BEST BUY CO INC
Form 10-Q
September 02, 2016
Table of Contents

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 July 30, 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 317,274,411 shares of common stock outstanding as of August 30, 2016.

Table of Contents

BEST BUY CO., INC.
FORM 10-Q FOR THE QUARTER ENDED JULY 30, 2016
TABLE OF CONTENTS

Part I — Financial Information			3
Item 1.		Financial Statements	3
	a)	Condensed Consolidated Balance Sheets as of July 30, 2016, January 30, 2016, and August 1, 2015	3
	b)	Condensed Consolidated Statements of Earnings for the three and six months ended July 30, 2016, and August 1, 2015	4
	c)	Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 30, 2016, and August 1, 2015	5
	d)	Condensed Consolidated Statements of Change in Shareholders' Equity for the three and six months ended July 30, 2016, and August 1, 2015	6
	e)	Condensed Consolidated Statements of Cash Flows for the six months ended July 30, 2016, and August 1, 2015	7
	f)	Notes to Condensed Consolidated Financial Statements	8
Item 2.		Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.		Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.		Controls and Procedures	38
Part II — Other Information			39
Item 1.		Legal Proceedings	39
Item 2.		Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 6.		Exhibits	40
Signatures			41

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 30, 2016	January 30, 2016	August 1, 2015
Assets			
Current assets			
Cash and cash equivalents	$ 1,861	$ 1,976	$ 1,800
Short-term investments	1,590	1,305	1,695
Receivables, net	926	1,162	1,025
Merchandise inventories	4,908	5,051	4,995
Other current assets	409	392	465
Total current assets	9,694	9,886	9,980
Property and equipment, net	2,295	2,346	2,235
Goodwill	425	425	425
Intangibles, net	18	18	18
Other assets	822	813	868
Non-current assets held for sale	—	31	33
Total assets	$ 13,254	$ 13,519	$ 13,559
Liabilities and equity			
Current liabilities			
Accounts payable	$ 4,800	$ 4,450	$ 4,680
Unredeemed gift card liabilities	369	409	371
Deferred revenue	380	357	316
Accrued compensation and related expenses	272	384	285
Accrued liabilities	840	802	778
Accrued income taxes	96	128	26
Current portion of long-term debt	43	395	382
Total current liabilities	6,800	6,925	6,838
Long-term liabilities	794	877	879
Long-term debt	1,341	1,339	1,220
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 — 317,000,000, 324,000,000 and 344,000,000 shares, respectively	32	32	34
Prepaid share repurchase	—	(55)	—
Additional paid-in capital	—	—	198
Retained earnings	3,991	4,130	4,092
Accumulated other comprehensive income	296	271	298
Total equity	4,319	4,378	4,622
Total liabilities and equity	$ 13,254	$ 13,519	$ 13,559

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.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenue	$8,533	$8,528	$16,976	$17,086
Cost of goods sold	6,471	6,433	12,769	12,953
Restructuring charges – cost of goods sold	—	(3)	—	5
Gross profit	2,062	2,098	4,207	4,128
Selling, general and administrative expenses	1,773	1,811	3,517	3,577
Restructuring charges	—	(1)	29	177
Operating income	289	288	661	374
Other income (expense)				
Gain on sale of investments	—	—	2	2
Investment income and other	8	4	14	11
Interest expense	(18)	(20)	(38)	(40)
Earnings from continuing operations before income tax expense	279	272	639	347
Income tax expense	97	108	231	146
Net earnings from continuing operations	182	164	408	201
Gain from discontinued operations (Note 2), net of tax benefit (expense) of $(10), $-, $(7) and $3, respectively	16	—	19	92
Net earnings	$198	$164	$427	$293
Basic earnings per share				
Continuing operations	$0.57	$0.47	$1.27	$0.57
Discontinued operations	0.05	—	0.06	0.26
Basic earnings per share	$0.62	$0.47	$1.33	$0.83
Diluted earnings per share				
Continuing operations	$0.56	$0.46	$1.26	$0.57
Discontinued operations	0.05	—	0.05	0.25
Diluted earnings per share	$0.61	$0.46	$1.31	$0.82
Dividends declared per common share	$0.28	$0.23	$1.01	$0.97
Weighted-average common shares outstanding				
Basic	320.8	349.6	322.2	351.0
Diluted	322.9	353.9	324.8	355.8

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net earnings	$198	$ 164	$427	$ 293
Foreign currency translation adjustments	(20)	(32)	25	(17)
Reclassification of foreign currency translation adjustments into earnings due to sale of business	—	—	—	(67)
Comprehensive income	$178	$ 132	$452	$ 209

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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, six months ended July 30, 2016	—	—	—	—	427	—	427	—	427
Other comprehensive income, net of tax:									
Foreign currency translation adjustments	—	—	—		—	25	25	—	25
Stock-based compensation	—	—	—	57	—	—	57	—	57
Restricted stock vested and stock options exercised	3	—	—	20	—	—	20	—	20
Settlement of accelerated share repurchase	—	—	55	—	—	—	55	—	55
Issuance of common stock under employee stock purchase plan	—	—	—	3	—	—	3	—	3
Tax benefit from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	—	4	—	—	4	—	4
Common stock dividends, $1.01 per share	—	—	—	—	(328)	—	(328)	—	(328)
Repurchase of common stock	(10)	—	—	(84)	(238)	—	(322)	—	(322)
Balances at July 30, 2016	317	$ 32	$ —	$ —	$ 3,991	$ 296	$ 4,319	$ —	$ 4,319
Balances at January 31, 2015	352	$ 35	$ —	$ 437	$ 4,141	$ 382	$ 4,995	$ 5	$ 5,000
Net earnings, six months ended August 1, 2015	—	—	—	—	293	—	293	—	293
Other comprehensive (loss), net of tax:									
Foreign currency translation adjustments	—	—	—	—	—	(17)	(17)	—	(17)
Reclassification of foreign currency translation adjustments into earnings	—	—	—	—	—	(67)	(67)	—	(67)
Sale of noncontrolling interest	—	—	—	—	—	—	—	(5)	(5)
Stock-based compensation	—	—	—	55	—	—	55	—	55
Restricted stock vested and stock options exercised	1	—	—	24	—	—	24	—	24
Issuance of common stock under employee stock purchase plan	—	—	—	4	—	—	4	—	4
Tax benefit from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	—	1	—	—	1	—	1
	—	—	—	—	(342)	—	(342)	—	(342)

Common stock dividends, $0.97 per share									
Repurchase of common stock	(9)	(1)	—	(323)	—	—	(324)	—	(324)
Balances at August 1, 2015	344	$ 34	$ —	$ 198	$4,092	$ 298	$4,622	$ —	$4,622

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended	
	July 30, 2016	August 1, 2015
Operating activities		
Net earnings	$427	$ 293
Adjustments to reconcile net earnings to total cash provided by (used in) operating activities:		
Depreciation	327	326
Restructuring charges	29	182
Gain on sale of business, net	—	(99)
Stock-based compensation	57	55
Deferred income taxes	—	(41)
Other, net	(38)	10
Changes in operating assets and liabilities:		
Receivables	240	268
Merchandise inventories	160	168
Other assets	(29)	(9)
Accounts payable	355	(335)
Other liabilities	(159)	(284)
Income taxes	(81)	(226)
Total cash provided by operating activities	1,288	308
Investing activities		
Additions to property and equipment	(276)	(293)
Purchases of investments	(1,388)	(1,303)
Sales of investments	1,112	1,064
Proceeds from sale of business, net of cash transferred upon sale	—	92
Proceeds from property disposition	56	—
Change in restricted assets	(4)	(46)
Settlement of net investment hedges	5	8
Total cash used in investing activities	(495)	(478)
Financing activities		
Repurchase of common stock	(271)	(321)
Repayments of debt	(374)	(13)
Dividends paid	(328)	(341)
Issuance of common stock	23	28
Other, net	17	7
Total cash used in financing activities	(933)	(640)
Effect of exchange rate changes on cash	25	(16)
Decrease in cash and cash equivalents	(115)	(826)
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	$1,861	$ 1,800

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 six months of fiscal 2017 and fiscal 2016 included 26 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 consolidated financial statements. No such events were identified for this period.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from July 31, 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. Based on the current effective dates, the new guidance would first apply in the first quarter of our fiscal 2019. 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 be included on the balance sheet and by expanding disclosure requirements. Based on the current effective dates, the new guidance would first apply in the first quarter of our fiscal 2020. We are still in the process of evaluating the effect of adoption 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 was issued to simplify the accounting for share-based payment transactions and includes several changes, including the requirement to recognize the income tax effects of awards that vest or settle as income tax expense and clarification of the presentation of certain components of share-based awards in the statement of cash flows. The new guidance will first apply in the first quarter of our fiscal 2018. We are still in the process of evaluating 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.

Table of Contents

The following table reconciles the balance sheet line items impacted by the adoption of these standards at August 1, 2015:

Balance Sheet	August 1, 2015 Reported	ASU 2015-03 & 2015-15 Adjustments	ASU 2015-17 Adjustments	August 1, 2015 Adjusted
Other current assets	$ 730	$ (2)	$ (263)	$ 465
Other assets	610	(5)	263	868
Total assets	$ 13,566	$ (7)	$ —	$ 13,559
Long-term debt	$ 1,227	$ (7)	$ —	$ 1,220
Total liabilities & equity	$ 13,566	$ (7)	$ —	$ 13,559

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 on sale of the property, net of income tax, of $16 million. The gain on sale of the property is included in Other, net 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		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenue	$—	$ 5	$—	$ 217
Gain (loss) from discontinued operations before income tax benefit (expense)	26	—	26	(10)
Income tax benefit (expense)	(10)	—	(7)	3
Gain on sale of discontinued operations	—	—	—	99
Net gain from discontinued operations	$16	$ —	$19	$ 92

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.

Table of Contents

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 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 July 30, 2016, January 30, 2016, and August 1, 2015, according to the valuation techniques we used to determine their fair values ($ in millions).

	Fair Value Hierarchy	Fair Value at July 30, 2016	January 30, 2016	August 1, 2015
ASSETS				
Cash and cash equivalents				
Money market funds	Level 1	$87	$ 51	$ 21
Commercial paper	Level 2	—	265	65
Time deposits	Level 2	169	306	62
Short-term investments				
Corporate bonds	Level 2	6	193	402
Commercial paper	Level 2	170	122	240
Time deposits	Level 2	1,414	990	1,053
Other current assets				
Commercial paper	Level 2	60	—	—
Foreign currency derivative instruments	Level 2	1	18	21
Time deposits	Level 2	79	79	90
Other assets				
Interest rate swap derivative instruments	Level 2	27	25	13
Auction rate securities	Level 3	2	2	2
Marketable securities that fund deferred compensation	Level 1	95	96	98
LIABILITIES				
Accrued Liabilities				
Foreign currency derivative instruments	Level 2	5	1	—

There were no transfers between levels during the periods presented. In addition, there was no change in the beginning and ending balances of items measured at fair value on a recurring basis in the tables above that used significant unobservable inputs (Level 3) for the periods presented.

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.

Table of Contents

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.

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 auction rate securities ("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 six months ended July 30, 2016, and August 1, 2015 ($ in millions):

	Impairments				Remaining Net Carrying Value[1]	
	Three Months Ended		Six Months Ended			
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Property and equipment (non-restructuring)	$3	$ 15	$8	$ 26	$ —	$ 9
Restructuring activities[2]						
Tradename	—	—	—	40	—	—
Property and equipment	—	1	7	30	—	—

Total	$3	$ 16	$15	$ 96	$ —	$ 9

(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 July 30, 2016, and August 1, 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.

Table of Contents

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 July 30, 2016, and $425 million and $18 million, respectively, at January 30, 2016. The changes in the carrying values of goodwill and indefinite-lived tradenames by segment were as follows in the six months ended August 1, 2015 ($ 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 August 1, 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):

	July 30, 2016		January 30, 2016		August 1, 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 six months ended July 30, 2016, and August 1, 2015, for our restructuring activities were as follows ($ in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Renew Blue Phase 2	$(2)	$ —	$25	$ —
Canadian brand consolidation	2	(4)	1	184
Renew Blue[1]	—	—	3	(2)
Other restructuring activities[2]	—	—	—	—
Total restructuring charges	$—	$ (4)	$29	$ 182

(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 July 30, 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 $14 million at July 30, 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 a benefit of $2 million and incurred charges of $25 million related to Phase 2 of the plan during the second quarter and first six months of

Table of Contents

fiscal 2017, respectively. The benefit related to lower severance costs than expected and the charges incurred primarily consisted 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 six months ended July 30, 2016 for Renew Blue Phase 2 was as follows ($ in millions):

	Domestic	
	July 30, 2016	
	Three Months Ended	Six Months Ended
Property and equipment impairments	$—	$ 7
Termination benefits	(2)	18
Total Renew Blue - Phase 2 restructuring charges	$(2)	$ 25

The following table summarizes our restructuring accrual activity during the six months ended July 30, 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	(15)
Adjustments[(1)]	(2)
Balances at July 30, 2016	$ 2

(1) Adjustments to termination benefits 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 second quarter and first six months of fiscal 2017, we incurred $2 million and $1 million of restructuring charges related to our Canadian brand consolidation, respectively, which was due to changes in our facility closure and other costs assumptions. In the second quarter of fiscal 2016, we recorded a benefit of $4 million related primarily to inventory write-downs. In the first six months of 2016 we incurred $184 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 six months ended July 30, 2016, and August 1, 2015, as well as the cumulative amount incurred through July 30, 2016, was as follows ($ in millions):

	International	
	Three Months Ended	Six Months Ended

	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015	Cumulative Amount
Inventory write-downs	$—	$ (3)	$—	$ 5	$ 3
Property and equipment impairments	—	1	—	30	30
Tradename impairment	—	—	—	40	40
Termination benefits	—	—	—	24	25
Facility closure and other costs	2	(2)	1	85	103
Total Canadian brand consolidation restructuring charges	$2	$ (4)	$1	$ 184	$ 201

Table of Contents

The following tables summarize our restructuring accrual activity during the six months ended July 30, 2016, and August 1, 2015, related to termination benefits and facility closure and other costs associated with 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	(1)	(18)	(19)
Adjustments[1]	—	(1)	(1)
Changes in foreign currency exchange rates	—	4	4
Balances at July 30, 2016	$ 1	$ 50	$ 51

	Termination Benefits	Facility Closure and Other Costs	Total
Balances at January 31, 2015	$ —	$ —	$ —
Charges	27	104	131
Cash payments	(21)	(18)	(39)
Adjustments[1]	(2)	(4)	(6)
Changes in foreign currency exchange rates	—	(3)	(3)
Balances at August 1, 2015	$ 4	$ 79	$ 83

(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 July 30, 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 August 1, 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 us 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

Table of Contents

Agreement contains default provisions including, but not limited to, failure to pay interest or principal when due and failure to comply with covenants.

Long-Term Debt

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

	July 30, 2016	January 30, 2016	August 1, 2015
2016 Notes	$—	$ 350	$ 350
2018 Notes	500	500	500
2021 Notes	650	650	650
Interest rate swap valuation adjustments	27	25	13
Subtotal	1,177	1,525	1,513
Debt discounts and issuance costs	(6)	(7)	(8)
Financing lease obligations	181	178	52
Capital lease obligations	32	38	45
Total long-term debt	1,384	1,734	1,602
Less: current portion[1]	(43)	(395)	(382)
Total long-term debt, less current portion	$1,341	$ 1,339	$ 1,220

(1) Our 2016 Notes, due March 15, 2016, were classified in our current portion of long-term debt as of January 30, 2016 and August 1, 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 $1,271 million, $1,543 million, and $1,572 million at July 30, 2016, January 30, 2016, and August 1, 2015, respectively, based primarily on the market prices quoted from external sources, compared with carrying values of $1,177 million, $1,525 million, and $1,513 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 Condensed 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 derivative instruments and interest rate swaps. 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.

Table of Contents

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 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 July 30, 2016, January 30, 2016, and August 1, 2015 ($ in millions):

	July 30, 2016		January 30, 2016		August 1, 2015	
Contract Type	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives designated as net investment hedges[1]	$1	$ 5	$ 15	$ 1	$ 17	$ —
Derivatives designated as interest rate swaps[2]	27	—	25	—	13	—
No hedge designation (foreign exchange forward contracts)[1]	—	—	3	—	4	—
Total	$28	$ 5	$ 43	$ 1	$ 34	$ —

(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 six months ended July 30, 2016, and August 1, 2015 ($ in millions):

	Three Months Ended				Six Months Ended			
	July 30, 2016		August 1, 2015		July 30, 2016		August 1, 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	$8	$ —	$ 15	$ —	$(16)	$ —	$ 6	$ —

Table of Contents

The following tables present the effects of derivative instruments on our Condensed Consolidated Statements of Earnings for the three and six months ended July 30, 2016, and August 1, 2015 ($ in millions):

	Gain (Loss) Recognized within SG&A			
	Three Months Ended		Six Months Ended	
Contract Type	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
No hedge designation (foreign exchange forward contracts)	$2	$ 1	$(3)	$ (4)

	Gain (Loss) Recognized within Interest Expense			
	Three Months Ended		Six Months Ended	
Contract Type	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Interest rate swap gain	$12	$ 8	$2	$ 12
Adjustments to carrying value of long-term debt	(12)	(8)	(2)	(12)
Net impact on Condensed Consolidated Statements of Earnings	$—	$ —	$—	$ —

The following table presents the notional amounts of our derivative instruments at July 30, 2016, January 30, 2016, and August 1, 2015 ($ in millions):

	Notional Amount		
Contract Type	July 30, 2016	January 30, 2016	August 1, 2015
Derivatives designated as net investment hedges	$203	$ 208	$ 207
Derivatives designated as interest rate swaps	750	750	750
No hedge designation (foreign exchange forward contracts)	41	94	163
Total	$994	$ 1,052	$ 1,120

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 six months ended July 30, 2016, and August 1, 2015 ($ and shares in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Numerator				
Net earnings from continuing operations	$182	$ 164	$408	$ 201

Denominator				
Weighted-average common shares outstanding	320.8	349.6	322.2	351.0
Dilutive effect of stock compensation plan awards	2.1	4.3	2.6	4.8
Weighted-average common shares outstanding, assuming dilution	322.9	353.9	324.8	355.8
Net earnings per share from continuing operations				
Basic	$0.57	$ 0.47	$1.27	$ 0.57
Diluted	$0.56	$ 0.46	$1.26	$ 0.57

The computation of weighted-average common shares outstanding, assuming dilution, excluded options to purchase 8.8 million and 10.4 million shares of or common stock for the three months ended July 30, 2016, and August 1, 2015, respectively, and

Table of Contents

options to purchase 8.8 million and 10.4 million shares of our common stock for the six months ended July 30, 2016, and August 1, 2015, respectively. These amounts were excluded as the options' exercise prices were greater than the average market price of our common stock for the periods presented, and, therefore, the effect would be anti-dilutive (i.e., including such options would result in higher earnings per share).

9. Comprehensive Income

The following tables provide a reconciliation of the components of accumulated other comprehensive income, net of tax, attributable to Best Buy Co., Inc. for the three and six months ended July 30, 2016, and August 1, 2015 ($ in millions):

	Foreign Currency Translation
Balances at April 30, 2016	$ 316
Foreign currency translation adjustments	(20)
Balances at July 30, 2016	$ 296

	Foreign Currency Translation
Balances at January 30, 2016	$ 271
Foreign currency translation adjustments	25
Balances at July 30, 2016	$ 296

	Foreign Currency Translation
Balances at May 2, 2015	$ 330
Foreign currency translation adjustments	(32)
Balances at August 1, 2015	$ 298

	Foreign Currency Translation
Balances at January 31, 2015	$ 382
Foreign currency translation adjustments	(17)
Reclassification of foreign currency translation adjustments into earnings due to sale of business	(67)
Balances at August 1, 2015	$ 298

The gains and losses on our net investment hedges, which are included in foreign currency translation adjustments, were not material for the periods presented. There is generally no tax impact related to foreign currency translation adjustments, as the earnings are considered permanently reinvested.

10. Repurchase of Common Stock

We have a $5.0 billion share repurchase program that was authorized by our Board of Directors in June 2011. There is no expiration date governing the period over which we can repurchase shares under the June 2011 share repurchase program. As of January 30, 2016, $3.0 billion remained available for share repurchases. On February 25, 2016, we announced our intent to repurchase up to an additional $1.0 billion over two years.

On January 22, 2016, we entered into a variable notional accelerated share repurchase agreement ("ASR") with a third party financial institution to repurchase $150 million to $175 million of our common stock. Under the agreement, we paid $175 million at the beginning of the contract and received an initial delivery of 4.4 million shares on January 25, 2016. We retired these shares and recorded a $120 million reduction to shareholders' equity. As of January 30, 2016, the remaining $55 million was included as a reduction of shareholders' equity in Prepaid share repurchase in the Condensed Consolidated Balance Sheets. The ASR was settled on February 17, 2016, for a final notional amount of $165 million. Accordingly, we received 1.6 million shares, which were retired, and a $10 million cash payment from our counter-party equal to the difference between the $175 million up-front payment and the final notional amount.

Table of Contents

The following table presents information regarding the shares we repurchased during the three months and six months ended July 30, 2016 and August 1, 2015 ($, except per share amounts, and shares in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Total cost of shares repurchased				
Open market(1)	$221	$ 324	$277	$ 324
Settlement of January 2016 ASR	—	—	45	—
Total	$221	$ 324	$322	$ 324
Average price per share				
Open market	$30.65	$ 34.02	$30.98	$ 34.02
Settlement of January 2016 ASR	$—	$ —	$28.55	$ —
Average	$30.65	$ 34.02	$30.62	$ 34.02
Number of shares repurchased and retired				
Open market(1)	7.2	9.5	8.9	9.5
Settlement of January 2016 ASR	—	—	1.6	—
Total	7.2	9.5	10.5	9.5

(1) As of July 30, 2016, $5.8 million, or 0.2 million shares, in trades remained unsettled. As of August 1, 2015, $2.5 million, or 0.1 million shares, in trades remained unsettled. The liability for unsettled trades is included in Accrued liabilities in the Condensed Consolidated Balance Sheets.

At July 30, 2016, approximately $2.7 billion remained available for additional purchases under the June 2011 share repurchase program. Repurchased shares are retired and constitute authorized but unissued shares.

11. Segments

Our chief operating decision maker ("CODM") is our Chief Executive Officer. Our business is organized into two segments: Domestic (which is comprised of all operations within the U.S. and its districts and territories) and International (which is comprised of all operations outside the U.S. and its territories). Our CODM has ultimate responsibility for enterprise decisions. Our CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, the Domestic segment and the International segment. The Domestic and International segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. Our CODM relies on internal management reporting that analyzes enterprise results to the net earnings level and segment results to the operating income level.

We aggregate our Canada and Mexico businesses into one International operating segment. Our Domestic and International operating segments also represent our reportable segments. The accounting policies of the segments are the same as those described in Note 1, Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Revenue by reportable segment was as follows ($ in millions):

Three Months Ended		Six Months Ended	
July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015

Domestic	$7,889	$ 7,878	$15,718	$ 15,768
International	644	650	1,258	1,318
Total revenue	$8,533	$ 8,528	$16,976	$ 17,086

Table of Contents

Operating income (loss) by reportable segment and the reconciliation to earnings from continuing operations before income tax expense were as follows ($ in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Domestic	$289	$ 309	$661	$ 613
International	—	(21)	—	(239)
Total operating income	289	288	661	374
Other income (expense)				
Gain on sale of investments	—	—	2	2
Investment income and other	8	4	14	11
Interest expense	(18)	(20)	(38)	(40)
Earnings from continuing operations before income tax expense	$279	$ 272	$639	$ 347

Assets by reportable segment were as follows ($ in millions):

	July 30, 2016	January 30, 2016	August 1, 2015
Domestic	$11,968	$ 12,318	$ 12,328
International	1,286	1,201	1,231
Total assets	$13,254	$ 13,519	$ 13,559

12. Contingencies

We are involved in a number of legal proceedings. Where appropriate, we have made accruals with respect to these matters, which are reflected in our Condensed Consolidated Financial Statements. However, there are cases where liability is not probable or the amount cannot be reasonably estimated and, therefore, accruals have not been made. We provide disclosure of matters where we believe it is reasonably possible the impact may be material to our Condensed Consolidated Financial Statements.

Securities Actions

In February 2011, a purported class action lawsuit captioned, IBEW Local 98 Pension Fund, individually and on behalf of all others similarly situated v. Best Buy Co., Inc., et al., was filed against us and certain of our executive officers in the U.S. District Court for the District of Minnesota. This federal court action alleges, among other things, that we and the officers named in the complaint violated Sections 10(b) and 20A of the Exchange Act and Rule 10b-5 under the Exchange Act in connection with press releases and other statements relating to our fiscal 2011 earnings guidance that had been made available to the public. Additionally, in March 2011, a similar purported class action was filed by a single shareholder, Rene LeBlanc, against us and certain of our executive officers in the same court. In July 2011, after consolidation of the IBEW Local 98 Pension Fund and Rene LeBlanc actions, a consolidated complaint captioned, IBEW Local 98 Pension Fund v. Best Buy Co., Inc., et al., was filed and served. We filed a motion to dismiss the consolidated complaint in September 2011, and in March 2012, subsequent to the end of fiscal 2012, the court issued a decision dismissing the action with prejudice. In April 2012, the plaintiffs filed a motion to alter or amend the court's decision on our motion to dismiss. In October 2012, the court granted plaintiff's motion to alter or amend the court's decision on our motion to dismiss in part by vacating such decision and giving plaintiff leave to file an amended complaint, which plaintiff did in October 2012. We filed a motion to dismiss the amended complaint in November 2012 and all responsive pleadings were filed in December 2012. A hearing was held on April 26, 2013. On August 5, 2013, the court issued an order granting our motion to dismiss in part and, contrary to its March 2012 order, denying the motion to dismiss in part, holding that certain of the statements alleged to have been made were not

forward-looking statements and therefore were not subject to the “safe-harbor” provisions of the Private Securities Litigation Reform Act. Plaintiffs moved to certify the purported class. By Order filed August 6, 2014, the court certified a class of persons or entities who acquired Best Buy common stock between 10:00 a.m. EDT on September 14, 2010, and December 13, 2010, and who were damaged by the alleged violations of law. The 8th Circuit Court of Appeals granted our request for interlocutory appeal. On April 12, 2016, the 8th Circuit held the trial court misapplied the law and reversed the class certification order. IBEW petitioned the 8th Circuit for a rehearing en banc, which was denied on June 1, 2016. We await a decision by IBEW as to whether it will appeal. We continue to believe that these allegations are without merit and intend to vigorously defend our company in this matter.

Table of Contents

In June 2011, a purported shareholder derivative action captioned, Salvatore M. Talluto, Derivatively and on Behalf of Best Buy Co., Inc. v. Richard M. Schulze, et al., as Defendants and Best Buy Co., Inc. as Nominal Defendant, was filed against both present and former members of our Board of Directors serving during the relevant periods in fiscal 2011 and us as a nominal defendant in the U.S. District Court for the State of Minnesota. The lawsuit alleges that the director defendants breached their fiduciary duty, among other claims, including violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, in failing to correct public misrepresentations and material misstatements and/or omissions regarding our fiscal 2011 earnings projections and, for certain directors, selling stock while in possession of material adverse non-public information. Additionally, in July 2011, a similar purported class action was filed by a single shareholder, Daniel Himmel, against us and certain of our executive officers in the same court. In November 2011, the respective lawsuits of Salvatore M. Talluto and Daniel Himmel were consolidated into a new action captioned, In Re: Best Buy Co., Inc. Shareholder Derivative Litigation, and a stay ordered pending the close of discovery in the consolidated IBEW Local 98 Pension Fund v. Best Buy Co., Inc., et al. case. Additionally, in June 2015, a similar purported class action was filed by a single shareholder, Khuong Tran, derivatively on behalf of Best Buy Co., Inc. against us and certain of our executive officers and directors in the same court. The Tran lawsuit has also been stayed pending the close of discovery in IBEW.

The plaintiffs in the above securities actions seek damages, including interest, equitable relief and reimbursement of the costs and expenses they incurred in the lawsuits. As stated above, we believe the allegations in the above securities actions are without merit, and we intend to defend these actions vigorously. Based on our assessment of the facts underlying the claims in the above securities actions, their respective procedural litigation history and the degree to which we intend to defend our company in these matters, the amount or range of reasonably possible losses, if any, cannot be estimated.

Cathode Ray Tube Action

On November 14, 2011, we filed a lawsuit captioned In re Cathode Ray Tube Antitrust Litigation in the United States District Court for the Northern District of California. We alleged that the defendants engaged in price fixing in violation of antitrust regulations relating to cathode ray tubes for the time period between March 1, 1995, through November 25, 2007. In connection with this action, we received settlement proceeds, net of legal expenses and costs, in the amount of $75 million during fiscal 2016. In the first quarter of fiscal 2017, we settled with the remaining defendants for $161 million, net of legal expenses and costs; $127 million of which we have received and $34 million of which we expect to receive in January 2017 or earlier. Settlement proceeds were recognized in Cost of goods sold with the associated legal expenses recorded in SG&A. This matter is now resolved.

Other Legal Proceedings

We are involved in various other legal proceedings arising in the normal course of conducting business. For such legal proceedings, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to our consolidated financial position, results of operations or cash flows. Because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the variable treatment of claims made in many of these proceedings and the difficulty of predicting the settlement value of many of these proceedings, we are not able to estimate an amount or range of any reasonably possible additional losses. However, based upon our historical experience, the resolution of these proceedings is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, the use of the terms “Best Buy,” “we,” “us” and “our” in the following refers to Best Buy Co., Inc. and its consolidated subsidiaries. Any references to our website addresses do not constitute incorporation by reference of the information contained on the websites.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. Our MD&A is presented in seven sections:

- Overview
- Business Strategy Update
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Significant Accounting Policies and Estimates
- New Accounting Pronouncements
- Safe Harbor Statement Under the Private Securities Litigation Reform Act

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 (including the information presented therein under Risk Factors), as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Overview

We are a leading provider of technology products, services and solutions. We offer these products and services to the customers who visit our stores, engage with Geek Squad agents or use our websites or mobile applications. We have operations in the U.S., Canada, Mexico and China. We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all operations within the U.S. and its districts and territories. The International segment is comprised of all operations outside the U.S. and its territories.

Our business, like that of many retailers, is seasonal. A higher proportion of our revenue and earnings is generated in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico ("Holiday").

Throughout this MD&A, we refer to comparable sales. Our comparable sales calculation compares revenue from stores, websites and call centers operating for at least 14 full months, as well as revenue related to certain other comparable sales channels for a particular period to the corresponding period in the prior year. Relocated stores, as well as remodeled, expanded and downsized stores closed more than 14 days, are excluded from the comparable sales calculation until at least 14 full months after reopening. Acquisitions are included in the comparable sales calculation beginning with the first full quarter following the first anniversary of the date of the acquisition. The calculation of comparable sales excludes the impact of revenue from discontinued operations and the effect of fluctuations in foreign currency exchange rates (applicable to our International segment only). The Canadian brand consolidation, which included the permanent closure of 66 Future Shop stores, the conversion of 65 Future Shop stores to Best Buy stores and the elimination of the Future Shop website, has a material impact on a year-over-year basis on the remaining Canadian retail stores and the website. As such, beginning in fiscal 2016, all Canadian store and website revenue has been removed from the comparable sales base and the International segment no longer has a comparable metric.

Therefore, Enterprise comparable sales equals the Domestic segment comparable sales. The method of calculating comparable sales varies across the retail industry. As a result, our method of calculating comparable sales may not be the same as other retailers' methods.

Non-GAAP Considerations

This MD&A includes financial information prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), as well as certain adjusted or non-GAAP financial measures such as constant currency, non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings from continuing operations, non-GAAP diluted earnings per share ("EPS") from continuing operations and non-GAAP debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") ratio. We believe that non-GAAP financial measures, when reviewed in conjunction with

Table of Contents

GAAP financial measures, can provide more information to assist investors in evaluating current period performance and in assessing future performance. For these reasons, our internal management reporting also includes non-GAAP measures. Generally, non-GAAP measures include adjustments for items such as restructuring charges, goodwill impairments, non-restructuring asset impairments and gains or losses on investments. In addition, certain other items may be excluded from non-GAAP financial measures when we believe this provides greater clarity to management and our investors. These non-GAAP financial measures should be considered in addition to, and not superior to or as a substitute for, GAAP financial measures. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

In our discussions of the operating results of our consolidated business and our International segment, we sometimes refer to the impact of changes in foreign currency exchange rates or the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert the International segment’s operating results from local currencies into U.S. dollars for reporting purposes. We also use the term "constant currency", which represents results adjusted to exclude foreign currency impacts. We calculate the impact as the difference between the current period results translated using the current period currency exchange rates and using the comparable prior period’s currency exchange rates. We believe the disclosure of revenue changes in constant currency provides useful supplementary information to investors in light of significant fluctuations in currency rates and our ongoing inability to report comparable store sales for the International segment as a result of the Canadian brand consolidation.

Refer to the Non-GAAP Financial Measures section below for the detailed reconciliation of items that impacted the non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings from continuing operations and non-GAAP diluted EPS from continuing operations in the presented periods.

Refer to the Other Financial Measures section below for the detailed reconciliation of items that impacted the non-GAAP debt to EBITDAR ratio. Management believes this ratio is an important indicator of our creditworthiness. Furthermore, we believe that our non-GAAP debt to EBITDAR ratio is important for understanding our financial position and provides meaningful additional information about our ability to service our long-term debt and other fixed obligations and to fund our future growth. We also believe our non-GAAP debt to EBITDAR ratio is relevant because it enables investors to compare our indebtedness to that of retailers who own, rather than lease, their stores. Our decision to own or lease real estate is based on an assessment of our financial liquidity, our capital structure, our desire to own or to lease the location, the owner’s desire to own or to lease the location and the alternative that results in the highest return to our shareholders.

Business Strategy Update

In the second quarter of fiscal 2017, we delivered Enterprise revenue of $8.5 billion and our diluted earnings per share from continuing operations increased 21.7% to $0.56 versus $0.46 last year. Our non-GAAP diluted earnings per share from continuing operations for the second quarter of fiscal 2017 was $0.57 versus $0.49 last year, an increase of 16.3%. These results were due to the strong performance of both our Domestic and International segments.

In our Domestic segment, we delivered comparable sales of 0.8% for the second quarter of fiscal 2017. We saw continued positive momentum in our online channel, delivering a 23.7% Domestic segment online comparable sales growth in the second quarter of fiscal 2017 versus 17.0% in the second quarter of fiscal 2016. Similar to the trend in the first quarter of fiscal 2017, we saw year-over-year sales growth in health and wearables, home theater and appliances, partially offset by continued softness in mobile phones and gaming.

We also continued to see considerable year-over-year improvement in our overall Net Promoter Score,which increased approximately 500 basis points compared to the second quarter of fiscal 2016.

In our International segment, revenue declined 1.0% in the second quarter of fiscal 2017 versus our guidance of a 5% to 10% decline. On a constant currency basis, revenue grew 4.1% in the second quarter of fiscal 2017, driven by strong execution and higher than expected sales retention in Canada.

We have also continued to make progress against our fiscal 2017 priorities. Our first priority is to build on our strong industry position and multi-channel capabilities to drive the existing business. Below is an overview of our progress against these initiatives:

- Home Theater: Our market-leading customer experience around 4K and large screen premium technologies and our 79 Magnolia Design Center stores within a store, continue to drive sales growth. During the second quarter of fiscal

Table of Contents

2017, we opened 376 new LG experiences in our stores, in addition to our existing 660 Samsung and 388 Sony experiences.

- Appliances: We leveraged our 200 Pacific Kitchen & Home stores within a store to deliver 8.2% comparable sales growth in the second quarter of fiscal 2017 versus 20.7% comparable sales growth in the second quarter of fiscal 2016. During the quarter, we implemented a number of improvements to our installation and delivery capabilities, including the ability for online and in-store customers to choose a shorter delivery time window at the point of purchase. In the long term, we believe these innovative improvements will contribute to the continued growth of our appliance business. However, they did result in short-term disruptions that negatively impacted this quarter's comparable sales growth rate.
- Computing: In computing, similar to home theater, our partnerships with key vendors, the strength of our market-leading position and our focus on assortment management and solution selling have created a superior customer experience.
- Mobile: As expected, revenue declined during the first half of fiscal 2017. We expect this trend to reverse in the second half of fiscal 2017, as anticipated product launches stimulate consumer demand and as we lap the sales declines seen in the category last year.
- Entertainment: We continue to expand our presence in virtual reality. By Holiday, we expect to be selling an expanded assortment of virtual reality products in the vast majority of our stores, and we expect to have more than 500 stores equipped with demonstration stations so customers can try out this exciting new technology. We believe virtual reality has the potential to contribute to our growth in the future, but we do not expect a material financial impact this fiscal year, given the timing of launches, inventory availability and the fact that we are early in the cycle.
- Services: We continue to drive improvements in our service quality and increase our Net Promoter Score. As expected, overall services comparable sales declined during the second quarter of fiscal 2017 due to the carryover effect of the pricing investments we made in September 2015, as well as the ongoing reduction of repair revenue driven by lower frequency of claims on our extended warranties. We did see less of a sales decline this quarter compared to the past several quarters, and as we begin to anniversary the pricing investment, we expect comparable sales in our services business to be flat to slightly positive in the second half of fiscal 2017.
- Online: Our 23.7% Domestic segment online comparable sales growth was driven by the continued improvements to our digital customer experience and enhanced dot-com capabilities. These include, for example, faster shipping, responsive design, a more streamlined checkout process, improved search functionality, better visibility for open box and clearance items and more relevant product recommendations. Also, in our mobile app, we have implemented distilled reviews on over 40,000 SKUs. This means customers don't have to wade through hundreds or sometimes thousands of reviews, but can instead read a quick summary of the pros and cons of a product. In addition, across platforms we can show customers products that are available in the store closest to them and show which products are actually displayed in stores near them if they are interested in experiencing the product before they buy. Our e-commerce focus has evolved from a phase of building foundations to a phase of driving innovations for our customers, and we are excited about the customer experience improvements still in the pipeline yet for this fiscal year.
- Retail stores: Given the complexity of technology and the needs of our customers, our stores are a key asset for us. The level of proficiency and engagement of our associates is continuing to increase as manifested by the significant increase of our Net Promoter Scores. This is the result of a deliberate and systematic effort to lift the capabilities and performance of each individual associate. This effort includes investment in training and daily coaching with a heightened focus on product knowledge and selling skills. Additionally, we are ensuring that our store general managers and assistant managers remain with their stores longer, allowing them to be more effective at training, coaching and more broadly leading their teams. We are also improving our store associate retention rates, particularly across our sales roles.
- International segment: Our Canadian transformation is continuing to make good progress. As reflected in our revenue performance, customer retention is proving to be higher than expected. Our team is focused on continuing to invest in our stores and online channel, to improve the customer experience and financial performance, something that has been enabled by the consolidation of the two brands we had in Canada. Similar to the Domestic segment, we are partnering with key vendors to upgrade our Canadian stores.

Our second fiscal 2017 priority is to reduce cost and drive efficiency throughout the business. As we have stated previously, reducing cost is essential for us to be able to fund our investments, build our resilience to product cycles and increase our profitability over time. The key element to achieving this is simplifying and streamlining our core business processes, simultaneously improving the customer and employee experience and driving costs out. As it relates to our Renew Blue Phase 2 cost reduction and gross profit optimization target of $400 million over three years, we achieved another $50 million in the second quarter of fiscal 2017, bringing our current total to $250 million.

Our third fiscal 2017 priority is to advance key initiatives to drive future growth and differentiation. We intend to be the company that makes it easy for customers to learn about and enjoy the latest technology as they pursue their passions and take

Table of Contents

care of what is important to them in their lives. With our combination of digital, store and in-home assets, we feel we have a great opportunity to address key customer pain points, build stronger ongoing relationships with our customers and unleash growth opportunities. Fiscal 2017 is a year of exploration and experimentation, and we are testing several concepts across the country that have the potential to be compelling customer experiences. For example, in a few markets we are piloting an in-home advisor program which involves a free in-home consultation with an experienced technology advisor who can identify a customer's needs, design a personalized solution and become a personal resource over time. In a few of the markets, we are testing in-store classes on topics such as digital photography, home automation, maximizing your Wi-Fi and helping parents ensure that their kids have a safe online experience. We are also testing Geek Squad on-demand services, including same day support for customers who need immediate technology help or advice.

In summary, we are encouraged by the quality of our execution, the momentum in our business and the strength of our first half of fiscal 2017 financial results, and we are excited by our mission to help customers live their lives and pursue their passions with the help of technology and the growth opportunities this mission and the related customer needs creates for us.

Results of Operations

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. Consistent with such consolidation, the financial and non-financial information presented in our MD&A relative to Mexico is also presented on a one-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our consolidated financial statements. There were no significant intervening events which would have materially affected our financial condition, results of operations, liquidity or other factors had they been recorded during the three months ended July 30, 2016.

Discontinued operations are comprised primarily of Five Star within our International segment. Unless otherwise stated, financial results discussed herein refer to continuing operations.

Consolidated Performance Summary

The following table presents selected consolidated financial data ($ in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenue	$8,533	$8,528	$16,976	$17,086
Revenue % gain (decline)	0.1 %	0.8 %	(0.6)%	(0.1)%
Comparable sales % gain [(1)]	0.8 %	3.8 %	0.4 %	2.2 %
Restructuring charges – cost of goods sold	$—	$(3)	$—	$5
Gross profit	$2,062	$2,098	$4,207	$4,128
Gross profit as a % of revenue[(2)]	24.2 %	24.6 %	24.8 %	24.2 %
SG&A	$1,773	$1,811	$3,517	$3,577
SG&A as a % of revenue[(2)]	20.8 %	21.2 %	20.7 %	20.9 %
Restructuring charges	$—	$(1)	$29	$177
Operating income	$289	$288	$661	$374
Operating income as a % of revenue	3.4 %	3.4 %	3.9 %	2.2 %
Net earnings from continuing operations	$182	$164	$408	$201
Earnings from discontinued operations	$16	$—	$19	$92

Net earnings	$198	$164	$427	$293
Diluted earnings per share from continuing operations	$0.56	$0.46	$1.26	$0.57
Diluted earnings per share	$0.61	$0.46	$1.31	$0.82

(1) The Canadian brand consolidation that was initiated in the first quarter of fiscal 2016 had a material impact on a year-over-year basis on the Canadian retail stores and the website. As such, beginning in the first quarter of fiscal 2016, all store and website revenue was removed from the comparable sales base, and an International segment (comprised of Canada and Mexico) comparable sales metric has not been provided. Therefore, the Consolidated comparable sales for the three and six months ended July 30, 2016, and August 1, 2015, equal the Domestic segment comparable sales.

(2) Because retailers vary in how they record costs of operating their supply chain between cost of goods sold and SG&A, our gross profit rate and SG&A rate may not be comparable to other retailers' corresponding rates. For additional information regarding costs classified in cost of goods sold and SG&A, refer to Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Table of Contents

The components of the 0.1% revenue increase for the second quarter of fiscal 2017 and the 0.6% decrease for the first six months of fiscal 2017 were as follows:

	Three Months Ended July 30, 2016	Six Months Ended July 30, 2016
Comparable sales impact	0.8 %	0.4 %
Non-comparable sales[1]	(0.3)%	(0.5)%
Impact of foreign currency exchange rate fluctuations	(0.4)%	(0.5)%
Total revenue increase (decrease)	0.1 %	(0.6)%

(1) Non-comparable sales reflects the impact of all revenue in our International segment, net store opening and closing activity, as well as the impact of revenue streams not included within our comparable sales calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers, as applicable.

The gross profit rate decreased by 0.4% of revenue in the second quarter of fiscal 2017. The gross profit rate decline in our Domestic segment accounted for the decrease. For the first six months of fiscal 2017, the gross profit rate increased by 0.6% of revenue. The increase was due to an increase in both the Domestic and International segments. For further discussion of each segment's gross profit rate changes, see Segment Performance Summary below.

The enterprise SG&A rate decreased by 0.4% of revenue for the second quarter of fiscal 2017. The Domestic segment accounted for a majority of the decrease. The SG&A rate for the first six months of fiscal 2017 decreased by 0.2% of revenue. The decrease was due to a decrease in both the Domestic and International segments. For further discussion of each segment's SG&A rate changes, see Segment Performance Summary below.

We recorded no restructuring charges in the second quarter of fiscal 2017 and a benefit of $4 million in restructuring charges in the second quarter of fiscal 2016. For the first six months of fiscal 2017, we recorded $29 million of restructuring charges compared to $182 million recorded in the first six months of fiscal 2016. The current fiscal year charges primarily relate to our Domestic segment, while the prior fiscal year charges primarily related to our International segment. For further discussion of each segment's restructuring charges, see Segment Performance Summary below.

Operating income increased $1 million and our operating income rate of 3.4% of revenue remained the same in the second quarter of fiscal 2017, compared to the second quarter of fiscal 2016. For the first six months of fiscal 2017, operating income increased $287 million and our operating rate increased to 3.9% of revenue, compared to 2.2% of revenue in the first six months of fiscal 2016. The increase in operating income was primarily due to the decrease in restructuring charges driven by our International segment and an increase in gross profit driven by our Domestic segment. For further discussion on each segment's operating income, see Segment Performance Summary below.

Income Tax Expense

Income tax expense decreased to $97 million in the second quarter of fiscal 2017 compared to $108 million in the prior-year period, primarily due to a higher mix of forecast taxable income from foreign operations in the current year period. Our effective income tax rate in the second quarter of fiscal 2017 was 34.8% compared to a rate of 39.8% in the second quarter of fiscal 2016. The decrease in the effective income tax rate was primarily due to a higher mix of forecast taxable income from foreign operations and the resolution of certain tax matters in the current year period. Income tax expense increased to $231 million in the first six months of fiscal 2017 compared to $146 million in the prior-year period, primarily as a result of an increase in pre-tax earnings. Our effective income tax rate for the first six

months of fiscal 2017 was 36.2%, compared to a rate of 42.1% the first six months of fiscal 2016. The decrease in the effective income tax rate was primarily due to a higher mix of forecast taxable income from foreign operations and the resolution of certain tax matters in the current year period, as well as the increase in pre-tax earnings as the impact of discrete items on our effective income tax rate is less when our pre-tax earnings are higher.

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We update our estimate of the annual effective tax rate each quarter, and we make a cumulative adjustment if our estimated tax rate changes. These interim estimates are subject to variation due to several factors, including our ability to accurately forecast our pre-tax and taxable income and loss by jurisdiction, tax audit developments, changes in laws or regulations and expenses or losses for which tax benefits are not recognized. Our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible losses on our effective tax rate is greater when our pre-tax income is lower.

Table of Contents

In addition, our consolidated effective tax rate is impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate. As our foreign earnings are generally taxed at lower statutory rates than the 35% U.S. statutory rate, changes in the proportion of our consolidated taxable earnings originating in foreign jurisdictions impact our consolidated effective rate. Our foreign earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax.

Discontinued Operations

We recognized $16 million and $19 million of earnings from discontinued operations in the three and six months ended July 30, 2016, respectively. Both balances were primarily related to the gain on sale of a retail property in Shanghai, China, which related to our disposal of our Five Star business in China. We had no earnings from discontinued operations in the second quarter of fiscal 2016, and we recognized $92 million of earnings from discontinued operations for the first six months of fiscal 2016. The prior period balance was primarily due to a $99 million gain on sale of our Five Star business in China. Refer to Note 2, Discontinued Operations, in the Notes to Condensed Consolidated Financial Statements for additional information.

Segment Performance Summary

Domestic

The following table presents selected financial data for the Domestic segment ($ in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenue	$7,889	$7,878	$15,718	$15,768
Revenue % gain (decline)	0.1 %	3.9 %	(0.3)%	2.6 %
Comparable sales % gain [1]	0.8 %	3.8 %	0.4 %	2.2 %
Gross profit	$1,895	$1,946	$3,881	$3,832
Gross profit as a % of revenue	24.0 %	24.7 %	24.7 %	24.3 %
SG&A	$1,608	$1,636	$3,195	$3,220
SG&A as a % of revenue	20.4 %	20.8 %	20.3 %	20.4 %
Restructuring charges	$(2)	$1	$25	$(1)
Operating income	$289	$309	$661	$613
Operating income as a % of revenue	3.7 %	3.9 %	4.2 %	3.9 %
Selected Online Revenue Data				
Online revenue as a % of total segment revenue	10.6 %	8.6 %	10.6 %	8.6 %
Comparable online sales % gain[1]	23.7 %	17.0 %	23.8 %	10.8 %

(1) Comparable online sales is included in the comparable sales calculation.

Domestic segment revenue of $7.9 billion in the second quarter of fiscal 2017 increased 0.1% compared to the same period in the prior year. This increase was driven by comparable sales growth of 0.8%, partially offset by the loss of revenue from 12 Best Buy and 22 Best Buy Mobile store closures. Contributing to the quarter over quarter growth was Domestic segment online revenue of $835 million, which increased 23.7% on a comparable basis primarily due to increased traffic, higher average order values and higher conversion rates.

Domestic segment revenue of $15.7 billion for the first six months of fiscal 2017 decreased 0.3% compared to the same period in the prior year. This decrease was driven by the loss of revenue from store closures, partially offset by comparable sales growth of 0.4%. For the first six months of fiscal 2017, Domestic segment online revenue was $1.7

billion, which increased 23.8% on a comparable basis.

Table of Contents

The components of our Domestic segment's 0.1% revenue increase and 0.3% revenue decrease for the second quarter and first six months of fiscal 2017, respectively, were as follows:

	Three Months Ended July 30, 2016	Six Months Ended July 30, 2016
Comparable sales impact	0.8 %	0.4 %
Non-comparable sales[(1)]	(0.7)%	(0.7)%
Total revenue increase (decrease)	0.1 %	(0.3)%

(1) Non-comparable sales reflects the impact of net store opening and closing activity, as well as, the impact of revenue streams not included within our comparable sales calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers, as applicable.

The following table reconciles the number of Domestic stores open at the beginning and end of the second quarters of fiscal 2017 and 2016:

	Fiscal 2017				Fiscal 2016			
	Total Stores at Beginning of Second Quarter	Stores Opened	Stores Closed	Total Stores at End of Second Quarter	Total Stores at Beginning of Second Quarter	Stores Opened	Stores Closed	Total Stores at End of Second Quarter
Best Buy	1,036	—	(1)	1,035	1,049	—	(2)	1,047
Best Buy Mobile stand-alone	338	—	(4)	334	362	—	(6)	356
Pacific Sales stand-alone	28	—	—	28	29	—	—	29
Magnolia Audio Video stand-alone	—	—	—	—	2	—	(1)	1
Total Domestic segment stores	1,402	—	(5)	1,397	1,442	—	(9)	1,433

We continuously monitor store performance. As we approach the expiration date of our store leases, we evaluate various options for each location, including whether a store should remain open.

The following table presents the Domestic segment's revenue mix percentages and comparable sales percentage changes by revenue category in the second quarters of fiscal 2017 and 2016:

	Revenue Mix Three Months Ended		Comparable Sales Three Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Consumer Electronics	33 %	32 %	4.0 %	7.3 %
Computing and Mobile Phones	46 %	47 %	0.3 %	1.5 %
Entertainment	5 %	6 %	(18.0)%	(2.0)%
Appliances	11 %	10 %	8.2 %	20.7 %
Services	5 %	5 %	(7.2)%	(13.1)%
Other	— %	— %	n/a	n/a
Total	100 %	100 %	0.8 %	3.8 %

The following is a description of the notable comparable sales changes in our Domestic segment by revenue category:

- Consumer Electronics: The 4.0% comparable sales gain was driven primarily by an increase in the sales of 4K and large screen televisions and related home theater accessories.
- Computing and Mobile Phones: The 0.3% comparable sales gain was primarily due to an increase in wearables and computer sales partially offset by continued industry declines in mobile phones.
- Entertainment: The 18.0% comparable sales decline was driven by declines in gaming hardware due to continued industry declines as well as declines in music and movies.
- Appliances: The 8.2% comparable sales gain was a result of continued growth in major appliances sales as well as the expansion of Pacific Kitchen & Home stores within a store.
- Services: The 7.2% comparable sales decline was due to investments in services pricing and the lower frequency of claims on our extended warranties, which reduces our repair revenue.

The gross profit rate of our Domestic segment decreased to 24.0% of revenue in the second quarter of fiscal 2017 from 24.7% of revenue in the second quarter of fiscal 2016. The decrease was primarily due to (1) the negative impact from lapping the periodic profit sharing benefit from our services plan portfolio and an extended warranty deferred revenue adjustment in the

Table of Contents

second quarter of fiscal 2016; (2) investments in services pricing; (3) the impact of inventory availability in the high margin digital imaging category driven by the Japanese earthquakes in April; and (4) prior year cathode ray tube ("CRT") settlement proceeds which did not recur this year.

The gross profit rate of our Domestic segment increased to 24.7% of revenue for the first six months of fiscal 2017 from 24.3% of revenue for the first six months of fiscal 2016. The increase was primarily due to CRT settlement proceeds partially offset by the negative impact from lapping the periodic profit sharing benefit from our services plan portfolio and an extended warranty deferred revenue adjustment in the second quarter of fiscal 2016.

Domestic SG&A was $1.6 billion, or 20.4% of revenue, in the second quarter of fiscal 2017 compared to $1.6 billion, or 20.8% of revenue, in the second quarter of fiscal 2016. For the first six months of fiscal 2017, Domestic SG&A was $3.2 billion, or 20.3% of revenue, compared to $3.2 billion, or 20.4% of revenue, in the prior period. The decreases in SG&A and SG&A rate were primarily driven by Renew Blue Phase 2 cost reductions, which were partially offset by strategic investments.

In the first six months of fiscal 2017, our Domestic segment recorded restructuring charges of $25 million driven by our Renew Blue Phase 2 activity. Refer to Note 5, Restructuring Charges, in the Notes to the Condensed Consolidated Financial Statements for additional information.

Our Domestic segment operating income decreased by $20 million in the second quarter of fiscal 2017, compared to the same period in the prior year, primarily due to a decrease in our gross profit rate, partially offset by a lower SG&A rate, as described above.

For the first six months of fiscal 2017, our Domestic segment operating income increased by $48 million compared to the prior-year period. The increase in the first six months of fiscal 2017 was primarily due to the net CRT settlement proceeds, partially offset by higher restructuring charges, as described above.

International

The following table presents selected financial data for the International segment ($ in millions):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenue	$644	$650	$1,258	$1,318
Revenue % decline	(1.0)%	(25.6)%	(4.6)%	(23.9)%
Comparable sales % gain (decline)[1]	n/a	n/a	n/a	n/a
Restructuring charges – cost of goods sold	$—	$(3)	$—	$5
Gross profit	$167	$152	$326	$296
Gross profit as a % of revenue	25.9%	23.4%	25.9%	22.5%
SG&A	$165	$175	$322	$357
SG&A as a % of revenue	25.6%	26.9%	25.6%	27.1%
Restructuring charges	$2	$(2)	$4	$178
Operating income (loss)	$—	$(21)	$—	$(239)
Operating income (loss) as a % of revenue	—%	(3.2)%	0.0%	(18.1)%

(1) On March 28, 2015, 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, the conversion of 65 Future Shop stores to Best Buy stores and the elimination of the Future Shop website. The Canadian brand consolidation had a material impact on a year-over-year basis on the Canadian retail stores and the website. As such, beginning in the

first quarter of fiscal 2016, all store and website revenue was removed from the comparable sales base, and an International segment (comprised of Canada and Mexico) comparable sales metric has not been provided.

International segment revenue declined 1.0% to $644 million in the second quarter of fiscal 2017. For the first six months of fiscal 2017, International segment revenue declined 4.6% to $1,258 million. The decrease for both periods was due to a negative foreign currency impact of 5.1% and 6.0%, respectively. On a constant currency basis, International revenue increased 4.1% and 1.4% for the second quarter and first six months of fiscal 2017 compared to the second quarter and first six months of fiscal 2016, respectively. The increase for both periods was driven by growth in both Canada and Mexico.

Table of Contents

The components of our International segment's 1.0% and 4.6% revenue decrease for the second quarter and first six months of fiscal 2017 were as follows:

	Three Months Ended July 30, 2016	Six Months Ended July 30, 2016
Non-comparable sales[1]	4.1 %	1.4 %
Impact of foreign currency exchange rate fluctuations	(5.1)%	(6.0)%
Total revenue decrease	(1.0)%	(4.6)%

(1) Non-comparable sales reflects the impact of net store opening and closing activity, including the Canadian brand consolidation activity, as well as, the impact of revenue streams not included within our comparable sales calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers.

The following table reconciles the number of International stores open at the beginning and end of the second quarters of fiscal 2017 and 2016:

	Fiscal 2017				Fiscal 2016			
	Total Stores at Beginning of Second Quarter	Stores Opened	Stores Closed	Total Stores at End of Second Quarter	Total Stores at Beginning of Second Quarter	Stores Opened	Stores Closed	Total Stores at End of Second Quarter
Canada								
Best Buy	135	—	—	135	136	—	—	136
Best Buy Mobile stand-alone	56	—	(2)	54	56	—	—	56
Mexico								
Best Buy	18	—	—	18	18	—	—	18
Express	6	—	—	6	5	—	—	5
Total International segment stores	215	—	(2)	213	215	—	—	215

The following table presents revenue mix percentages for the International segment by revenue category in the second quarters of fiscal 2017 and 2016:

	Revenue Mix Three Months Ended	
	July 30, 2016	August 1, 2015
Consumer Electronics	29 %	31 %
Computing and Mobile Phones	48 %	48 %
Entertainment	6 %	7 %
Appliances	7 %	7 %
Services	8 %	6 %
Other	2 %	1 %
Total	100 %	100 %

Our International segment experienced an increase in gross profit of $15 million, or 9.9%, in the second quarter of fiscal 2017, compared to the second quarter of fiscal 2016. For the first six months of fiscal 2017, our International segment gross profit increased $30 million, or 10.1%, compared to the first six months of fiscal 2016. The gross profit increase for both periods was primarily driven by a higher year-over-year gross profit rate in Canada due to the impact of the significant disruption and corresponding increased promotional activity related to the brand consolidation in the second quarter of fiscal 2016.

Our International segment's SG&A decreased $10 million, or 5.7%, in the second quarter of fiscal 2017 compared to the prior-year period. For the first six months of fiscal 2017, our International segment SG&A decreased $35 million, or 9.8%, compared to the first six months of fiscal 2016. The decrease in SG&A for both periods was primarily driven by the elimination of expenses associated with closed stores as part of the Canadian brand consolidation and the positive impact of foreign currency fluctuation.

In the first six months of fiscal 2016, our International segment recorded restructuring charges of $183 million driven by our Canadian brand consolidation activities and primarily consisted of lease exit costs, a tradename impairment, property and equipment impairments, employee termination benefits and inventory write-downs. Refer to Note 5, Restructuring Charges, in the Notes to the Condensed Consolidated Financial Statements for additional information.

Table of Contents

Our International segment recorded break even operating income in the second quarter of fiscal 2017 compared to an operating loss of $21 million in the second quarter of fiscal 2016. For the first six months of fiscal 2017, our International segment recorded break even operating income compared to an operating loss of $239 million for the prior-year period. The increase in operating income for both periods was driven by lower restructuring charges and lower SG&A, as described above.

Non-GAAP Financial Measures

The following table reconciles operating income, effective tax rate, net earnings and diluted earnings per share from continuing operations for the periods presented (GAAP financial measures) to non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings and non-GAAP diluted earnings per share from continuing operations for the periods presented ($ in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Operating income	$289	$288	$661	$374
Net CRT settlements[1]	—	(8)	(161)	(75)
Restructuring charges – COGS[2]	—	(3)	—	5
Other Canadian brand consolidation charges - SG&A[3]	1	2	1	5
Non-restructuring asset impairments - SG&A[4]	3	14	8	25
Restructuring charges[2]	—	(1)	29	177
Non-GAAP operating income	$293	$292	$538	$511
Income tax expense	$97	$108	$231	$146
Effective tax rate	34.8%	39.8%	36.2%	42.1%
Income tax impact of non-GAAP adjustments[5]	1	(6)	(46)	31
Non-GAAP income tax expense	$98	$102	$185	$177
Non-GAAP effective tax rate	34.7%	37.1%	36.1%	36.8%
Net earnings from continuing operations	$182	$164	$408	$201
Net CRT settlements[1]	—	(8)	(161)	(75)
Restructuring charges – COGS[2]	—	(3)	—	5
Other Canadian brand consolidation charges - SG&A[3]	1	2	1	5
Non-restructuring asset impairments - SG&A[4]	3	14	8	25
Restructuring charges[2]	—	(1)	29	177
Gain on sale of investments	—	—	(2)	(2)
Income tax impact of non-GAAP adjustments[5]	(1)	6	46	(31)
Non-GAAP net earnings from continuing operations	$185	$174	$329	$305
Diluted earnings per share from continuing operations	$0.56	$0.46	$1.26	$0.57
Per share impact of net CRT settlements[1]	—	(0.02)	(0.50)	(0.21)
Per share impact of restructuring charges - COGS[2]	—	(0.01)	—	0.01
Per share impact of other Canadian brand consolidation charges SG&A[3]	—	—	—	0.01
Per share impact of non-restructuring asset impairments - SG&A[4]	0.01	0.04	0.03	0.07
Per share impact of restructuring charges[2]	—	—	0.09	0.50
Per share impact of gain on sale of investments	—	—	(0.01)	—
Per share income tax impact of non-GAAP adjustments[5]	—	0.02	0.14	(0.09)

Non-GAAP diluted earnings per share from continuing operations	$0.57	$0.49	$1.01	$0.86

Table of Contents

(1) Represents CRT litigation settlements related to the United States reached in each reported period, net of related legal fees and costs. Settlements relate to products purchased and sold in prior fiscal years. Refer to Note 12, Contingencies, in the Notes to Condensed Consolidated Financial Statements for additional information.

(2) Refer to Note 5, Restructuring Charges, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the nature of these charges. For the three months ended August 1, 2015, a benefit of $1 million related to the United States and a charge of the $5 million related to Canada. For the six months ended July 30, 2016, $25 million related to the United States and $4 million related to Canada. For the six months ended August 1, 2015, a benefit of $1 million related to the United States and a charge of $183 million related to Canada.

(3) Represents charges related to the Canadian brand consolidation initiated in the first quarter of fiscal 2016, primarily due to retention bonuses and other store-related costs that were a direct result of the consolidation but did not qualify as restructuring charges.

(4) Refer to Note 3, Fair Value Measurements, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the nature of these charges. For the three months ended July 30, 2016, the entire balance related to the United States. For the three months ended August 1, 2015, $11 million related to the United States and $3 million related to Canada. For the six months ended July 30, 2016, $7 million related to the United States and $1 million related to Canada. For the six months ended August 1, 2015, $22 million related to the United States and $3 million related to Canada.

(5) Income tax impact of non-GAAP adjustments is the summation of the calculated income tax charge related to each non-GAAP non-income tax adjustment. The non-GAAP adjustments relate primarily to adjustments in the United States and Canada; therefore, the income tax charge is calculated using the statutory tax rates of 38% and 26.4%, respectively, applied to non-GAAP adjustments of each country.

For the second quarter of fiscal 2017, non-GAAP operating income rate was 3.4% of revenue, which was consistent with the non-GAAP operating income rate for the second quarter of fiscal 2016. The non-GAAP operating income rate was 3.2% and 3.0% of revenue for the first six months of fiscal 2017 and fiscal 2016, respectively. This increase was driven by lower SG&A in the International segment related to the elimination of expenses associated with closed stores as part of the Canadian brand consolidation. The increase in non-GAAP operating income resulted in a year-over-year increase in non-GAAP net earnings from continuing operations and non-GAAP diluted earnings per share from continuing operations in the second quarter and first six months of fiscal 2017.

Liquidity and Capital Resources

Summary

We closely manage our liquidity and capital resources. Our liquidity requirements depend on key variables, including the level of investment to support our business strategies, the performance of our business, capital expenditures, credit facilities and short-term borrowing arrangements and working capital management. Capital expenditures and share repurchases
are a component of our cash flow and capital management strategy which, to a large extent, we can adjust in response to economic and other changes in our business environment. We have a disciplined approach to capital allocation, which focuses on investing in key priorities that support our Renew Blue strategy.

The following table summarizes our cash and cash equivalents and short-term investments balances at July 30, 2016, January 30, 2016, and August 1, 2015 ($ in millions):

	July 30, 2016	January 30, 2016	August 1, 2015
Cash and cash equivalents	$ 1,861	$ 1,976	$ 1,800
Short-term investments	1,590	1,305	1,695

Total cash and cash equivalents and short-term investments	$ 3,451	$ 3,281	$ 3,495

The increase in total cash and cash equivalents and short-term investments from January 30, 2016, was primarily due to cash generated from operating activities, partially offset by the repayment of our 2016 Notes, additional share repurchases and dividend payments.

Table of Contents

Cash Flows

The following table summarizes our cash flows from total operations for the first six months of fiscal 2017 and 2016 ($ in millions):

	Six Months Ended	
	July 30, 2016	August 1, 2015
Total cash provided by (used in):		
Operating activities	$1,288	$ 308
Investing activities	(495)	(478)
Financing activities	(933)	(640)
Effect of exchange rate changes on cash	25	(16)
Decrease in cash and cash equivalents	$(115)	$ (826)

Operating activities
The increase in cash provided by operating activities in fiscal 2017 as compared to fiscal 2016 was primarily due to higher net earnings in fiscal 2017 and changes in working capital, mainly due to timing of receipts and payments of inventory. During fiscal 2016, we generally purchased and paid for inventory earlier in the Holiday season than in the prior year, meaning that the cash paid in the first quarter of fiscal 2017 was lower than in fiscal 2016. In addition, the first quarter of fiscal 2017 included the Super Bowl, which also increased cash inflows compared to the first quarter of fiscal 2016.

Investing activities
The increase in cash used in investing activities in the first six months of fiscal 2017 compared to the prior-year period is primarily due to the reduction of cash received related to the disposition of Five Star. In the first six months of fiscal 2016, we received net cash of $92 million related to the sale of Five Star, while in the first six months of fiscal 2017, we received $56 million for the Five Star asset held for sale as of January 30, 2016.

Financing activities
The increase in cash used in financing activities in the first six months of fiscal 2017 compared to the prior-year period was primarily the result of the repayment of our 2016 Notes, partially offset by a reduction in the cash used to repurchase common stock. While the rate of common stock repurchases is similar year-over-year, the cash outflow has decreased due to the accelerated share repurchase agreement entered into on January 22, 2016, (refer to Note 10, Repurchase of Common Stock, in the Notes to Condensed Consolidated Financial Statements for additional information) that required payment prior to the end of fiscal 2016 but settled in the first quarter of fiscal 2017.

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents, short-term investments, our credit facilities and other debt arrangements and trade payables are our most significant sources of liquidity. We believe our sources of liquidity will be sufficient to sustain operations and to finance anticipated capital investments and strategic initiatives. However, in the event our liquidity is insufficient, we may be required to limit our spending. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our existing credit facilities or obtain additional financing, if necessary, on favorable terms.

On June 27, 2016, we entered into a $1.25 billion five-year senior unsecured revolving credit facility (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"), 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 July 30, 2016, we had no borrowings outstanding under the Five-Year Facility Agreement. The Five-Year Facility Agreement contains substantially the same terms as the Previous Facility. Refer to Note 6, Debt, in the Notes to Condensed Consolidated Financial Statements for additional information about the Five-Year Facility Agreement.

Our ability to access our revolving credit facility under the Five-Year Facility Agreement is subject to our compliance with the terms and conditions of the facility, including financial covenants. The financial covenants require us to maintain certain financial ratios. At July 30, 2016, we were in compliance with all such financial covenants. If an event of default were to occur with respect to any of our other debt, it would likely constitute an event of default under our facilities as well.

Table of Contents

Our credit ratings and outlooks at July 30, 2016 are summarized below. On July 26, 2016, Standard & Poor's Rating Services ("Standard & Poor's") upgraded its long-term credit rating from BB+ to BBB- with a Stable outlook. On August 24, 2016, Moody's Investors Service, Inc. ("Moody's") affirmed its long-term credit rating of Baa1 with a Stable outlook. On August 26, 2015, Fitch Ratings Limited ("Fitch") upgraded its long-term credit rating from BB to BBB- with a Stable outlook.

Rating Agency	Rating	Outlook
Standard & Poor's	BBB-	Stable
Moody's	Baa1	Stable
Fitch	BBB-	Stable

Credit rating agencies review their ratings periodically, and, therefore, the credit rating assigned to us by each agency may be subject to revision at any time. Accordingly, we are not able to predict whether our current credit ratings will remain as disclosed above. Factors that can affect 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. If further changes in our credit ratings were to occur, they could impact, among other things, interest costs for certain of our credit facilities, our future borrowing costs, access to capital markets, vendor financing terms and future new-store leasing costs.

Restricted Cash

Our liquidity is also affected by restricted cash balances that are pledged as collateral or restricted to use for general liability insurance, workers' compensation insurance and our product warranty program. Restricted cash and cash equivalents related to our continuing operations, which are included in other current assets, remained consistent at $189 million, $185 million, and $184 million at July 30, 2016, January 30, 2016, and August 1, 2015, respectively.

Debt and Capital

In March 2016, we repaid our $350 million principal amount of notes due March 15, 2016 using existing cash resources. As of July 30, 2016, we have $500 million principal amount of notes due August 1, 2018 (the "2018 Notes") and $650 million principal amount of notes due March 15, 2021 (the "2021 Notes"). Refer to 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 further information about our 2018 Notes and 2021 Notes.

Other

At July 30, 2016, January 30, 2016, and August 1, 2015, we had $181 million, $178 million, and $52 million, respectively, outstanding under financing lease obligations. The increase in financing lease obligations from August 1, 2015, to July 30, 2016, was primarily due to renewals on existing leases.

Share Repurchases and Dividends

We repurchase our common stock in the open market pursuant to programs approved by our Board. We may repurchase our common stock for a variety of reasons, such as acquiring shares to offset dilution related to equity-based incentives, including stock options and our employee stock purchase plan, and optimizing our capital structure. We consider several factors in determining whether to make share repurchases including, among other things, our cash needs, the availability of funding, our future business plans and the market price of our stock. If we decide to make future share repurchases, we expect that cash provided by future operating activities, as well as available cash and cash equivalents, will be the sources of funding for our share repurchases.

We have a $5.0 billion share repurchase program that was authorized by our Board in June 2011. There is no expiration date governing the period over which we can repurchase shares under the June 2011 share repurchase program. In fiscal 2016, we repurchased $1.0 billion, and as of January 30, 2016, there was $3.0 billion available for share repurchases.

On February 25, 2016, we announced a plan to return capital to shareholders. The plan included a special dividend of $0.45 per share, or approximately $145 million, and a 22% increase in our regular quarterly dividend to $0.28 per share. We plan to continue share repurchases under the June 2011 share repurchase program, with the intent to repurchase $1.0 billion in shares in fiscal 2017 and fiscal 2018.

Table of Contents

For the six months ended July 30, 2016, we repurchased 10.5 million shares at a cost of $322 million. At July 30, 2016, $2.7 billion remained available for additional purchases under the June 2011 share repurchase program. For the six months ended August 1, 2015, we repurchased 9.5 million shares at a cost of $324 million. Repurchased shares are retired and constitute authorized but unissued shares.

During the second quarters of fiscal 2017 and 2016, we declared and paid our regular quarterly cash dividend of $0.28 and $0.23 per common share, or $90 million and $81 million in the aggregate, respectively. In the first six months of fiscal 2017 and 2016, we declared and paid $325 million and $342 million, respectively, in regular and special dividends. As announced on August 24, 2016, our Board authorized payment of our next regular quarterly cash dividend of $0.28 per common share, payable on October 4, 2016, to shareholders of record as of the close of business on September 13, 2016.

Other Financial Measures

Our current ratio, calculated as current assets divided by current liabilities, was 1.4 at the end of the second quarter of fiscal 2017, compared to 1.4 at the end of fiscal 2016 and 1.5 at the end of the second quarter of fiscal 2016. The consistent current ratio in the second quarter of fiscal 2017 compared to the end of fiscal 2016 was driven by the payment of our 2016 Notes, offset by higher cash and cash equivalents and short-term investment balances. The lower current ratio at July 30, 2016, compared to August 2, 2015, was driven by lower receivables and merchandise inventories balances.

Our debt to net earnings ratio was 1.4 at the end of the second quarter of fiscal 2017, compared to 2.1 at the end of fiscal 2016 and 1.9 at the end of the second quarter of fiscal 2016. The decrease at the end of the second quarter of fiscal 2017 compared to both periods was primarily due to the payment of our 2016 Notes and an increase in net earnings in the trailing twelve months for each period presented. Our non-GAAP debt to EBITDAR ratio, which includes capitalized operating lease obligations in its calculation, decreased to 1.6 at the end of the second quarter of fiscal 2017, compared to 1.8 at the end of fiscal 2016 and 1.9 at the end of the second quarter of fiscal 2016. The lower non-GAAP debt to EBITDAR ratio as of the end of the second quarter of fiscal 2017 was also primarily due to the payment of our 2016 Notes and an increase in net earnings in the trailing twelve months for each period presented.

Commencing in fiscal 2017, we modified the multiple used to calculate our estimated capitalized operating lease obligation included in our non-GAAP debt calculation. Due to changes in the average remaining lease life of our operating lease portfolio, we have lowered the multiple used from eight times annual rent expense to five times annual rent expense. In addition, the multiple of five aligns with the multiple used by one of the nationally recognized credit rating agencies when evaluating the creditworthiness of companies within the retail sector. Prior periods presented have been adjusted to use this new multiple.

Our non-GAAP debt to EBITDAR ratio is calculated as follows:

$$\text{Non-GAAP debt to EBITDAR} = \frac{\text{Non-GAAP debt}}{\text{EBITDAR}}$$

The most directly comparable GAAP financial measure to our non-GAAP debt to EBITDAR ratio is our debt to net earnings ratio, which excludes capitalized operating lease obligations from debt in the numerator of the calculation and does not adjust net earnings in the denominator of the calculation.

Table of Contents

The following table presents a reconciliation of our debt to net earnings ratio and our non-GAAP debt to EBITDAR ratio for continuing operations ($ in millions):

	July 30, 2016[1]	January 30, 2016[1][2]	August 1, 2015[1][2]
Debt (including current portion)	$ 1,384	$ 1,734	$ 1,609
Capitalized operating lease obligations (5 times rental expense)[2]	3,847	3,916	4,030
Non-GAAP debt	$ 5,231	$ 5,650	$ 5,639
Net earnings from continuing operations	$ 1,014	$ 807	$ 841
Interest expense, net	60	65	56
Income tax expense	588	503	492
Depreciation and amortization expense	658	656	655
Rental expense	769	783	806
Restructuring charges and other[3]	91	263	151
EBITDAR	$ 3,180	$ 3,077	$ 3,001
Debt to net earnings ratio	1.4	2.1	1.9
Non-GAAP debt to EBITDAR ratio	1.6	1.8	1.9

(1) Debt is reflected as of the balance sheet dates for each of the respective fiscal periods, while rental expense and the other components of EBITDAR represent activity for the 12 months ended as of each of the respective dates.

(2) The multiple of five times annual rental expense in the calculation of our capitalized operating lease obligations is the multiple used for the retail sector by one of the nationally recognized credit rating agencies that rate our creditworthiness, and we consider it to be an appropriate multiple for our lease portfolio. Historically, we used a capitalized lease multiple of eight times annual rent expense; however, due to changes in the average remaining lease life of our operating leases, we have lowered the multiple to five. The prior period calculations have been updated to reflect the use of the changes.

(3) Includes the impact of restructuring charges, non-restructuring asset impairments and CRT litigation settlements.

Off-Balance-Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent on the use of off-balance-sheet financing arrangements other than in connection with our operating leases and our $1.25 billion in undrawn capacity on our credit facilities at July 30, 2016, which, if drawn upon, would be included as short-term debt in our Condensed Consolidated Balance Sheets.

There has been no material change in our contractual obligations other than as described in Note 6, Debt, in the Notes to Condensed Consolidated Financial Statements, above, and in the ordinary course of business since the end of fiscal 2016. See our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 for additional information regarding our off-balance-sheet arrangements and contractual obligations.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016. We discuss our critical accounting estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of fiscal 2016.

New Accounting Pronouncements

For a description of new applicable accounting pronouncements, see Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Table of Contents

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”), provide a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements and may be identified by the use of words such as "anticipate," "assume," "believe," "estimate," "expect," "guidance," "intend," "outlook," "plan," "project" and other words and terms of similar meaning. Such statements reflect our current views and estimates with respect to future market conditions, company performance and financial results, business prospects, new strategies, the competitive environment and other events. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in such forward-looking statements. Readers should review Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016, for a description of important factors that could cause our actual results to differ materially from those contemplated by the forward-looking statements made in this Quarterly Report on Form 10-Q. Among the factors that could cause actual results and outcomes to differ materially from those contained in such forward-looking statements are the following: macro-economic conditions (including fluctuations in housing prices, oil markets and jobless rates), conditions in the industries and categories in which we operate, changes in consumer preferences, changes in consumer confidence, consumer spending and debt levels, online sales levels and trends, average ticket size, the mix of products and services offered for sale in our physical stores and online, credit market changes and constraints, product availability, competitive initiatives of competitors (including pricing actions and promotional activities of competitors), strategic and business decisions of our vendors (including actions that could impact promotional support, product margin and/or supply), the success of new product launches, the impact of pricing investments and promotional activity, weather, natural or man-made disasters, attacks on our data systems, our ability to prevent or react to a disaster recovery situation, changes in law or regulations, changes in tax rates, changes in taxable income in each jurisdiction, tax audit developments and resolution of other discrete tax matters, foreign currency fluctuation, availability of suitable real estate locations, our ability to manage our property portfolio, the impact of labor markets, our ability to retain qualified employees, changes in senior management, failure to achieve anticipated expense and cost reductions from operational and restructuring changes, disruptions in our supply chain, the costs of procuring goods we sell, failure to achieve anticipated revenue and profitability increases from operational and restructuring changes (including investments in our multi-channel capabilities and brand consolidations), inability to secure or maintain favorable terms with our major vendors and other partners (including, but not limited to, product suppliers and carriers that operate competing retail channels), failure to accurately predict the duration over which we will incur costs, acquisitions and development of new businesses, divestitures of existing businesses, failure to complete or achieve anticipated benefits of announced transactions, integration challenges relating to new ventures and our ability to protect information relating to our employees and customers. We caution that the foregoing list of important factors is not complete. Any forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statement that we may make.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed in our Form 10-K for fiscal 2016, in addition to the risks inherent in our operations, we are exposed to certain market risks.

Interest Rate Risk

We are exposed to changes in short-term market interest rates and these changes in rates will impact our net interest expense. Our cash and short-term investments generate interest income that will vary based on changes in short-term interest rates. In addition, we have swapped a portion of our fixed-rate debt to a floating-rate such that the interest rate expense on this debt will vary with short-term interest rates. Refer to Note 5, Debt, and Note 6, Derivative

Instruments, 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 further information regarding our interest rate swaps.

As of July 30, 2016, we had $3.5 billion of cash and short-term investments and $750 million of debt that has been swapped to floating rate. Therefore, we had net cash and short-term investments of $2.8 billion generating income, which is exposed to interest rate changes. As of July 30, 2016, a 50 basis point increase in short-term interest rates would lead to an estimated $14 million reduction in net interest expense, and conversely a 50 basis point decrease in short-term interest rates would lead to an estimated $14 million increase in net interest expense.

Table of Contents

Foreign Currency Exchange Rate Risk

We have market risk arising from changes in foreign currency exchange rates related to our International segment operations. On a limited basis, we utilize foreign exchange forward contracts to manage foreign currency exposure to certain forecast inventory purchases, recognized receivable and payable balances and our investment in our Canadian operations. Our primary objective in holding derivatives is to reduce the volatility of net earnings and cash flows, as well as net asset value associated with changes in foreign currency exchange rates. Our foreign currency risk management strategy includes both hedging instruments and derivatives that are not designated as hedging instruments, which generally have terms of up to 12 months. The aggregate notional amount related to our foreign exchange forward contracts outstanding at July 30, 2016 was $244 million. The net fair value recorded on our Condensed Consolidated Balance Sheets at July 30, 2016, related to our foreign exchange forward contracts was $4 million. The amount recorded in our Condensed Consolidated Statements of Earnings from continuing operations related to all contracts settled and outstanding was a gain of $2 million in the second quarter of fiscal 2017.

The strength of the U.S. dollar compared to the Canadian dollar and Mexican peso compared to the prior-year period had a negative overall impact on our revenue as these foreign currencies translated into fewer U.S. dollars. We estimate that foreign currency exchange rate fluctuations had a net unfavorable impact on our revenue of approximately $33 million and a positive impact on our net earnings of $1 million in the second quarter of fiscal 2017.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a regular quarterly basis, and otherwise as needed.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at July 30, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at July 30, 2016, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the fiscal quarter ended July 30, 2016, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our legal proceedings, see Note 12, Contingencies, of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Stock Repurchases

The following table presents the total number of shares of our common stock that we purchased during the second quarter of fiscal 2017, the average price paid per share, the number of shares that we purchased as part of our publicly announced repurchase program and the approximate dollar value of shares that still could have been repurchased at the end of the applicable fiscal period, pursuant to our June 2011 $5.0 billion share repurchase program:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
May 1, 2016 through May 28, 2016	868,192	$ 31.79	868,192	$ 2,860,000,000
May 29, 2016 through July 2, 2016	4,752,727	$ 30.11	4,752,727	$ 2,717,000,000
July 3, 2016 through July 30, 2016	1,602,853	$ 31.63	1,602,853	$ 2,667,000,000
Total Fiscal 2017 Second Quarter	7,223,772	$ 30.65	7,223,772	

(1) We have a $5.0 billion share repurchase program that was authorized by our Board in June 2011. At the beginning of the second quarter of fiscal 2017, there was $2.9 billion available for share repurchases. The "Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program" reflects the $221 million we purchased in the second quarter of fiscal 2017 pursuant to such program. There is no expiration date governing the period over which we can repurchase shares under the June 2011 share repurchase program. For additional information see Note 10, Repurchase of Common Stock, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Table of Contents

Item 6. Exhibits

3.1	Restated Articles of Incorporation (incorporated herein by reference to the Definitive Proxy Statement filed by Best Buy Co., Inc. on May 12, 2009)
3.2	Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on September 26, 2013)
10.1	Form of Best Buy Co. Inc. Longer Term Incentive Program Award Agreement for Non-U.S. Directors (2016)
10.2	Five-Year Credit Agreement dated as of June 27, 2016, among Best Buy Co., Inc., the Subsidiary Guarantors, the Lenders and JP Morgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on June 30, 2016)
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[(1)]
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[(1)]
101	The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2017, filed with the SEC on September 2, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at July 30, 2016, January 30, 2016, and August 1, 2015, (ii) the Condensed Consolidated Statements of Earnings for the three and six months ended July 30, 2016, and August 1, 2015, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 30, 2016, and August 1, 2015, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended July 20, 2016, and August 1, 2015, (v) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended July 30, 2016, and August 1, 2015 and (vi) the Notes to Condensed Consolidated Financial Statements.

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(1) The certifications in Exhibit 32.1 and Exhibit 32.2 to this Quarterly Report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K under the Securities Act of 1933, as amended, the registrant has not filed as exhibits to this Quarterly Report on Form 10-Q 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 SEC upon request.

Table of Contents

SIGNATURES

Pursuant to the requirements 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)

Date: September 2, 2016 By: /s/ HUBERT JOLY
Hubert Joly
Chairman and Chief Executive Officer

Date: September 2, 2016 By: /s/ CORIE BARRY
Corie Barry
Chief Financial Officer

Date: September 2, 2016 By: /s/ MATHEW R. WATSON
Mathew R. Watson
Vice President, Finance – Controller and Chief Accounting Officer