BEST BUY CO INC
Form 10-Q
December 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 29, 2016

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

(612) 291-1000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
The registrant had 313,826,197 shares of common stock outstanding as of November 30, 2016.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets
($ in millions) (unaudited)

	October 29, 2016	January 30, 2016	October 31, 2015
Assets			
Current assets			
Cash and cash equivalents	$ 1,341	$ 1,976	$ 1,697
Short-term investments	1,777	1,305	1,650
Receivables, net	1,174	1,162	1,061
Merchandise inventories	6,331	5,051	6,651
Other current assets	398	392	409
Total current assets	11,021	9,886	11,468
Property and equipment, net	2,298	2,346	2,329
Goodwill	425	425	425
Intangibles, net	18	18	18
Other assets	780	813	897
Non-current assets held for sale	—	31	32
Total assets	$ 14,542	$ 13,519	$ 15,169
Liabilities and equity			
Current liabilities			
Accounts payable	$ 6,233	$ 4,450	$ 6,184
Unredeemed gift card liabilities	377	409	379
Deferred revenue	380	357	330
Accrued compensation and related expenses	308	384	306
Accrued liabilities	782	802	790
Accrued income taxes	43	128	23
Current portion of long-term debt	43	395	383
Total current liabilities	8,166	6,925	8,395
Long-term liabilities	791	877	874
Long-term debt	1,324	1,339	1,250
Equity			
Best Buy Co., Inc. shareholders' equity			
Preferred stock, $1.00 par value: Authorized — 400,000 shares; Issued and outstanding — none	—	—	—
Common stock, $0.10 par value: Authorized — 1.0 billion shares; Issued and outstanding — 313,000,000, 324,000,000 and 345,000,000 shares, respectively	31	32	34
Prepaid share repurchase	—	(55)	
Additional paid-in capital	—	—	185
Retained earnings	3,953	4,130	4,135
Accumulated other comprehensive income	277	271	296
Total equity	4,261	4,378	4,650
Total liabilities and equity	$ 14,542	$ 13,519	$ 15,169

NOTE: The Consolidated Balance Sheet as of January 30, 2016, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Earnings
($ and shares in millions, except per share amounts) (unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Revenue	$8,945	$ 8,819	$25,921	$ 25,905
Cost of goods sold	6,742	6,708	19,511	19,661
Restructuring charges – cost of goods sold	—	(1)	—	4
Gross profit	2,203	2,112	6,410	6,240
Selling, general and administrative expenses	1,890	1,874	5,407	5,451
Restructuring charges	1	8	30	185
Operating income	312	230	973	604
Other income (expense)				
Gain on sale of investments	—	—	2	2
Investment income and other	8	3	22	14
Interest expense	(16)	(20)	(54)	(60)
Earnings from continuing operations before income tax expense	304	213	943	560
Income tax expense	112	84	343	230
Net earnings from continuing operations	192	129	600	330
Gain (loss) from discontinued operations (Note 2), net of tax benefit (expense) of $-, $-, $(7) and $3, respectively	2	(4)	21	88
Net earnings	$194	$ 125	$621	$ 418
Basic earnings (loss) per share				
Continuing operations	$0.61	$ 0.37	$1.87	$ 0.95
Discontinued operations	—	(0.01)	0.07	0.25
Basic earnings per share	$0.61	$ 0.36	$1.94	$ 1.20
Diluted earnings (loss) per share				
Continuing operations	$0.60	$ 0.37	$1.85	$ 0.93
Discontinued operations	0.01	(0.01)	0.07	0.25
Diluted earnings per share	$0.61	$ 0.36	$1.92	$ 1.18
Dividends declared per common share	$0.28	$ 0.23	$1.29	$ 1.20
Weighted-average common shares outstanding				
Basic	316.2	344.7	320.2	348.9
Diluted	320.0	349.0	323.6	353.6

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Comprehensive Income
($ in millions) (unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net earnings	$ 194	$ 125	$ 621	$ 418
Foreign currency translation adjustments	(19)	(2)	6	(19)
Reclassification of foreign currency translation adjustments into earnings due to sale of business	—	—	—	(67)
Comprehensive income	$ 175	$ 123	$ 627	$ 332

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Change in Shareholders' Equity
($ and shares in millions) (unaudited)

	Best Buy Co., Inc.								
	Common Shares	Common Stock	Prepaid Share Repurchase	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Best Buy Co., Inc.	Non-controlling Interests	Total
Balances at January 30, 2016	324	$ 32	$ (55)	$ —	$4,130	$ 271	$4,378	$ —	$4,378
Net earnings, nine months ended October 29, 2016	—	—	—	—	621	—	621	—	621
Other comprehensive income, net of tax:									
Foreign currency translation adjustments	—	—	—	—	—	6	6	—	6
Stock-based compensation	—	—	—	82	—	—	82	—	82
Restricted stock vested and stock options exercised	5	1	—	59	—	—	60	—	60
Settlement of accelerated share repurchase	—	—	55	—	—	—	55	—	55
Issuance of common stock under employee stock purchase plan	—	—	—	7	—	—	7	—	7
Tax loss from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	—	(3)	—	—	(3)	—	(3)
Common stock dividends, $1.29 per share	—	—	—	—	(417)	—	(417)	—	(417)
Repurchase of common stock	(16)	(2)	—	(145)	(381)	—	(528)	—	(528)
Balances at October 29, 2016	313	$ 31	$ —	$ —	$3,953	$ 277	$4,261	$ —	$4,261
Balances at January 31, 2015	352	$ 35	$ —	$ 437	$4,141	$ 382	$4,995	$ 5	$5,000
Net earnings, nine months ended October 31, 2015	—	—	—	—	418	—	418	—	418
Other comprehensive (loss), net of tax:									
Foreign currency translation adjustments	—	—	—	—	—	(19)	(19)	—	(19)
Reclassification of foreign currency translation adjustments into earnings	—	—	—	—	—	(67)	(67)	—	(67)
Sale of noncontrolling interest	—	—	—	—	—	—	—	(5)	(5)
Stock-based compensation	—	—	—	80	—	—	80	—	80
Restricted stock vested and stock options exercised	4	—	—	36	—	—	36	—	36
Issuance of common stock under employee stock purchase plan	—	—	—	7	—	—	7	—	7
Tax benefit from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	—	9	—	—	9	—	9
	—	—	—	3	(424)	—	(421)	—	(421)

Common stock dividends, $1.20 per share									
Repurchase of common stock	(11)	(1)	—	(387)	—	—	(388)	—	(388)
Balances at October 31, 2015	345	$ 34	$ —	$ 185	$4,135	$ 296	$4,650	$ —	$4,650

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows
($ in millions) (unaudited)

	Nine Months Ended	
	October 29, 2016	October 31, 2015
Operating activities		
Net earnings	$621	$ 418
Adjustments to reconcile net earnings to total cash provided by operating activities:		
Depreciation	491	494
Restructuring charges	30	189
Gain on sale of business, net	—	(99)
Stock-based compensation	82	80
Deferred income taxes	28	(43)
Other, net	(34)	3
Changes in operating assets and liabilities:		
Receivables	80	229
Merchandise inventories	(1,370)	(1,494)
Other assets	(18)	20
Accounts payable	1,801	1,152
Other liabilities	(192)	(271)
Income taxes	(124)	(215)
Total cash provided by operating activities	1,395	463
Investing activities		
Additions to property and equipment	(445)	(493)
Purchases of investments	(2,149)	(2,012)
Sales of investments	1,685	1,816
Proceeds from sale of business, net of cash transferred upon sale	—	102
Proceeds from property disposition	56	—
Change in restricted assets	(8)	(45)
Settlement of net investment hedges	5	14
Total cash used in investing activities	(856)	(618)
Financing activities		
Repurchase of common stock	(472)	(385)
Repayments of debt	(384)	(18)
Dividends paid	(417)	(421)
Issuance of common stock	66	44
Other, net	20	19
Total cash used in financing activities	(1,187)	(761)
Effect of exchange rate changes on cash	13	(13)
Decrease in cash and cash equivalents	(635)	(929)
Cash and cash equivalents at beginning of period, excluding held for sale	1,976	2,432
Cash and cash equivalents held for sale at beginning of period	—	194
Cash and cash equivalents at end of period	$1,341	$ 1,697

See Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

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

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

Historically, we have generated a higher proportion of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico. Due to the seasonal nature of our business, interim results are not necessarily indicative of results for the entire fiscal year. The interim financial statements and the related notes in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016. The first nine months of fiscal 2017 and fiscal 2016 included 39 weeks.

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Mexico operations on a one-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our condensed consolidated financial statements. No such events were identified for this period.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from October 30, 2016, through the date the financial statements were issued, for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, as a new topic, Accounting Standards Codification ("ASC") Topic 606. The new guidance provides a comprehensive framework for the analysis of revenue transactions and will apply to all of our revenue streams. We plan to adopt this standard in the first quarter of our fiscal 2019, which aligns with the required adoption date; however, we have not concluded on our method of transition upon adoption. While we are still in the process of evaluating the effect of adoption on our financial statements, we do not currently expect a material impact on our results of operations, cash flows or financial position.

In February 2016, the FASB issued ASU 2016-02, Leases. The new guidance was issued to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure requirements. Based on the effective dates, the new guidance would first apply in the first quarter of our fiscal 2020. While we expect adoption to lead to a material increase in the assets and liabilities recorded on our balance sheet, we are still evaluating the overall impact on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The new guidance changes certain aspects of accounting for share-based payments including accounting for income taxes, forfeitures and classifications in the statement of cash flows. We plan to adopt this standard in the first quarter of fiscal 2018, which aligns with the required adoption date. We are still in the process of evaluating the standard and the effect of adoption on our financial statements.

Changes in Accounting Principles

In the fourth quarter of fiscal 2016, we retrospectively adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs; ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements; and ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The adoption did not have a material impact on our results of operations, cash flows or financial position.

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The following table reconciles the balance sheet line items impacted by the adoption of these standards at October 31, 2015:

Balance Sheet	October 31, 2015 Reported	ASU 2015-03 & 2015-15 Adjustments	ASU 2015-17 Adjustments	October 31, 2015 Adjusted
Other current assets	$ 676	$ (2)	$ (265)	$ 409
Other assets	636	(4)	265	897
Total assets	$ 15,175	$ (6)	$ —	$ 15,169
Long-term debt	$ 1,256	$ (6)	$ —	$ 1,250
Total liabilities & equity	$ 15,175	$ (6)	$ —	$ 15,169

2. Discontinued Operations

Discontinued operations are primarily comprised of Jiangsu Five Star Appliance Co., Limited ("Five Star") within our International segment. In February 2015, we completed the sale of Five Star and recognized a gain on sale of $99 million. Following the sale of Five Star, we continued to hold as available for sale one retail property in Shanghai, China. In May 2016, we completed the sale of the property and recognized a gain, net of income tax, of $16 million. The gain on sale of the property is included in Other, net within operating activities in the Condensed Consolidated Statements of Cash Flows. The presentation of discontinued operations has been retrospectively applied to all prior periods presented.

The aggregate financial results of discontinued operations were as follows ($ in millions):

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Revenue	$ —	$ —	$—	$ 217
Gain (loss) from discontinued operations before income tax benefit (expense)	2	(4)	28	(14)
Income tax benefit (expense)	—	—	(7)	3
Gain on sale of discontinued operations	—	—	—	99
Net gain (loss) from discontinued operations	$ 2	$ (4)	$21	$ 88

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, we use a three-tier valuation hierarchy based upon observable and non-observable inputs:

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

Level 2 — Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;

- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on

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the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at October 29, 2016, January 30, 2016, and October 31, 2015, according to the valuation techniques we used to determine their fair values ($ in millions).

	Fair Value Hierarchy	Fair Value at October 29, 2016	January 30, 2016	October 31, 2015
ASSETS				
Cash and cash equivalents				
Money market funds	Level 1	$97	$ 51	$ 2
Commercial paper	Level 2	—	265	108
Time deposits	Level 2	11	306	222
Short-term investments				
Corporate bonds	Level 2	—	193	333
Commercial paper	Level 2	250	122	288
Time deposits	Level 2	1,527	990	1,029
Other current assets				
Money market funds	Level 1	3	—	—
Commercial paper	Level 2	60	—	—
Foreign currency derivative instruments	Level 2	5	18	14
Time deposits	Level 2	100	79	79
Other assets				
Interest rate swap derivative instruments	Level 2	13	25	10
Auction rate securities	Level 3	—	2	2
Marketable securities that fund deferred compensation	Level 1	96	96	96
LIABILITIES				
Accrued Liabilities				
Foreign currency derivative instruments	Level 2	3	1	—

During the third quarter of fiscal 2017, our remaining investments in auction rate securities ("ARS") were called at par, which resulted in proceeds of $2 million and no realized gain or loss. As of October 29, 2016, we had no items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3). For the periods ended January 30, 2016, and October 31, 2015, there were no changes in the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3).

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

Money market funds. Our money market fund investments were measured at fair value as they trade in an active market using quoted market prices and, therefore, were classified as Level 1.

Commercial paper. Our investments in commercial paper were measured using inputs based upon quoted prices for similar instruments in active markets and, therefore, were classified as Level 2.

Time deposits. Our time deposits are balances held with banking institutions that cannot be withdrawn for specified terms without a penalty. Time deposits are held at face value plus accrued interest, which approximates fair value, and are classified as Level 2.

Corporate bonds. Our corporate bond investments were measured at fair value using quoted market prices. They were classified as Level 2 as they trade in a non-active market for which bond prices are readily available.

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

Interest rate swap derivative instruments. Our interest rate swap contracts were measured at fair value using readily observable inputs, such as the LIBOR interest rate. Our interest rate swap derivative instruments were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

Auction rate securities. Our investments in ARS were classified as Level 3 as quoted prices were unavailable. Due to limited market information, we utilized a discounted cash flow ("DCF") model to derive an estimate of fair value. The assumptions we used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place and the rate of return required by investors to own such securities given the current liquidity risk associated with ARS.

Marketable securities that fund deferred compensation. The assets that fund our deferred compensation consist of investments in mutual funds. These investments were classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on our Condensed Consolidated Balance Sheets. For these assets, we do not periodically adjust carrying value to fair value, except in the event of impairment. When we determine that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded within operating income in our Condensed Consolidated Statements of Earnings.

The following table summarizes the fair value remeasurements for non-restructuring property and equipment impairments and restructuring impairments recorded during the three and nine months ended October 29, 2016, and October 31, 2015 ($ in millions):

	Impairments				Remaining Net Carrying Value[(1)]	
	Three Months Ended		Nine Months Ended			
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Property and equipment (non-restructuring)	$ 8	$ 9	$ 16	$ 34	$ —	$ 10
Restructuring activities[(2)]						
Tradename	—	—	—	40	—	—
Property and equipment	1	—	8	30	—	—
Total	$ 9	$ 9	$ 24	$ 104	$ —	$ 10

(1) Remaining net carrying value approximates fair value. Because assets subject to long-lived asset impairment are not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at October 29, 2016, and

October 31, 2015.

(2) See Note 5, Restructuring Charges, for additional information.

All of the fair value remeasurements included in the table above were based on significant unobservable inputs (Level 3). Fixed asset fair values were derived using a DCF model to estimate the present value of net cash flows that the asset or asset group was expected to generate. The key inputs to the DCF model generally included our forecasts of net cash generated from revenue, expenses and other significant cash outflows, such as capital expenditures, as well as an appropriate discount rate. In the case of assets for which the impairment was the result of restructuring activities, no future cash flows have been assumed as the assets will cease to be used and expected sale values are nominal.

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Fair Value of Financial Instruments

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, other investments, accounts payable, other payables and long-term debt. The fair values of cash, receivables, accounts payable and other payables approximated carrying values because of the short-term nature of these instruments. If these instruments were measured at fair value in the financial statements, they would be classified as Level 1 in the fair value hierarchy. Fair values for other investments held at cost are not readily available, but we estimate that the carrying values for these investments approximate fair value. See Note 6, Debt, for information about the fair value of our long-term debt.

4. Goodwill and Intangible Assets

The carrying values of goodwill and indefinite-lived tradenames for the Domestic segment were $425 million and $18 million, respectively, at October 29, 2016, and $425 million and $18 million, respectively, at January 30, 2016. The changes in the carrying values of goodwill and indefinite-lived tradenames by segment were as follows in the nine months ended October 31, 2015 ($ in millions):

	Goodwill	Indefinite-lived Tradenames		
	Domestic	Domestic	International	Total
Balances at January 31, 2015	$ 425	$ 18	$ 39	$ 57
Changes in foreign currency exchange rates	—	—	1	1
Canada brand restructuring[1]	—	—	(40)	(40)
Balances at October 31, 2015	$ 425	$ 18	$ —	$ 18

(1) Represents the Future Shop tradename impairment as a result of the Canadian brand consolidation in the first quarter of fiscal 2016. See Note 5, Restructuring Charges, for further discussion of the Canadian brand consolidation.

The following table provides the gross carrying amount of goodwill and cumulative goodwill impairment ($ in millions):

	October 29, 2016		January 30, 2016		October 31, 2015	
	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Goodwill	$1,100	$ (675)	$1,100	$ (675)	$1,100	$ (675)

5. Restructuring Charges

Charges incurred in the three and nine months ended October 29, 2016, and October 31, 2015, for our restructuring activities were as follows ($ in millions):

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Renew Blue Phase 2	$ 1	$ —	$26	$ —
Canadian brand consolidation	(2)	5	(1)	189
Renew Blue[1]	1	—	4	(2)
Other restructuring activities[2]	1	2	1	2
Total restructuring charges	$ 1	$ 7	$30	$ 189

(1) Represents activity related to our remaining vacant space liability, primarily in our International segment, for our Renew Blue restructuring program, which began in the fourth quarter of fiscal 2013. We may continue to incur

immaterial adjustments to the liability for changes in sublease assumptions or potential lease buyouts. In addition, lease payments for vacated stores will continue until leases expire or are terminated. The remaining vacant space liability was $10 million at October 29, 2016.

(2) Represents activity related to our remaining vacant space liability for U.S. large-format store closures in fiscal 2013. We may continue to incur immaterial adjustments to the liability for changes in sublease assumptions or potential lease buyouts. In addition, lease payments for vacated stores will continue until leases expire or are terminated. The remaining vacant space liability was $12 million at October 29, 2016.

Renew Blue Phase 2

In the first quarter of fiscal 2017, we took several strategic actions to eliminate and simplify certain components of our operations and restructure certain field and corporate teams as part of our Renew Blue Phase 2 plan. We recorded an expense of $1 million and $26 million related to Phase 2 of the plan during the three and nine months ended October 29, 2016,

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respectively. The expense consisted primarily of employee termination benefits and property and equipment impairments. All restructuring charges related to this plan are from continuing operations and are presented in restructuring charges in our Condensed Consolidated Statements of Earnings.

The composition of the restructuring charges we incurred during the three and nine months ended October 29, 2016, for Renew Blue Phase 2 was as follows ($ in millions):

	Domestic October 29, 2016	
	Three Months Ended	Nine Months Ended
Property and equipment impairments	$ 1	$ 8
Termination benefits	—	18
Total Renew Blue Phase 2 restructuring charges	$ 1	$ 26

The following table summarizes our restructuring accrual activity during the nine months ended October 29, 2016, related to termination benefits as a result of Renew Blue Phase 2 ($ in millions):

	Termination Benefits
Balances at January 30, 2016	$ —
Charges	19
Cash payments	(16)
Adjustments[(1)]	(2)
Balances at October 29, 2016	$ 1

(1) Adjustments to termination benefits primarily represent changes in retention assumptions.

Canadian Brand Consolidation

In the first quarter of fiscal 2016, we consolidated the Future Shop and Best Buy stores and websites in Canada under the Best Buy brand. This resulted in the permanent closure of 66 Future Shop stores and the conversion of the remaining 65 Future Shop stores to the Best Buy brand. In the three and nine months ended October 29, 2016, we recognized benefits of $2 million and $1 million related to our Canadian brand consolidation, respectively, which was due to changes in our facility closure and other costs assumptions. In the third quarter of fiscal 2016, we incurred $5 million of restructuring charges related to lease exit costs and employee termination benefits. In the first nine months of 2016 we incurred $189 million of restructuring charges, which primarily consisted of lease exit costs, a tradename impairment, property and equipment impairments, employee termination benefits and inventory write-downs.

The inventory write-downs related to our Canadian brand consolidation are presented in restructuring charges – cost of goods sold in our Condensed Consolidated Statements of Earnings, and the remainder of the restructuring charges are presented in restructuring charges in our Condensed Consolidated Statements of Earnings.

The composition of total restructuring charges we incurred for the Canadian brand consolidation in the three and nine months ended October 29, 2016, and October 31, 2015, as well as the cumulative amount incurred through October 29, 2016, was as follows ($ in millions):

International	
Three Months Ended	Nine Months Ended

	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015	Cumulative Amount
Inventory write-downs	$—	$ (1)	$—	$ 4	$ 3
Property and equipment impairments	—	—	—	30	30
Tradename impairment	—	—	—	40	40
Termination benefits	—	2	—	26	25
Facility closure and other costs	(2)	4	(1)	89	101
Total Canadian brand consolidation restructuring charges	$(2)	$ 5	$(1)	$ 189	$ 199

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The following tables summarize our restructuring accrual activity during the nine months ended October 29, 2016, and October 31, 2015, related to termination benefits and facility closure and other costs associated with the Canadian brand consolidation ($ in millions):

	Termination Benefits	Facility Closure and Other Costs	Total
Balances at January 30, 2016	$ 2	$ 64	$ 66
Charges	—	1	1
Cash payments	(2)	(29)	(31)
Adjustments(1)	—	(2)	(2)
Changes in foreign currency exchange rates	—	3	3
Balances at October 29, 2016	$ —	$ 37	$ 37

	Termination Benefits	Facility Closure and Other Costs	Total
Balances at January 31, 2015	$ —	$ —	$ —
Charges	28	113	141
Cash payments	(22)	(28)	(50)
Adjustments(1)	(2)	(9)	(11)
Changes in foreign currency exchange rates	—	(3)	(3)
Balances at October 31, 2015	$ 4	$ 73	$ 77

(1) Adjustments to facility closure and other costs represent changes in sublease assumptions. Adjustments to termination benefits represent changes in retention assumptions.

6. Debt

Short-Term Debt

U.S. Revolving Credit Facility

On June 27, 2016, we entered into a $1.25 billion five-year senior unsecured revolving credit facility agreement (the "Five-Year Facility Agreement") with a syndicate of banks. The Five-Year Facility Agreement replaced the previous $1.25 billion senior unsecured revolving credit facility (the "Previous Facility") with a syndicate of banks, which was originally scheduled to expire in June 2019, but was terminated on June 27, 2016. The Five-Year Facility Agreement permits borrowings up to $1.25 billion and expires in June 2021. At October 29, 2016, there were no borrowings outstanding and $1.25 billion was available under the Five-Year Facility Agreement. In addition, there were no borrowings outstanding under the Previous Facility as of January 30, 2016, and October 31, 2015.

The interest rate under the Five-Year Facility Agreement is variable and is determined at our option as: (i) the sum of (a) the greatest of (1) JPMorgan Chase Bank, N.A.'s prime rate, (2) the greater of the federal funds rate and the overnight bank funding rate plus, in each case, 0.5% and (3) the one-month London Interbank Offered Rate (“LIBOR”), subject to certain adjustments plus 1% and (b) a variable margin rate (the “ABR Margin”); or (ii) the LIBOR plus a variable margin rate (the “LIBOR Margin”). In addition, a facility fee is assessed on the commitment amount. The ABR Margin, LIBOR Margin and the facility fee are based upon our current senior unsecured debt rating. Under the Five-Year Facility Agreement, the ABR Margin ranges from 0.00% to 0.50%, the LIBOR Margin ranges from 0.90% to 1.50%, and the facility fee ranges from 0.100% to 0.250%.

The Five-Year Facility Agreement is guaranteed by certain of our subsidiaries and contains customary affirmative and negative covenants materially consistent with the Previous Facility. Among other things, these covenants restrict our and certain of our subsidiaries' ability to incur certain types or amounts of indebtedness, incur liens on certain assets, make material changes in corporate structure or the nature of our business, dispose of material assets, engage in a change in control transaction, make certain foreign investments, enter into certain restrictive agreements or engage in certain transactions with affiliates. The Five-Year Facility Agreement also contains covenants that require us to maintain a maximum quarterly cash flow leverage ratio and a minimum quarterly interest coverage ratio (both ratios measured quarterly for the previous 12 months). The Five-Year Facility Agreement contains default provisions including, but not limited to, failure to pay interest or principal when due and failure to comply with covenants.

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Long-Term Debt

Long-term debt consisted of the following ($ in millions):

	October 29, 2016	January 30, 2016	October 31, 2015
2016 Notes	$ —	$ 350	$ 350
2018 Notes	500	500	500
2021 Notes	650	650	649
Interest rate swap valuation adjustments	13	25	10
Subtotal	1,163	1,525	1,509
Debt discounts and issuance costs	(5)	(7)	(6)
Financing lease obligations	180	178	88
Capital lease obligations	29	38	42
Total long-term debt	1,367	1,734	1,633
Less: current portion[1]	(43)	(395)	(383)
Total long-term debt, less current portion	$ 1,324	$ 1,339	$ 1,250

(1) Our 2016 Notes, due March 15, 2016, were classified in our current portion of long-term debt as of January 30, 2016 and October 31, 2015, respectively. In March 2016, we repaid the 2016 Notes using existing cash resources.

The fair value of total long-term debt, excluding debt discounts and issuance costs and financing and capital lease obligations, approximated $1,260 million, $1,543 million and $1,587 million at October 29, 2016, January 30, 2016, and October 31, 2015, respectively, based primarily on the market prices quoted from external sources, compared with carrying values of $1,163 million, $1,525 million and $1,509 million, respectively. If long-term debt was measured at fair value in the financial statements, it would be classified primarily as Level 2 in the fair value hierarchy.

See Note 5, Debt, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016, for additional information regarding the terms of our debt facilities, debt instruments and other obligations.

7. Derivative Instruments

We manage our economic and transaction exposure to certain risks through the use of foreign currency and interest rate swap derivative instruments. Our objective in holding derivatives is to reduce the volatility of net earnings, cash flows and net asset value associated with changes in foreign currency exchange rates and interest rates. We do not hold derivative instruments for trading or speculative purposes. We have no derivatives that have credit risk-related contingent features, and we mitigate our credit risk by engaging with major financial institutions as our counterparties.

We record all derivative instruments on our Condensed Consolidated Balance Sheets at fair value and evaluate hedge effectiveness prospectively and retrospectively when electing to apply hedge accounting. We formally document all hedging relations at inception for derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transaction. In addition, we have derivatives which are not designated as hedging instruments.

Net Investment Hedges

We use foreign exchange forward contracts to hedge against the effect of Canadian dollar exchange rate fluctuations on a portion of our net investment in our Canadian operations. The contracts have terms up to 12 months. For a net investment hedge, we recognize changes in the fair value of the derivative as a component of foreign currency translation within other comprehensive income to offset a portion of the change in translated value of the net investment being hedged, until the investment is sold or liquidated. We limit recognition in net earnings of amounts previously recorded in other comprehensive income to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. We report the ineffective portion of the gain or loss, if any, in net earnings.

Interest Rate Swaps

We use "receive fixed-rate, pay variable-rate" interest rate swaps to mitigate the effect of interest rate fluctuations on a portion of our 2018 Notes and 2021 Notes. Our interest rate swap contracts are considered perfect hedges because the critical terms and

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notional amounts match those of our fixed-rate debt being hedged and are, therefore, accounted as fair value hedges using the shortcut method. Under the shortcut method, we recognize the change in the fair value of the derivatives with an offsetting change to the carrying value of the debt. Accordingly, there is no impact on our Condensed Consolidated Statements of Earnings from the fair value of the derivatives.

Derivatives Not Designated as Hedging Instruments

We use foreign currency forward contracts to manage the impact of fluctuations in foreign currency exchange rates relative to recognized receivable and payable balances denominated in non-functional currencies and on certain forecast inventory purchases denominated in non-functional currencies. The contracts generally have terms of up to 12 months. These derivative instruments are not designated as hedging relationships, and, therefore, we record gains and losses on these contracts directly to net earnings.

Summary of Derivative Balances

The following table presents the gross fair values for outstanding derivative instruments and the corresponding classification at October 29, 2016, January 30, 2016, and October 31, 2015 ($ in millions):

	October 29, 2016		January 30, 2016		October 31, 2015	
Contract Type	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives designated as net investment hedges[1]	$ 4	$ 3	$ 15	$ 1	$ 12	$ —
Derivatives designated as interest rate swaps[2]	13	—	25	—	10	—
No hedge designation (foreign exchange forward contracts)[1]	1	—	3	—	2	—
Total	$ 18	$ 3	$ 43	$ 1	$ 24	$ —

(1) The fair value is recorded in other current assets or accrued liabilities.
(2) The fair value is recorded in other assets or long-term liabilities.

The following table presents the effects of derivative instruments on other comprehensive income ("OCI") and on our Condensed Consolidated Statements of Earnings for the three and nine months ended October 29, 2016, and October 31, 2015 ($ in millions):

	Three Months Ended				Nine Months Ended			
	October 29, 2016		October 31, 2015		October 29, 2016		October 31, 2015	
Contract Type	Pre-tax Gain(Loss) Recognized in OCI	Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion)	Pre-tax Gain(Loss) Recognized in OCI	Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion)	Pre-tax Gain(Loss) Recognized in OCI	Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion)	Pre-tax Gain(Loss) Recognized in OCI	Gain(Loss) Reclassified from Accumulated OCI to Earnings (Effective Portion)
Derivatives designated as net investment hedges	$ 6	$ —	$ —	$ —	$ (10)	$ —	$ 6	$ —

The following tables present the effects of derivative instruments on our Condensed Consolidated Statements of Earnings for the three and nine months ended October 29, 2016, and October 31, 2015 ($ in millions):

	Gain (Loss) Recognized within SG&A	
	Three Months Ended	Nine Months Ended

Contract Type	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
No hedge designation (foreign exchange forward contracts)	$ 1	$ 1	$ (2)	$ (3)

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Contract Type	Gain (Loss) Recognized within Interest Expense			
	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Interest rate swap gain	$(14)	$ (3)	$(12)	$ 9
Adjustments to carrying value of long-term debt	14	3	12	(9)
Net impact on Condensed Consolidated Statements of Earnings	$—	$ —	$—	$ —

The following table presents the notional amounts of our derivative instruments at October 29, 2016, January 30, 2016, and October 31, 2015 ($ in millions):

Contract Type	Notional Amount		
	October 29, 2016	January 30, 2016	October 31, 2015
Derivatives designated as net investment hedges	$203	$ 208	$ 222
Derivatives designated as interest rate swaps	750	750	750
No hedge designation (foreign exchange forward contracts)	59	94	195
Total	$1,012	$ 1,052	$ 1,167

8. Earnings per Share

We compute our basic earnings per share based on the weighted-average number of common shares outstanding and our diluted earnings per share based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had potentially dilutive common shares been issued. Potentially dilutive securities include stock options, nonvested share awards and shares issuable under our employee stock purchase plan. Nonvested market-based share awards and nonvested performance-based share awards are included in the average diluted shares outstanding for each period if established market or performance criteria have been met at the end of the respective periods.

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share from continuing operations for the three and nine months ended October 29, 2016, and October 31, 2015 ($ and shares in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Numerator				
Net earnings from continuing operations	$ 192			