \$1.00 par value: Authorized—400,000 shares; Issued and outstanding—none	—	—
Common stock, \$.10 par value: Authorized—1 billion shares; Issued and outstanding—321,966,000 and 319,128,000 shares, respectively	32	31
Additional paid-in capital	778	702
Retained earnings	1,893	1,794
Accumulated other comprehensive income (loss)	27	(6)
Total shareholders' equity	2,730	2,521
Total Liabilities and Shareholders' Equity	\$ 7,663	\$ 7,367

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

\$ in millions, except per share amounts

For the Fiscal Years Ended	March 1, 2003	March 2, 2002	March 3, 2001
Revenue	\$ 20,946	\$ 17,711	\$ 15,189
Cost of goods sold	15,710	13,941	12,177
Gross profit	5,236	3,770	3,012
Selling, general and administrative expenses	4,226	2,862	2,401
Operating income	1,010	908	611
Net interest income	4	18	38
Earnings from continuing operations before income tax expense	1,014	926	649
Income tax expense	392	356	248
Earnings from continuing operations	622	570	401
Loss from discontinued operations (note 2), net of tax	(441)	—	(5)
Cumulative effect of change in accounting principle for goodwill (note 1), net of \$24 tax	(40)	—	—
Cumulative effect of change in accounting principle for vendor allowances (note 1), net of \$26 tax	(42)	—	—
Net earnings	\$ 99	\$ 570	\$ 396

Basic earnings (loss) per share:			
Continuing operations	\$	1.93	\$ 1.80 \$ 1.29
Discontinued operations		(1.37)	— (0.02)
Cumulative effect of accounting changes		(0.25)	— —
Basic earnings per share	\$	0.31	\$ 1.80 \$ 1.28
Diluted earnings (loss) per share:			
Continuing operations	\$	1.91	\$ 1.77 \$ 1.26
Discontinued operations		(1.36)	— (0.02)
Cumulative effect of accounting changes		(0.25)	— —
Diluted earnings per share	\$	0.30	\$ 1.77 \$ 1.24
Basic weighted average common shares outstanding (in millions)		321.1	316.0 310.0
Diluted weighted average common shares outstanding (in millions)		324.8	322.5 319.0
Pro forma effect of change in accounting principle for vendor allowances (note 1):			
Earnings from continuing operations		\$ 564	\$ 396
Basic earnings per share			1.78 1.28
Diluted earnings per share			1.75 1.24
Net earnings		\$ 564	\$ 390
Basic earnings per share			1.78 1.26
Diluted earnings per share			1.75 1.22

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

\$ in millions

For the Fiscal Years Ended	March 1, 2003	March 2, 2002	March 3, 2001
Operating Activities			
Net earnings	\$ 99	\$ 570	\$ 396
Loss from discontinued operations, net of tax	441	—	5
Cumulative effect of change in accounting principles, net of tax	82	—	—
Earnings from continuing operations	622	570	401
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:			
Depreciation	310	242	164
Deferred income taxes	(37)	15	36
Amortization of goodwill	—	3	1
Other	24	36	18
Changes in operating assets and liabilities, net of acquired assets and liabilities:			
Receivables	(89)	1	(9)
Merchandise inventories	(225)	(324)	(185)
Other assets	(36)	(24)	(16)
Accounts payable	(20)	575	159
Other liabilities	86	196	149
Accrued income taxes	111	253	143
Total cash provided by operating activities from continuing operations	746	1,543	861
Investing Activities			

Additions to property and equipment	(725)	(581)	(657)
Acquisitions of businesses, net of cash acquired	(3)	(368)	(326)
Decrease (increase) in recoverable costs from developed properties	69	25	(31)
Increase in other assets	—	—	(15)
Total cash used in investing activities from continuing operations	(659)	(924)	(1,029)
Financing Activities			
Net proceeds from issuance of long-term debt	18	726	—
Long-term debt payments	(13)	(5)	(17)
Issuance of common stock	40	48	235
Total cash provided by financing activities from continuing operations	45	769	218
Net Cash Used in Discontinued Operations	(79)	(270)	(58)
Increase (Decrease) in Cash and Cash Equivalents	53	1,118	(8)
Cash and Cash Equivalents at Beginning of Year	1,861	743	751
Cash and Cash Equivalents at End of Year	\$ 1,914	\$ 1,861	\$ 743
Supplemental Disclosure of Cash Flow Information			
Income tax paid	\$ 283	\$ 139	\$ 62
Interest paid	24	25	7

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

\$ and shares in millions

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at Feb. 26, 2000	301	\$ 30	\$ 238	\$ 828	\$ —	\$ 1,096
Net earnings	—	—	—	396	—	396
Stock options exercised	6	—	36	—	—	36
Tax benefit from stock options exercised	—	—	93	—	—	93
Stock issuance	5	1	200	—	—	201
Balances at March 3, 2001	312	31	567	1,224	—	1,822
Net earnings	—	—	—	570	—	570
Other comprehensive loss, net of tax:						
Foreign currency translation adjustments	—	—	—	—	(5)	(5)
Other	—	—	—	—	(1)	(1)
Total comprehensive income	—	—	—	570	(6)	564
Stock options exercised	7	—	49	—	—	49
Tax benefit from stock options exercised	—	—	86	—	—	86
Balances at March 2, 2002	319	31	702	1,794	(6)	2,521
Net earnings	—	—	—	99	—	99
Other comprehensive income (loss), net of tax:						

Foreign currency translation adjustments	—	—	—	—	34	34
Other	—	—	—	—	(1)	(1)
Total comprehensive income	—	—	—	99	33	132
Stock options exercised	3	1	43	—	—	44
Tax benefit from stock options exercised	—	—	33	—	—	33
Balances at March 1, 2003	322	\$ 32	\$ 778	\$ 1,893	\$ 27	\$ 2,730

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

\$ in millions, except per share amounts

1. Summary of Significant Accounting Policies Description of Business

Best Buy Co., Inc. is a specialty retailer with fiscal 2003 revenue from continuing operations of \$20.9 billion. We operate two reportable segments: Domestic and International. The Domestic segment includes U.S. Best Buy and Magnolia Hi-Fi, Inc. (Magnolia Hi-Fi) stores. U.S. Best Buy stores offer a wide variety of consumer electronics, home-office equipment, entertainment software and appliances, operating 548 stores in 48 states at the end of fiscal 2003. Magnolia Hi-Fi is a high-end retailer of audio and video products with 19 stores in Washington, Oregon and California. Magnolia Hi-Fi was acquired in the fourth quarter of fiscal 2001. The International segment is comprised of 104 Future Shop and eight Canadian Best Buy stores. Future Shop and Canadian Best Buy stores offer products similar to U.S. Best Buy stores. Future Shop operates in all Canadian provinces, while all of the Canadian Best Buy stores are in Ontario. Future Shop was acquired in the third quarter of fiscal 2002. As described in note 2, we have classified the results of operations of Musicland as discontinued operations. The Musicland business was previously included in our Domestic segment. The Notes to Consolidated Financial Statements, except where otherwise indicated, relate to continuing operations only. Musicland, principally a mall-based retailer of prerecorded home entertainment products, was acquired in the fourth quarter of fiscal 2001.

Basis of Presentation

The consolidated financial statements include the accounts of Best Buy Co., Inc. and its subsidiaries. We have eliminated significant intercompany accounts and transactions. All subsidiaries are wholly owned.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts in the consolidated balance sheets and statements of earnings, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates and assumptions.

Fiscal Year

Our fiscal year ends on the Saturday nearest the end of February. Fiscal 2003 and 2002 each included 52 weeks, while fiscal 2001 included 53 weeks.

Cash and Cash Equivalents

We consider highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. We carry these investments at cost, which approximates market value.

Recoverable Costs from Developed Properties

We include in current assets the costs of acquisition and development of properties that we intend to sell and lease back or recover from landlords within one year.

Merchandise Inventories

Merchandise inventories are recorded at the lower of cost or market. The methods we use to determine cost are the average cost and retail inventory methods.

Property and Equipment

Property and equipment are recorded at cost. We compute depreciation using the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the shorter of the estimated useful lives or lease terms.

Estimated useful lives by major asset category for continuing operations are as follows:

Asset	Life (in years)
Buildings	30–40
Leasehold improvements	10–25
Fixtures and equipment	3–15
Property under capital lease	5–35

\$ in millions, except per share amounts

Impairment of Long-Lived Assets and Costs Associated with Exit Activities

In March 2002 we adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets, such as property and equipment, to be evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value.

We adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, on January 1, 2003. Since adoption, the present value of costs associated with location closings, primarily future lease costs, are charged to earnings when a location is vacated. Prior to adoption, we recognized a liability when we made the decision to relocate or close the location.

Goodwill and Intangible Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. Effective March 3, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which eliminated the systematic amortization of goodwill. The Statement also required that we review goodwill for impairment at adoption and at least annually thereafter.

A reconciliation of reported earnings adjusted to reflect the adoption of SFAS No. 142, as if it were effective for all fiscal years presented, is provided below.

	2003	2002	2001
Reported earnings from continuing operations	\$ 622	\$ 570	\$ 401
Add back goodwill amortization, net of tax	—	2	1
Adjusted earnings from continuing operations	622	572	402
Reported loss from discontinued operations, net of tax	(441)	—	(5)
Add back goodwill amortization, net of tax	—	16	1
Adjusted (loss) earnings from discontinued operations	(441)	16	(4)
Cumulative effect of change in accounting principles, net of tax	(82)	—	—
Adjusted net earnings	\$ 99	\$ 588	\$ 398
Reported basic earnings per share from continuing operations	\$ 1.93	\$ 1.80	\$ 1.29
Add back goodwill amortization	—	0.01	—

Adjusted basic earnings per share from continuing operations	1.93	1.81	1.29
Reported basic loss per share from discontinued operations	(1.37)	—	(0.02)
Add back goodwill amortization	—	0.05	0.01
Adjusted basic (loss) earnings per share from discontinued operations	(1.37)	0.05	(0.01)
Cumulative effect of change in accounting principles	(0.25)	—	—
Adjusted basic earnings per share	\$ 0.31	\$ 1.86	\$ 1.28

\$ in millions, except per share amounts

	2003	2002	2001
Reported diluted earnings per share from continuing operations	\$ 1.91	\$ 1.77	\$ 1.26
Add back goodwill amortization	—	0.01	—
Adjusted diluted earnings per share from continuing operations	1.91	1.78	1.26
Reported diluted loss per share from discontinued operations	(1.36)	—	(0.02)
Add back goodwill amortization	—	0.05	0.01
Adjusted diluted (loss) earnings per share from discontinued operations	(1.36)	0.05	(0.01)
Cumulative effect of change in accounting principles	(0.25)	—	—
Adjusted diluted earnings per share	\$ 0.30	\$ 1.83	\$ 1.25

During the second quarter of fiscal 2003, we completed the transitional requirements for goodwill impairment testing. As a result of the transitional goodwill impairment testing, we determined that the book value of the assets of our Musicland and Magnolia Hi-Fi businesses, which were acquired in the fourth quarter of fiscal 2001, exceeded their current fair values. We determine fair values utilizing widely accepted valuation techniques, including discounted cash flow and market multiple analyses. We based Musicland's fair value on the then-current expectations for the business in light of the existing retail environment and the uncertainty associated with future trends in prerecorded music products. We based Magnolia Hi-Fi's fair value on the then-current expectations for the business in light of recent sales trends and the then-existing business environment, including an economic slowdown in the Pacific Northwest. The resulting after-tax, non-cash impairment charge was \$348, of which \$308 was associated with Musicland and \$40 was associated with Magnolia Hi-Fi. The charge represented a complete write-off of the goodwill associated with these businesses. As described in note 2, we have classified the results of operations of our Musicland subsidiary as discontinued operations, including the related goodwill impairment charge.

In the fourth quarter of fiscal 2003, we completed our annual impairment testing of goodwill related to our acquisition of Future Shop using the same techniques as described above, and determined there was no impairment.

The only significant identifiable intangible asset included in our balance sheet is an indefinite-lived intangible trade name related to Future Shop.

The changes in the carrying amount of goodwill by segment for continuing operations were as follows:

	Domestic	International	Total
Balances at Feb. 26, 2000	\$ —	\$ —	\$ —
Goodwill resulting from acquisitions	68	—	68
Systematic amortization of goodwill	(1)	—	(1)
Balances at March 3, 2001	67	—	67

Goodwill resulting from acquisitions	—	406	406
Systematic amortization of goodwill	(3)	—	(3)
Changes in foreign exchange rates	—	(5)	(5)
Balances at March 2, 2002	64	401	465
Goodwill resulting from acquisitions	3	—	3
Final purchase price allocation adjustment	—	(5)	(5)
Impairment charge	(64)	—	(64)
Changes in foreign exchange rates	—	30	30
Balances at March 1, 2003	\$ 3	\$ 426	\$ 429

\$ in millions, except per share amounts

Foreign Currency

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in selling, general and administrative expenses and have not been significant.

Revenue Recognition

We recognize revenue from the sale of merchandise at the time the merchandise is sold and the customer takes possession of the merchandise. We recognize service revenue at the time the service is provided, the sales price is fixed or determinable, and collectibility is reasonably assured. Gift card revenue is recognized when redeemed.

We sell extended service contracts on behalf of an unrelated third party. In jurisdictions where we are not deemed to be the obligor on the contract at the time of sale, commissions are recognized in revenue at the time of sale. In jurisdictions where we are deemed to be the obligor on the contract at the time of sale, commissions are recognized in revenue ratably over the term of the service contract.

Sales Incentives

We periodically offer sales incentives that entitle our customers to receive a reduction in the price of a product or service. For sales incentives in which we are the obligor, the reduction in revenue is recognized at the time the product or service is sold.

Shipping and Handling Costs

Amounts billed to customers for shipping and handling are included in revenue. The related costs are included in cost of goods sold.

Vendor Allowances

We receive allowances from vendors as a result of purchasing and promoting their products. Vendor allowances provided as a reimbursement of specific, incremental and identifiable costs incurred to promote a vendor's products are recorded as an expense reduction when the cost is incurred. Subsequent to fiscal 2002, all other vendor allowances, including vendor allowances received in excess of our cost to promote a vendor's product, or vendor allowances directly related to purchase of a vendor's product are initially deferred. The deferred amounts are then recorded as a reduction of cost of goods sold when the related product is sold. Prior to fiscal 2003, vendor allowances generally were recorded as a reduction of advertising expenses in SG&A (see note 1, Change in Accounting Principles—Goodwill and Vendor Allowances).

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires expanded and more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

We have stock-based employee compensation plans comprised primarily of fixed stock options. We have not adopted a method under SFAS No. 148 to expense stock options, but continue to apply Accounting Principles Board (APB) Opinion No. 25, *Accounting for*

Stock Issued to Employees, and related Interpretations in accounting for these plans. Accordingly, no compensation expense has been recognized for stock option plans, as the exercise price equals the stock price on the date of grant.

\$ in millions, except per share amounts

The table below illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for each of the last three fiscal years.

	2003	2002	2001
Net earnings, as reported	\$ 99	\$ 570	\$ 396
Add: Stock-based employee compensation expense included in reported net earnings, net of tax(1)	1	1	—
Deduct: Stock-based compensation expense determined under fair value method for all awards, net of tax	(85)	(59)	(44)
Net earnings, pro forma	\$ 15	\$ 512	\$ 352
Earnings per share:			
Basic—as reported	\$ 0.31	\$ 1.80	\$ 1.28
Basic—pro forma	\$ 0.05	\$ 1.62	\$ 1.14
Diluted—as reported	\$ 0.30	\$ 1.77	\$ 1.24
Diluted—pro forma	\$ 0.05	\$ 1.61	\$ 1.11

(1) Amounts represent the after-tax compensation costs for restricted stock awards.

The fair value of each stock option was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Risk-free interest rate	4.2%	4.9%	6.1%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	60%	55%	60%
Expected life of stock options	5.0 years	4.5 years	4.5 years

The weighted average fair value of options granted during fiscal 2003, 2002 and 2001 used in computing pro forma compensation expense was \$23.91, \$18.60 and \$23.06 per share, respectively.

Pre-Opening Costs

Non-capital expenditures associated with opening new stores are expensed as incurred.

Advertising Costs

Advertising costs, which are included in SG&A, are expensed the first time the advertisement runs. Gross advertising expenses, before expense reimbursement from vendor allowances, for fiscal 2003, 2002 and 2001 were \$567, \$493 and \$479, respectively, for continuing operations.

Derivative Financial Instruments

SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*, requires that all derivatives be recorded on the balance sheet at fair value. At March 1, 2003, the fair value of an existing interest-rate swap was not significant.

Change in Accounting Principles—Goodwill and Vendor Allowances

The adoption of SFAS No. 142 related to goodwill described above has been accounted for as a cumulative effect of a change in accounting principle and applied cumulatively as if the change had occurred at March 3, 2002, the beginning of fiscal 2003.

In September 2002, the Emerging Issues Task Force (EITF) released Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*, with final consensus reached in March 2003. EITF No. 02-16 establishes the accounting standards for recording vendor allowances in a retailer's income statement.

\$ in millions, except per share amounts

During fiscal 2003, we changed our method of accounting for vendor allowances in accordance with EITF No. 02-16. Based on the new standard, vendor allowances are considered a reduction in the price of a vendor's products or services and recorded as a component of cost of goods sold when the related product or service is sold, unless the allowance represents a reimbursement of a specific, incremental and identifiable cost incurred to sell a vendor's products or services. We continue to record vendor allowances that represent a reimbursement of a specific, incremental and identifiable cost incurred to sell a vendor's products or services as a reduction of the related cost in our statement of earnings. Previously, and in accordance with generally accepted accounting principles (GAAP), we had recognized and classified a majority of vendor allowances as a reduction of advertising costs in SG&A. The cumulative effect of the change in method of accounting for vendor allowances resulted in an after-tax, non-cash charge to net earnings of \$50, of which \$8 was associated with Musicland. The effect of the change on the fiscal year ended March 1, 2003, was a decrease in net earnings from continuing operations of \$1. As described in note 2, we have classified the results of operations of our Musicland subsidiary as discontinued operations, including the related cumulative effect of the change in accounting principle.

Reclassifications

Certain previous year amounts have been reclassified to conform to the current-year presentation. This included classifying the results of operations of Musicland as discontinued operations (see note 2). These reclassifications had no impact on net earnings, financial position or cash flows.

Pending Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46), which requires the consolidation of variable interest entities. FIN No. 46 is applicable to financial statements to be issued by us beginning with the second quarter of fiscal 2004. However, disclosures are required currently if we expect to consolidate any variable interest entities. At this time we do not believe that any variable interest entities will be included in our consolidated financial statements as a result of adopting FIN No. 46.

2. Discontinued Operations

During the fourth quarter of fiscal 2003, we committed to a plan to sell our interest in Musicland. In accordance with SFAS No. 144, we have classified the results of operations of Musicland in discontinued operations. The net assets associated with Musicland are currently considered "held-for-sale."

During fiscal 2003, we recorded an after-tax, non-cash impairment charge of \$308 for the full write-off of goodwill related to our acquisition of Musicland. In addition, we recorded an after-tax, non-cash charge of \$8 for the change in our method of accounting for vendor allowances. The charges are classified as cumulative effects of changes in accounting principles in discontinued operations (see note 1).

During the fourth quarter of fiscal 2003, in accordance with SFAS No. 144, we recorded an impairment charge of \$166 before tax related to a reassessment of the carrying value of Musicland's long-lived assets. We determined fair values utilizing widely accepted valuation techniques, including discounted cash flows. We based fair values on the then-current expectations for the business in light of the then-existing retail environment and the uncertainty associated with future trends in prerecorded music products.

\$ in millions, except per share amounts

The financial results of Musicland included in discontinued operations were as follows:

For the Fiscal Years Ended

	March 1, 2003	March 2, 2002	March 3, 2001
Revenue	\$ 1,727	\$ 1,886	\$ 138
Cost of goods sold	1,114	1,226	91
Gross profit	613	660	47
Selling, general and administrative expenses	685	631	54
Long-lived asset impairment charge	166	—	—
Operating (loss) income	(238)	29	(7)
Interest expense	(6)	(19)	(1)
(Loss) earnings before income taxes	(244)	10	(8)
Income tax (benefit) expense(1)	(119)	10	(3)
Loss before cumulative effect of change in accounting principles	(125)	—	(5)
Cumulative effect of change in accounting principle for goodwill (note 1), net of \$0 tax	(308)	—	—
Cumulative effect of change in accounting principle for vendor allowances (note 1), net of \$5 tax	(8)	—	—
Loss from discontinued operations, net of tax	\$ (441)	\$ —	\$ (5)

(1) Fiscal 2003 includes a \$25 tax benefit as described below.

The current and noncurrent assets and liabilities of Musicland as of March 1, 2003, and March 2, 2002, were as follows:

	March 1, 2003	March 2, 2002
Cash and cash equivalents	\$ 2	\$ —
Receivables	3	9
Merchandise inventories	316	383
Other current assets	76	56
Current assets of discontinued operations	\$ 397	\$ 448
Net property and equipment	\$ 69	\$ 236
Other assets	88	325
Noncurrent assets of discontinued operations	\$ 157	\$ 561
Accounts payable	\$ 208	\$ 282
Accrued compensation and related expenses	14	31
Accrued liabilities	98	105
Current liabilities of discontinued operations	\$ 320	\$ 418
Long-term liabilities	\$ 20	\$ 16
Long-term debt	5	5
Noncurrent liabilities of discontinued operations	\$ 25	\$ 21

We recorded a deferred tax asset of \$25 as of March 1, 2003, in conjunction with the classification of Musicland as discontinued operations. This tax benefit resulted from differences between the basis of assets and liabilities for financial reporting and income tax purposes arising at acquisition, which will be realized upon the disposition of Musicland. Although realization is not assured, we believe it is more likely than not that this deferred tax asset will be realized. Such differences also gave rise to a \$41 deferred tax asset associated with a capital loss carryover. We have provided a full valuation allowance against this \$41 deferred tax asset because of the uncertainties regarding realization of the benefit.

3. Acquisitions

Effective Nov. 4, 2001, we acquired all of the common stock of Future Shop for \$377, or \$368 net of cash acquired, including transaction costs. We acquired Future Shop to further our expansion plans and to increase shareholder value. The acquisition was accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*, issued in June 2001.

Accordingly, we recorded the net assets at their estimated fair values, and included operating results in our financial statements from the date of acquisition. We allocated the purchase price on a preliminary basis using information then available. The allocation of the purchase price to the assets and liabilities acquired was finalized in the third quarter of fiscal 2003. The primary adjustments to the preliminary allocation were to assign value to the Future Shop trade name as a result of our decisions to operate stores in Canada under both the Best Buy and Future Shop trade names, and to adjust the extended service contract liability assumed as of the date of acquisition based on additional information. The final purchase price allocation is shown below and resulted in a \$5 decrease to goodwill from our preliminary allocation. All goodwill is nondeductible for tax purposes. Under SFAS No.142, goodwill is not amortized, but is reviewed for impairment at least annually.

The final purchase price allocation was as follows:

Merchandise inventories	\$	169
Property and equipment		103
Goodwill		401
Intangible asset		32
Other assets		43
Current liabilities		(341)
Debt, including current portion		(13)
Other liabilities		(26)
Total	\$	368

The following unaudited pro forma data sets forth the consolidated results of continuing operations as though Future Shop had been acquired as of the beginning of fiscal 2002:

	2002
Revenue	\$ 18,506
Net earnings	570
Basic earnings per share	1.80
Diluted earnings per share	1.77

The pro forma results include adjustments, principally the loss of interest income on cash used to finance the acquisition. The pro forma results exclude costs expected to be incurred in connection with the integration of Future Shop's business. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been completed as of the beginning of fiscal 2002, nor are they necessarily indicative of future consolidated results.

4. Debt

	March 1, 2003	March 2, 2002
Convertible debentures, unsecured, due 2021, initial interest rate 2.75%	\$ 347	\$ 341
Convertible subordinated debentures, unsecured, due 2022, initial interest rate 2.25%	402	402
Senior subordinated notes, unsecured, due 2008, interest rate 9.9%	5	5
Master lease obligations, due 2006, interest rate 5.9%	59	39
Mortgage and other debt, interest rates ranging from 4.0% to 9.2%	21	33
Total debt	834	820
Less: current portion	(1)	(7)
Total long-term debt	833	813
Less: long-term debt included in discontinued operations	(5)	(5)
Long-term debt included in continuing operations	\$ 828	\$ 808

\$ in millions, except per share amounts

The mortgage and other debt are secured by certain property and equipment with a net book value of \$30 and \$43 at March 1, 2003, and March 2, 2002, respectively.

Convertible Debentures

In January 2002, we sold convertible subordinated debentures having an aggregate principal amount of \$402. The proceeds from the offering, net of \$6 in offering expenses, were \$396. The debentures mature in 20 years and are callable at our option on or after January 15, 2007. Holders may require us to purchase all or a portion of their debentures on January 15, 2007; January 15, 2012; and January 15, 2017, at a purchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest up to but not including the date of purchase. The debentures will be convertible into shares of our common stock at a conversion rate of 14.4927 shares per \$0.001 principal amount of debentures, equivalent to an initial conversion price of \$69.00 per share, if the closing price of our common stock exceeds a specified price for a specified period of time, or otherwise upon the occurrence of certain events. The debentures have an initial interest rate of 2.25% per annum. The interest rate may be reset, but not below 2.25% or above 3.25%, on July 15, 2006; July 15, 2011; and July 15, 2016.

In June 2001, we sold convertible debentures having an initial aggregate principal amount at maturity of \$492. The proceeds from the offering, net of \$7 in offering expenses, were \$330. The debentures mature in 20 years and are callable at our option on or after June 27, 2004. Holders may require us to purchase all or a portion of their debentures on June 27, 2004; June 27, 2009; and June 27, 2014, at a purchase price equal to the accreted value of the debentures plus accrued and unpaid cash interest up to but not including the date of purchase. The debentures will be convertible into shares of our common stock at a conversion rate of 11.8071 shares per \$0.001 initial principal amount at maturity of the debentures, equivalent to an initial conversion price of \$57.91 per share, if the closing price of our common stock exceeds a specified price for a specified period of time, or otherwise upon the occurrence of certain events. The debentures have an initial yield to maturity of 2.75% per annum, and a portion of the yield to maturity is paid as cash interest at the rate of 1.0% per annum. The yield to maturity may be reset, but not below 2.75% or above 3.75%, on December 27, 2003; December 27, 2008; and December 27, 2013.

Certain of our wholly owned subsidiaries have guaranteed the debentures on an unsecured and subordinated basis.

Credit Agreements

We have two credit agreements that provide bank revolving credit facilities under which we can borrow up to \$200 and \$37, respectively. Certain of our subsidiaries guarantee the \$200 facility. Best Buy Co., Inc. and a wholly owned subsidiary have guaranteed the \$37 facility. Outstanding letters of credit reduce amounts available under the agreements. The \$200 facility expires on March 21, 2005, and the \$37 facility expires on September 12, 2003. Borrowings under each of these facilities are unsecured and bear interest at rates specified in the credit agreements, as we have elected. We also pay certain facility and agent fees. The credit agreements contain covenants that require us to maintain certain financial ratios and minimum net worth. The \$200 agreement also requires that we have no outstanding principal balance for a period not less than 30 consecutive days.

As of March 1, 2003, and March 2, 2002, respectively, \$212 and \$221 were available under these two credit agreements. There were no borrowings outstanding under our \$200 facility for any period presented. The interest rates on amounts outstanding under the \$37 facility were 4.75% and 3.75% at March 1, 2003, and March 2, 2002, respectively.

\$ in millions, except per share amounts

Master Lease

We have a master lease program which was used for the purpose of constructing and leasing new retail locations. At end of fiscal 2003, \$59 in leases for new stores had been financed under the master lease program. The master lease program is now complete, and there will be no further new store development under this program. The program is set to expire on January 1, 2006, and is renewable for one year, subject to lenders' consent. The lease is guaranteed by Best Buy Co., Inc.

Inventory Financing

We have a \$200 inventory financing line. Borrowings are collateralized by a security interest in certain merchandise inventories approximating the outstanding borrowings. The terms of this arrangement allow us to extend the due dates of invoices beyond their normal terms. The amounts extended generally bear interest at rates ranging from 1.5% below prime rate to 0.5% above prime rate. The prime rate was 4.25% and 4.75% as of March 1, 2003, and March 2, 2002, respectively. The line has provisions that give the

financing source a portion of the cash discounts provided by the vendors. The inventory financing line is guaranteed by Best Buy Co., Inc. and one of its subsidiaries.

Amounts outstanding under this agreement are included in accounts payable in the balance sheet. As of March 1, 2003, and March 2, 2002, respectively, \$174 and \$157 was available under this agreement.

Other

The fair value of long-term debt approximates \$791 and \$829 as of March 1, 2003, and March 2, 2002, respectively. These fair values were based primarily on quotes from external sources.

The future maturities of long-term debt, including capitalized leases, consist of the following:

Fiscal Year	
2004	\$ 1
2005(1)	1
2006	61
2007(1)	1
2008(2)	6
Thereafter	764
	\$ 834

(1) Holders of our debentures may require us to purchase all or a portion of their debentures on June 27, 2004, and January 15, 2007, respectively. The potential purchases are not reflected in the table above. See note 4, Convertible Debentures, for additional details.

(2) Includes \$5 of senior subordinated notes due in 2008 related to Musicland, which has been classified as discontinued operations.

5. Shareholders' Equity

Stock Options

We sponsor three non-qualified stock option plans for our employees and our Board of Directors. These plans provide for the issuance of up to 73.2 million shares of common stock. Options may be granted only to employees or directors at exercise prices not less than the fair market value of our common stock on the date of the grant. All of the options have a 10-year term. Options issued pursuant to the 1997 employee plan vest over a four-year period. Options issued pursuant to the 1997 directors' plan vest immediately upon grant. At March 1, 2003, a total of 23.1 million shares were available for future grants under all plans.

In connection with the Musicland acquisition, certain outstanding stock options held by employees of Musicland were converted into options exercisable into our shares of common stock. These options were fully vested at the time of conversion and expire based on the remaining option term of up to 10 years. These options did not reduce the shares available for grant under any of our other option plans. The acquisition was accounted for as a purchase and, accordingly, the fair value of these options was included as a component of the purchase price using the Black-Scholes option-pricing model.

\$ in millions, except per share amounts

Option activity for the last three fiscal years was as follows:

	Shares	Weighted Average Exercise Price per Share
Outstanding on Feb. 26, 2000	25,569,000	\$ 11.26
Granted	8,070,000	45.53
Assumed(1)	461,000	37.21
Exercised	(5,720,000)	6.11
Canceled	(2,012,000)	26.94
Outstanding on March 3, 2001	26,368,000	22.13

Granted	9,382,000	37.01
Exercised	(6,846,000)	6.88
Canceled	(1,417,000)	35.98
Outstanding on March 2, 2002	27,487,000	30.29
Granted	14,253,000	44.06
Exercised	(2,850,000)	14.01
Canceled	(3,336,000)	43.65
Outstanding on March 1, 2003	35,554,000	\$ 35.89

(1) Represents Musicland options converted into Best Buy Co., Inc. options in connection with the acquisition of Musicland.

Exercisable options at the end of fiscal 2003, 2002 and 2001 were 13.4 million, 9.9 million and 9.4 million, respectively. The following table summarizes information concerning options outstanding and exercisable as of March 1, 2003:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0 to \$10	2,154,000	4.40	\$ 2.08	2,021,000	\$ 2.22
\$10 to \$20	4,061,000	5.20	11.62	4,031,000	11.58
\$20 to \$30	4,633,000	9.75	28.40	138,000	25.69
\$30 to \$40	9,723,000	7.54	36.31	4,017,000	35.74
\$40 to \$50	6,191,000	7.25	46.65	3,042,000	46.66
\$50 to \$60	8,792,000	9.08	51.28	143,000	51.75
\$0 to \$60	35,554,000	7.70	\$ 35.89	13,392,000	\$ 25.96

\$ in millions, except per share amounts

Restricted Stock Plan

We adopted a restricted stock award plan in fiscal 2001. The plan authorizes us to issue up to 1.5 million shares of our common stock to our eligible employees, consultants and independent contractors, as well as to our Board of Directors. Restricted shares have the same rights as other shares of common stock, except they are not transferable until fully vested. Restrictions lapse over a vesting period of at least three years, during which no more than 25% may vest at the time of award, and no more than 25% may vest on each anniversary date thereafter. All shares still subject to restrictions are forfeited and returned to the plan if the plan participant's relationship with us were to be terminated. The number of shares granted under this plan has not been significant.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options; convertible debentures, assuming certain criteria are met (see note 4, Convertible Debentures); and other stock-based awards granted under stock-based compensation plans. The computation of dilutive shares excluded antidilutive outstanding stock options to purchase 24.6 million, 7.2 million and 7.2 million shares as of March 1, 2003; March 2, 2002; and March 3, 2001, respectively, because the exercise prices for those options were greater than the average market price of the common shares. The shares related to the convertible debentures were not included in our diluted earnings per share computation, as the criteria for conversion of the debentures were not met.

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share from continuing operations for fiscal 2003, 2002 and 2001:

	2003	2002	2001
Numerator:			
Earnings from continuing operations	\$ 622	\$ 570	\$ 401

Denominator (in millions):				
Weighted average common shares outstanding	321.1	316.0	310.0	
Effect of dilutive securities:				
Employee stock options	3.7	6.5	9.0	
Weighted average common shares outstanding assuming dilution	324.8	322.5	319.0	
Basic earnings per share—continuing operations	\$ 1.93	\$ 1.80	\$ 1.29	
Diluted earnings per share—continuing operations	\$ 1.91	\$ 1.77	\$ 1.26	

Repurchase of Common Stock

In fiscal 2000, our Board of Directors authorized the purchase of up to \$400 of our common stock from time to time through open market purchases. This program has no stated expiration date. As of March 1, 2003, 2.9 million shares had been purchased and retired at a cost of \$100. No shares were purchased in fiscal 2003, 2002 or 2001.

\$ in millions, except per share amounts

6. Net Interest Income

Net interest income in fiscal 2003, 2002 and 2001 was comprised of the following:

	2003	2002	2001
Interest expense	\$ (30)	\$ (21)	\$ (7)
Loss on early retirement of debt	—	(8)	—
Capitalized interest	5	1	—
Interest income	23	27	44
Net interest (expense) income	(2)	(1)	37
Interest expense allocated to discontinued operations	(6)	(19)	(1)
Net interest income from continuing operations	\$ 4	\$ 18	\$ 38

We allocated interest expense to discontinued operations based upon debt that was attributable to the operations, including an \$8 loss on the early retirement of debt in fiscal 2002.

7. Operating Lease Commitments

We lease portions of our corporate facilities and conduct the majority of our retail and distribution operations from leased locations. The terms of the lease agreements generally range from one to 20 years. The leases require payment of real estate taxes, insurance and common area maintenance in addition to rent. Most of the leases contain renewal options and escalation clauses, and certain store leases require contingent rents based on specified percentages of revenue. In addition, certain store leases provide us an early cancellation option if revenue for a specified period were not to reach a specified level as defined in the lease. Other leases contain covenants related to maintenance of financial ratios. Also, we lease certain equipment under operating leases. Transaction costs associated with the sale and lease back of properties and any gain or loss are recognized over the terms of the lease agreements. Proceeds from the sale and lease back of properties are included in the net change in recoverable costs from developed properties.

The composition of rental expenses for all operating leases during the past three fiscal years, including leases of buildings and equipment, was as follows:

	2003	2002	2001
Minimum rentals	\$ 439	\$ 366	\$ 286
Percentage rentals	1	1	1
Total rent expense for continuing operations	\$ 440	\$ 367	\$ 287
Minimum rentals	\$ 144	\$ 152	\$ 13
Percentage rentals	1	1	—

Total rent expense for discontinued operations	\$	145	\$	153	\$	13
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Future minimum lease obligations, net of subleases rental income, by fiscal year (not including percentage rentals) for all operating leases at March 1, 2003, were as follows:

Fiscal Year	Continuing Operations	Discontinued Operations
2004	\$ 413	\$ 92
2005	395	89
2006	363	68
2007	347	54
2008	340	44
Thereafter	2,576	147

\$ in millions, except per share amounts

8. Benefit Plans

We sponsor retirement savings plans for employees meeting certain age and service requirements. The plans provide for Company-matching contributions, which are subject to annual approval by our Board of Directors. The total matching contributions were \$13, \$10 and \$7 in fiscal 2003, 2002 and 2001, respectively, for continuing operations.

We have a deferred compensation plan for certain management employees and our Board of Directors. The liability for compensation deferred under this plan was \$42 and \$33 at March 1, 2003, and March 2, 2002, respectively, and is included in long-term liabilities of continuing operations. We have elected to match our liability under the plan through the purchase of life insurance. The cash value of the insurance, which includes funding for future deferrals, was \$51 and \$36 in fiscal 2003 and 2002, respectively, and is included in other assets from continuing operations. Both the asset and the liability are carried at fair value.

9. Income Taxes

The following is a reconciliation of income tax expense to the federal statutory tax rate for continuing operations for the past three fiscal years:

	2003	2002	2001
Federal income tax at the statutory rate	\$ 355	\$ 324	\$ 227
State income taxes, net of federal benefit	35	34	27
Tax-exempt interest income	(10)	(3)	(9)
Other	12	1	3
Income tax expense	\$ 392	\$ 356	\$ 248
Effective tax rate	38.7%	38.4%	38.3%

Income tax expense for continuing operations was comprised of the following for the past three fiscal years:

	2003	2002	2001
Current:			
Federal	\$ 375	\$ 301	\$ 187
State	51	39	25
Foreign	3	1	—
	429	341	212
Deferred:			

Federal	(22)	8	32
State	(3)	1	4
Foreign	(12)	6	—
	(37)	15	36
Income tax expense	\$ 392	\$ 356	\$ 248

60

\$ in millions, except per share amounts

Deferred taxes are the result of differences between the bases of assets and liabilities for financial reporting and income tax purposes. Deferred tax assets and liabilities from continuing operations as of the dates indicated were comprised of the following:

	March 1, 2003	March 2, 2002
Accrued expenses	\$ 83	\$ 55
Deferred revenue	25	14
Compensation and benefits	47	40
Inventory	26	—
Goodwill	23	—
Other	45	26
Total deferred tax assets	249	135
Property and equipment	154	149
Convertible debt	18	5
Other	6	18
Total deferred tax liabilities	178	172
Net deferred tax assets (liabilities)	\$ 71	\$ (37)

In connection with the cumulative effect of the changes in accounting principles, the Company realized an income tax benefit of \$50. In addition, the final Future Shop purchase price allocation included a \$19 deferred tax adjustment. As of March 1, 2003, we had Canadian net operating loss carryforwards of \$21, which expire through 2010. No valuation allowances have been recorded since we expect to utilize the carryforwards fully.

61

\$ in millions, except per share amounts

10. Segments

We operate two reportable segments: Domestic and International. The Domestic segment includes U.S. Best Buy and Magnolia Hi-Fi stores. The International segment is comprised of Future Shop and Canadian Best Buy stores. As described in note 2, we have classified the results of operations of Musicland as discontinued operations. The Musicland business was previously included in our Domestic segment. The data included below were revised to exclude amounts related to Musicland.

The following tables present our business segment information for continuing operations for each of the past three fiscal years:

	2003	2002	2001
Revenue			
Domestic	\$ 19,303	\$ 17,115	\$ 15,189
International	1,643	596	—

Total revenue	\$	20,946	\$	17,711	\$	15,189
Operating Income						
Domestic	\$	1,002	\$	886	\$	611
International		8		22		—
Total operating income		1,010		908		611
Net interest income		4		18		38
Earnings from continuing operations before income tax expense	\$	1,014	\$	926	\$	649

		2003		2002		2001
Assets						
Domestic	\$	6,251	\$	5,672	\$	3,812
International		858		686		—
Total assets	\$	7,109	\$	6,358	\$	3,812
Capital Expenditures						
Domestic	\$	667	\$	563	\$	657
International		58		18		—
Total capital expenditures	\$	725	\$	581	\$	657
Depreciation and Amortization						
Domestic	\$	284	\$	237	\$	165
International		26		8		—
Total depreciation and amortization	\$	310	\$	245	\$	165

\$ in millions, except per share amounts

11. Commitments and Contingencies

At the end of fiscal 2003, we had commitments for the purchase and construction of facilities valued at approximately \$20.

We are involved in various legal proceedings arising during the normal course of conducting business. Management believes that the resolution of these proceedings, either individually or in the aggregate, will not have a significant adverse impact on our consolidated financial statements.

In November 2002, the FASB issued FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 provides guidance on the recognition and disclosure of certain types of guarantees, including product warranties. We assumed a liability for certain extended service contracts when we acquired Future Shop in the third quarter of fiscal 2002. Subsequent to the acquisition, extended service contracts were sold on behalf of an unrelated third party, without recourse. An accrued liability has been established for the acquired extended service contracts based on historical trends in product failure rates and the expected material and labor costs necessary to provide the services. The remaining term of these extended service contracts varies by product and extend up to four years. The estimated remaining liability for extended service contracts at March 1, 2003, is \$28.

The following table reconciles the changes in our liability for extended service contracts for the year ended March 1, 2003:

Balance at March 2, 2002	\$	17
Final purchase price allocation adjustment		37
Service charges		(28)
Foreign exchange		2
Balance at March 1, 2003	\$	28

Report of Best Buy Management

To Our Shareholders:

Our management is responsible for the preparation, integrity and objectivity of the accompanying consolidated financial statements and the related financial information. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include certain amounts that are based on estimates and informed judgments.

We maintain a system of internal accounting controls that is designed to provide reasonable assurance as to the reliability of our financial records and the protection of our shareholders' interests. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. We believe our system provides the appropriate balance.

The Audit Committee of our Board of Directors, comprised of independent directors, further augments our system of internal controls. The Audit Committee oversees our system of internal controls, accounting practices, financial reporting and audits, and assesses whether their quality, integrity and objectivity are sufficient to protect shareholders' investments.

In addition, our independent auditor, whose report thereon appears on page 65, has audited the consolidated financial statements. Its role is to form an independent opinion as to the fairness with which such statements present our financial position and results of operations.

We believe the information contained in the accompanying consolidated financial statements and related financial information beginning on page 42 fairly presents, in all material respects, the financial condition and results of operations of our Company.

/s/ Bradbury H. Anderson
Bradbury H. Anderson
*Vice Chairman
and CEO*

/s/ Darren R. Jackson
Darren R. Jackson
*Executive Vice President—Finance
and Chief Financial Officer*

Independent Auditor's Report

Shareholders and Board of Directors Best Buy Co., Inc.

We have audited the accompanying consolidated balance sheets of Best Buy Co., Inc. and subsidiaries as of March 1, 2003, and March 2, 2002, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 1, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Best Buy Co., Inc. and subsidiaries at March 1, 2003, and March 2, 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 1, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill to conform to Statement of Financial Accounting Standards No. 142 and its method of accounting for cash consideration received from a vendor to conform to Emerging Issues Task Force No. 02-16 effective March 3, 2002, respectively.

QuickLinks

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BEST BUY CO., INC.
SUBSIDIARIES OF THE REGISTRANT AS OF 03/01/2003*

	State or Province of Formation
BBC Insurance Agency, Inc.	Minnesota
BBC Investment Co.	Nevada
BBY Networks, Inc.	Minnesota
Best Buy Stores, L.P.	Delaware
Best Buy Purchasing LLC	Minnesota
Nichols Distribution, LLC	Minnesota
BestBuy.com, LLC	Delaware
Geek Squad, Inc.	Minnesota
BBC Property Co.	Minnesota
Best Buy Stores, L.P.	Delaware
Best Buy Purchasing LLC	Minnesota
Nichols Distribution, LLC	Minnesota
BestBuy.com, LLC	Delaware
Geek Squad, Inc.	Minnesota
Best Buy Concepts, Inc.	Nevada
BBCAN Finance Company One, ULC	Nova Scotia
BBCAN Financial Services, L.P.	Alberta
BBCAN Finance Company Two, ULC	Nova Scotia
BBCAN Financial Services, L.P.	Alberta
Future Shop Acquisition Inc.	Nova Scotia
656956 British Columbia Ltd.	British Columbia
661899 British Columbia Ltd.	British Columbia
Best Buy Canada Ltd.	Canadian Federal Corporation
BBCAN Intangibles, Limited Partnership	British Columbia
FutureGard Reinsurance Ltd.	Turks & Caicos Islands
Futureshop.com Ltd.	British Columbia
BBCAN Intangibles, Limited Partnership	British Columbia
Vycom Partners LLP	Washington
Future Shop (U.S.) L.P.	Washington
FutureShop, Inc.	Washington
Vycom Partners LLP	Washington
Future Shop (U.S.) L.P.	Washington
Future Shop (U.S.) L.P.	Washington
Best Buy Holdings BV	Netherlands
Best Buy (Bermuda) Limited	Bermuda
Magnolia Hi-Fi, Inc.	Washington
Musicland Stores Corporation	Delaware
The Musicland Group, Inc.	Delaware
Media Play, Inc.	Delaware
MG Financial Services, Inc.	Delaware
MLG Internet, Inc.	Delaware
Musicland Retail, Inc.	Delaware
Suncoast Motion Picture Company, Inc.	Delaware
Suncoast Group, Inc.	Delaware
Suncoast Retail, Inc.	Delaware
On Cue, Inc.	Delaware
Request Media, Inc.	Delaware

Suncoast Motion Picture Company, Inc.	Delaware
Suncoast Group, Inc.	Delaware
Suncoast Retail, Inc.	Delaware
TMG Caribbean, Inc.	Delaware
TMG–Virgin Islands, Inc.	Delaware
Redline Entertainment, Inc.	Minnesota
vpr Matrix, Inc.	Minnesota
vpr Matrix (Hong Kong) Limited	Hong Kong
vpr Matrix (Canada) Company	Nova Scotia
vpr Matrix BV	Netherlands
BBY Holdings International, Inc.	Minnesota
vpr Matrix (Hong Kong) Limited	Hong Kong
vpr Matrix (Canada) Company	Nova Scotia
vpr Matrix BV	Netherlands
CP Gal Ritchfield, LLC	Delaware
Best Buy Enterprise Services, Inc.	Minnesota
Best Buy Finance, Inc.	Minnesota

* Indirect subsidiaries are indicated by indentation.

Consent of Independent Auditors

We consent to the incorporation by reference in the Annual Report (Form 10-K) of Best Buy Co., Inc. of our report dated April 1, 2003, included in the 2003 Annual Report to Shareholders of Best Buy Co., Inc.

Our audit also included the financial statement schedule of Best Buy Co., Inc. listed in Item 15(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements on Form S-3 pertaining to the Convertible Debentures due June 27, 2021 (No. 333-70060) and the 2.25% Convertible Subordinated Debentures due January 15, 2022 (No. 333-83562), the Registration Statements on Form S-8 pertaining to the Deferred Compensation Plan (Nos. 333-49371 and 333-80967), the 1997 Directors' Non-Qualified Stock Option Plan (No. 333-39531), the 1997 Employee Non-Qualified Stock Option Plan (Nos. 333-39533 and 333-61897), the 1987 Employee Non-Qualified Stock Option Plan (No. 33-54875), the 1994 Full-Time Employee Non-Qualified Stock Option Plan (No. 33-54871), the 1987 Directors' Non-Qualified Stock Option Plan (No. 33-54873), the 2000 Restricted Stock Award Plan (No. 333-46228), and The Assumed Musicland 1988 Stock Option Plan, The Assumed Musicland 1992 Stock Option Plan, The Assumed Musicland 1994 Stock Option Plan, and The Assumed Musicland 1998 Stock Incentive Plan (collectively, No. 333-56146) of our report dated April 1, 2003, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Best Buy Co., Inc.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
May 28, 2003

CERTIFICATION PURSUANT TO
18

**U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes–Oxley Act of 2002), I, the undersigned Vice Chairman and Chief Executive Officer of Best Buy Co., Inc. (the “Company”), hereby certify that the Annual Report on Form 10–K of the Company for the fiscal year ended March 1, 2003 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 29, 2003

/s/ Bradbury H. Anderson
Bradbury H. Anderson
*Vice Chairman
and Chief Executive Officer*

CERTIFICATION PURSUANT TO
18

**U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes–Oxley Act of 2002), I, the undersigned Executive Vice President — Finance and Chief Financial Officer of Best Buy Co., Inc. (the “Company”), hereby certify that the Annual Report on Form 10–K of the Company for the fiscal year ended March 1, 2003 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 29, 2003

/s/ Darren R. Jackson
Darren R. Jackson
*Executive Vice President — Finance
and Chief Financial Officer*