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

FORM 10-Q

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

For the quarterly period ended October 29, 2016

OR

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

For the transition period from to

Commission file number 1-8344

L BRANDS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**31-1029810**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
Three Limited Parkway Columbus, Ohio	**43230**
(Address of principal executive offices)	(Zip Code)

(614) 415-7000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark 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	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.50 Par Value	**Outstanding at November 25, 2016**
	285,955,863 Shares

L BRANDS, INC.

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* The Company's fiscal year ends on the Saturday nearest to January 31. As used herein, "third quarter of 2016" and "third quarter of 2015" refer to the thirteen week periods ending October 29, 2016 and October 31, 2015, respectively. "Year-to-date 2016" and "year-to-date 2015" refer to the thirty-nine week periods ending October 29, 2016 and October 31, 2015, respectively.

PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in millions except per share amounts)
(Unaudited)

	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
Net Sales	$ 2,581	$ 2,482	$ 8,085	$ 7,759
Costs of Goods Sold, Buying and Occupancy	(1,556)	(1,451)	(4,904)	(4,558)
Gross Profit	1,025	1,031	3,181	3,201
General, Administrative and Store Operating Expenses	(741)	(692)	(2,166)	(2,087)
Operating Income	284	339	1,015	1,114
Interest Expense	(97)	(79)	(295)	(237)
Other Income	3	—	83	75
Income Before Income Taxes	190	260	803	952
Provision for Income Taxes	68	96	277	335
Net Income	$ 122	$ 164	$ 526	$ 617
Net Income Per Basic Share	$ 0.43	$ 0.56	$ 1.83	$ 2.12
Net Income Per Diluted Share	$ 0.42	$ 0.55	$ 1.81	$ 2.08
Dividends Per Share	$ 0.60	$ 0.50	$ 3.80	$ 3.50

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
Net Income	$ 122	$ 164	$ 526	$ 617
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation	(15)	(7)	(25)	5
Unrealized Gain (Loss) on Cash Flow Hedges	9	2	(2)	6
Reclassification of Cash Flow Hedges to Earnings	(4)	3	5	(7)
Unrealized Gain (Loss) on Marketable Securities	—	2	(3)	2
Reclassification of Gain on Marketable Securities to Earnings	—	—	(3)	—
Total Other Comprehensive Income (Loss), Net of Tax	(10)	—	(28)	6
Total Comprehensive Income	$ 112	$ 164	$ 498	$ 623

The accompanying Notes are an integral part of these Consolidated Financial Statements.

L BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions except par value amounts)

	October 29, 2016	January 30, 2016	October 31, 2015
	(Unaudited)		(Unaudited)
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 654	$ 2,548	$ 1,311
Accounts Receivable, Net	325	261	283
Inventories	1,651	1,122	1,620
Other	256	225	315
Total Current Assets	2,886	4,156	3,529
Property and Equipment, Net	2,770	2,330	2,350
Goodwill	1,348	1,318	1,318
Trade Names and Other Intangible Assets, Net	411	411	411
Deferred Income Taxes	30	30	27
Other Assets	218	248	258
Total Assets	$ 7,663	$ 8,493	$ 7,893
LIABILITIES AND EQUITY (DEFICIT)			
Current Liabilities:			
Accounts Payable	$ 962	$ 668	$ 913
Accrued Expenses and Other	909	977	804
Current Portion of Long-term Debt	23	6	4
Income Taxes	113	224	7
Total Current Liabilities	2,007	1,875	1,728
Deferred Income Taxes	262	257	241
Long-term Debt	5,701	5,715	5,713
Other Long-term Liabilities	881	904	868
Shareholders' Equity (Deficit):			
Preferred Stock - $1.00 par value; 10 shares authorized; none issued	—	—	—
Common Stock - $0.50 par value; 1,000 shares authorized; 315, 313 and 313 shares issued; 286, 290 and 291 shares outstanding, respectively	157	156	156
Paid-in Capital	620	545	515
Accumulated Other Comprehensive Income	12	40	41
Retained Earnings (Accumulated Deficit)	(254)	315	(175)
Less: Treasury Stock, at Average Cost; 29, 23 and 22 shares, respectively	(1,725)	(1,315)	(1,195)
Total L Brands, Inc. Shareholders' Equity (Deficit)	(1,190)	(259)	(658)
Noncontrolling Interest	2	1	1
Total Equity (Deficit)	(1,188)	(258)	(657)
Total Liabilities and Equity (Deficit)	$ 7,663	$ 8,493	$ 7,893

The accompanying Notes are an integral part of these Consolidated Financial Statements.

L BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Year-to-Date	
	2016	2015
Operating Activities:		
Net Income	$ 526	$ 617
Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:		
Depreciation and Amortization of Long-lived Assets	378	335
Amortization of Landlord Allowances	(35)	(31)
Share-based Compensation Expense	70	73
Deferred Income Taxes	9	3
Excess Tax Benefits from Share-based Compensation	(39)	(65)
Gain on Distribution from Easton Town Center, LLC	(108)	—
Loss on Extinguishment of Debt	36	—
Gain on Distribution from Investment	(4)	—
Gain on Sale of Marketable Securities	(4)	—
Gain on Divestiture of Third-party Apparel Sourcing Business	—	(78)
Loss on Sale of Assets	—	3
Changes in Assets and Liabilities, Net of Assets and Liabilities from Acquisition:		
Accounts Receivable	(75)	(30)
Inventories	(527)	(586)
Accounts Payable, Accrued Expenses and Other	168	118
Income Taxes Payable	(74)	(154)
Other Assets and Liabilities	(5)	57
Net Cash Provided by Operating Activities	316	262
Investing Activities:		
Capital Expenditures	(825)	(603)
Return of Capital from Easton Town Center, LLC	108	—
Acquisition, Net of Cash Acquired of $1	(33)	—
Proceeds from Sale of Marketable Securities	10	50
Proceeds from Sale of Assets	—	196
Proceeds from Divestiture of Third-party Apparel Sourcing Business	—	85
Purchases of Marketable Securities	—	(60)
Other Investing Activities	19	—
Net Cash Used for Investing Activities	(721)	(332)
Financing Activities:		
Proceeds from Issuance of Long-term Debt, Net of Issuance Costs	692	988
Payment of Long-term Debt	(742)	—
Borrowings from Revolving Facilities	20	5
Repayments on Revolving Facilities	(4)	—
Dividends Paid	(1,096)	(1,026)
Repurchases of Common Stock	(410)	(363)
Excess Tax Benefits from Share-based Compensation	39	65
Proceeds from Exercise of Stock Options	17	31
Financing Costs and Other	(2)	(2)
Net Cash Used for Financing Activities	(1,486)	(302)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(3)	2
Net Decrease in Cash and Cash Equivalents	(1,894)	(370)
Cash and Cash Equivalents, Beginning of Period	2,548	1,681
Cash and Cash Equivalents, End of Period	$ 654	$ 1,311

The accompanying Notes are an integral part of these Consolidated Financial Statements.

L BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

L Brands, Inc. (“the Company”) operates in the highly competitive specialty retail business. The Company is a specialty retailer of women’s intimate and other apparel, beauty and personal care products and accessories. The Company sells its merchandise through company-owned specialty retail stores in the United States (“U.S.”), Canada, United Kingdom ("U.K.") and Greater China (China and Hong Kong), and through its websites and other channels. The Company's other international operations are primarily through franchise, license and wholesale partners. The Company currently operates the following retail brands:

- Victoria’s Secret
- PINK
- Bath & Body Works
- La Senza
- Henri Bendel

Fiscal Year

The Company’s fiscal year ends on the Saturday nearest to January 31. As used herein, “third quarter of 2016” and “third quarter of 2015” refer to the thirteen week periods ending October 29, 2016 and October 31, 2015, respectively. "Year-to-date 2016" and "year-to-date 2015" refer to the thirty-nine week periods ending October 29, 2016 and October 31, 2015, respectively.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for investments in unconsolidated entities where it exercises significant influence, but does not have control, using the equity method. Under the equity method of accounting, the Company recognizes its share of the investee's net income or loss. Losses are only recognized to the extent the Company has positive carrying value related to the investee. Carrying values are only reduced below zero if the Company has an obligation to provide funding to the investee. The Company’s share of net income or loss of unconsolidated entities from which the Company purchases merchandise or merchandise components is included in Costs of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income. The Company’s share of net income or loss of all other unconsolidated entities is included in Other Income on the Consolidated Statements of Income. The Company’s equity method investments are required to be tested for impairment when it is determined there may be an other-than-temporary loss in value.

Interim Financial Statements

The Consolidated Financial Statements as of and for the periods ended October 29, 2016 and October 31, 2015 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in the Company’s 2015 Annual Report on Form 10-K.

In the opinion of management, the accompanying Consolidated Financial Statements reflect all adjustments which are of a normal recurring nature and necessary for a fair presentation of the results for the interim periods.

Seasonality of Business

Due to seasonal variations in the retail industry, the results of operations for any interim period are not necessarily indicative of the results expected for the full fiscal year.

Concentration of Credit Risk and Investments

The Company maintains cash and cash equivalents and derivative contracts with various major financial institutions. The Company monitors the relative credit standing of financial institutions with whom the Company transacts and limits the amount of credit exposure with any one entity. Typically, the Company’s investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits.

The Company also periodically reviews the relative credit standing of franchise, license and wholesale partners and other entities to which the Company grants credit terms in the normal course of business. The Company records an allowance for uncollectable accounts when it becomes probable that the counterparty will be unable to pay.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates, and the Company revises its estimates and assumptions as new information becomes available.

2. New Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance will be effective beginning in fiscal year 2018, with early adoption as of fiscal year 2017 permitted. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating this standard, including the transition method and timing of adoption, and the related impact on its Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance requires companies classified as lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective beginning in fiscal year 2019, with early adoption permitted. The Company is currently evaluating this standard, including the timing of adoption, and the related impact on its Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

Simplifying the Presentation of Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This guidance requires companies to recognize income tax effects of awards in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The standard also will require all tax-related cash flows resulting from share-based payments to be reported as operating activities on the statements of cash flows, and any cash payments made to taxing authorities on an employee's behalf as financing activities. The standard will be effective beginning in fiscal year 2017, with early adoption permitted. Management has determined that the Company will adopt ASU 2016-09 in the first quarter of fiscal year 2017. The Company is currently evaluating the related impact on its Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This guidance requires companies to recognize debt issuance costs related to recognized debt liabilities on the balance sheet as a direct deduction from the carrying amount of those debt liabilities, consistent with debt discounts. This guidance is effective beginning in fiscal year 2016, with early adoption permitted.

The Company elected to early adopt this standard effective January 30, 2016. Upon adoption, prior period financial statements were recast as required by the standard to present debt issuance costs as a direct deduction from the carrying value of the related debt liabilities. The impact of the adoption of this standard is a decrease of $49 million to Other Assets and Long-term Debt on the October 31, 2015 Consolidated Balance Sheet.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes.* This guidance requires companies to present all deferred tax assets and liabilities as noncurrent on the balance sheet. This guidance will be effective beginning in fiscal year 2017, and early adoption is permitted.

The Company elected to early adopt this standard effective January 30, 2016 using the retrospective application transition method. Upon adoption, prior period financial statements were recast to present all deferred tax assets and liabilities as noncurrent on the balance sheet. The impact of the adoption of this standard on the October 31, 2015 Consolidated Balance Sheet is a decrease in current deferred income tax assets of $35 million; an increase in noncurrent deferred income tax assets of $8 million; and a decrease to noncurrent deferred income tax liabilities of $27 million.

3. Earnings Per Share and Shareholders' Equity (Deficit)

Earnings Per Share

Earnings per basic share is computed based on the weighted-average number of outstanding common shares. Earnings per diluted share include the weighted-average effect of dilutive options and restricted stock on the weighted-average shares outstanding.

The following table provides shares utilized for the calculation of basic and diluted earnings per share for the third quarter and year-to-date 2016 and 2015:

	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
	(in millions)			
Weighted-average Common Shares:				
Issued Shares	315	313	314	312
Treasury Shares	(29)	(22)	(27)	(20)
Basic Shares	286	291	287	292
Effect of Dilutive Options and Restricted Stock	4	5	4	5
Diluted Shares	290	296	291	297
Anti-dilutive Options and Awards (a)	2	1	2	1

(a) These options and awards were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Shareholders' Equity (Deficit)

Common Stock Share Repurchases

Under the authority of the Company's Board of Directors, the Company repurchased shares of its common stock under the following repurchase programs for year-to-date 2016 and 2015:

Repurchase Program	Amount Authorized	Shares Repurchased		Amount Repurchased		Average Stock Price of Shares Repurchased within Program
		2016	2015	2016	2015	
	(in millions)	(in thousands)		(in millions)		
February 2016	$ 500	5,270	NA	$ 410	NA	$ 77.75
June 2015	$ 250	NA	1,375	NA	$ 113	$ 82.31
February 2015	$ 250	NA	2,788	NA	$ 250	$ 89.45

In the first quarter of 2016, the Company's Board of Directors approved a new $500 million share repurchase program, which included $17 million remaining under the June 2015 repurchase program.

The February 2016 repurchase program had $90 million remaining as of October 29, 2016. Subsequent to October 29, 2016, the Company repurchased an additional 0.2 million shares of common stock for $11 million under this program.

There were no share repurchases reflected in Accounts Payable on the October 29, 2016, January 30, 2016 and October 31, 2015 Consolidated Balance Sheets.

Dividends

Under the authority and declaration of the Board of Directors, the Company paid the following dividends during year-to-date 2016 and 2015:

	Ordinary Dividends	Special Dividends	Total Dividends	Total Paid
		(per share)		(in millions)
2016				
Third Quarter	$ 0.60	$ —	$ 0.60	$ 173
Second Quarter	0.60	—	0.60	173
First Quarter	0.60	2.00	2.60	750
2016 Total	$ 1.80	$ 2.00	$ 3.80	$ 1,096
2015				
Third Quarter	$ 0.50	$ —	$ 0.50	$ 146
Second Quarter	0.50	—	0.50	146
First Quarter	0.50	2.00	2.50	734
2015 Total	$ 1.50	$ 2.00	$ 3.50	$ 1,026

4. Acquisition

On April 18, 2016, the Company completed the acquisition of 100% of the shares of American Beauty Limited for a total purchase price of $44 million. This agreement included the reacquisition of the franchise rights from one of our partners to operate Victoria's Secret Beauty and Accessories stores in Greater China, including 26 stores already open at the time of acquisition. The purchase price included $10 million in forgiveness of liabilities owed to the Company from the pre-existing relationship. As a result of this acquisition, the Company's financial statements now include the financial results of American Beauty Limited, which are reported as part of the Victoria's Secret and Bath & Body Works International segment.

The total purchase price was allocated to the net tangible and intangible assets acquired based on their estimated fair value. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets. The allocation of the purchase price to goodwill was complete as of the second quarter of 2016. Goodwill related to the acquisition is not deductible for tax purposes.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed is as follows:

	(in millions)
Cash and Cash Equivalents	$ 1
Inventories	3
Property and Equipment	10
Goodwill	30
Other Assets	3
Current Liabilities	(3)
Net Assets Acquired	$ 44
Forgiveness of Liabilities Owed to the Company	(10)
Consideration Paid	$ 34

5. Restructuring Activities

During the first quarter of 2016, the Company announced strategic actions within the Victoria's Secret segment designed to focus the brand on its core merchandise categories and streamline operations. The Company announced it will place more focus on brand building and loyalty-enhancing marketing and advertising rather than using traditional catalogues and offers. As a result of these actions, the Company recorded charges related to cancellations of fabric commitments for non-go forward merchandise and a reserve against paper that was previously intended for future catalogues. These costs, totaling $11 million, including non-cash charges of $10 million, are included in Cost of Goods Sold, Buying and Occupancy on the year-to-date 2016 Consolidated Statement of Income. These actions also resulted in the elimination of approximately 200 positions primarily in the Company's Ohio and New York home offices. Severance and related costs associated with these eliminations, totaling $24 million, are included in General, Administrative and Store Operating Expenses on the year-to-date 2016 Consolidated Statement of Income. The Company recognized a total pre-tax charge of $35 million for these items in the first quarter of 2016. Through the third quarter of 2016, the Company made cash payments of $13 million and decreased the estimate of expected severance and related costs by $2 million. The remaining balance of $10 million is included in Accrued Expenses and Other on the October 29, 2016 Consolidated Balance Sheet.

6. Inventories

The following table provides details of inventories as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Finished Goods Merchandise	$ 1,499	$ 1,014	$ 1,465
Raw Materials and Merchandise Components	152	108	155
Total Inventories	$ 1,651	$ 1,122	$ 1,620

Inventories are principally valued at the lower of cost, as determined by the weighted-average cost method, or market.

7. Property and Equipment, Net

The following table provides details of property and equipment, net as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Property and Equipment, at Cost	$ 6,218	$ 5,639	$ 5,652
Accumulated Depreciation and Amortization	(3,448)	(3,309)	(3,302)
Property and Equipment, Net	$ 2,770	$ 2,330	$ 2,350

Depreciation expense was $133 million and $111 million for the third quarter of 2016 and 2015, respectively. Depreciation expense was $378 million and $335 million for year-to-date 2016 and 2015, respectively.

8. Equity Investments and Other

Third-party Apparel Sourcing Business

In the first quarter of 2015, the Company divested its remaining ownership interest in its third-party apparel sourcing business. The Company received cash proceeds of $85 million and recognized a pre-tax gain of $78 million (after-tax gain of $69 million). The gain is included in Other Income in the year-to-date 2015 Consolidated Statement of Income and the cash proceeds are included in Proceeds from Divestiture of Third-party Apparel Sourcing Business within the Investing Activities section of the 2015 Consolidated Statement of Cash Flows.

Easton Investments

The Company has land and other investments in Easton, a 1,300-acre planned community in Columbus, Ohio, that integrates office, hotel, retail, residential and recreational space. These investments totaled $80 million as of October 29, 2016, $86 million as of January 30, 2016 and $96 million as of October 31, 2015 and are recorded in Other Assets on the Consolidated Balance Sheets.

Included in the Company's Easton investments is an equity interest in Easton Town Center, LLC ("ETC"), an entity that owns and has developed a commercial entertainment and shopping center. The Company's investment in ETC is accounted for using the equity method of accounting. The Company has a majority financial interest in ETC, but another unaffiliated member manages ETC. Certain significant decisions regarding ETC require the consent of unaffiliated members in addition to the Company.

In the second quarter of 2016, ETC refinanced its bank loan. In conjunction with the loan refinancing, the Company received a cash distribution from ETC of $124 million and recognized a pre-tax gain of $108 million (after-tax gain of $70 million). The gain is included in Other Income in the year-to-date 2016 Consolidated Statement of Income and the return of capital is included within the Investing Activities section of the 2016 Consolidated Statement of Cash Flows.

Also included in the Company's Easton investments is an equity interest in Easton Gateway, LLC ("EG"), an entity that owns and has developed a commercial shopping center in the Easton community. The Company's investment in EG is accounted for using the equity method of accounting. The Company has a majority financial interest in EG, but another unaffiliated member manages EG. Certain significant decisions regarding EG require the consent of the unaffiliated member in addition to the Company.

9. Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for quarterly events. The Company's quarterly effective tax rate does not reflect a benefit associated with losses related to certain foreign subsidiaries.

For the third quarter of 2016, the Company's effective tax rate was 36.0% compared to 36.8% in the third quarter of 2015. The third quarter 2016 rate was lower than the Company's combined federal and state statutory rate primarily due to the resolution of certain tax matters. The third quarter 2015 rate was lower than the Company's combined federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined federal and state rate.

For year-to-date 2016, the Company's effective tax rate was 34.5% compared to 35.2% year-to-date 2015. The year-to-date 2016 rate was lower than the Company's combined federal and state statutory rate primarily due to the resolution of certain tax matters. The year-to-date 2015 rate was lower than the Company's combined federal and state statutory rate primarily due to the foreign portion of the divestiture of our third-party apparel sourcing business.

As of October 29, 2016, any unrecognized deferred income tax liability resulting from the Company's undistributed foreign earnings from non-U.S. subsidiaries is not expected to reverse in the foreseeable future; furthermore, the undistributed foreign earnings are permanently reinvested. If the Company elects to distribute these foreign earnings in the future, they could be subject to additional income taxes. Determination of the amount of any unrecognized deferred income tax liability on these undistributed foreign earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Income taxes paid were approximately $103 million and $106 million for the third quarter of 2016 and 2015, respectively. Income taxes paid were approximately $441 million and $476 million for year-to-date 2016 and 2015, respectively.

Uncertain Tax Positions

The Company had gross unrecognized tax benefits of $248 million as of January 30, 2016, of which approximately $217 million, if recognized, would favorably affect the effective income tax rate in future periods. For year-to-date 2016, the Company had a net decrease to gross unrecognized tax benefits of $94 million, primarily due to the resolution of certain tax matters, resulting in a $16 million benefit to the Company's Provision for Income Taxes.

Of the total unrecognized benefits as of October 29, 2016, it is reasonably possible that $78 million could change in the next 12 months due to audit settlements, expiration of statute of limitations or other resolution of uncertainties. Due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in amounts which could be different from this estimate. In such case, the Company will record additional tax expense or tax benefit in the period in which such matters are effectively settled.

The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. As of October 29, 2016, January 30, 2016 and October 31, 2015, the Company had accrued $26 million, $38 million, and $33 million, respectively, for the payment of interest and penalties.

10. Long-term Debt

The following table provides the Company's debt balance, net of debt issuance costs and unamortized discounts, as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Senior Unsecured Debt with Subsidiary Guarantee			
$1 billion, 6.875% Fixed Interest Rate Notes due November 2035 ("2035 Notes")	$ 989	$ 988	$ 988
$1 billion, 5.625% Fixed Interest Rate Notes due February 2022 ("2022 Notes")	992	991	990
$1 billion, 6.625% Fixed Interest Rate Notes due April 2021 ("2021 Notes")	992	990	990
$700 million, 6.75% Fixed Interest Rate Notes due July 2036 ("2036 Notes")	692	—	—
$500 million, 8.50% Fixed Interest Rate Notes due June 2019 ("2019 Notes")(a)	498	499	497
$500 million, 5.625% Fixed Interest Rate Notes due October 2023 ("2023 Notes")	497	496	496
$400 million, 7.00% Fixed Interest Rate Notes due May 2020 ("2020 Notes")	396	396	396
Total Senior Unsecured Debt with Subsidiary Guarantee	$ 5,056	$ 4,360	$ 4,357
Senior Unsecured Debt			
$350 million, 6.95% Fixed Interest Rate Debentures due March 2033 ("2033 Notes")	$ 348	$ 348	$ 348
$300 million, 7.60% Fixed Interest Rate Notes due July 2037 ("2037 Notes")	297	297	297
$700 million, 6.90% Fixed Interest Rate Notes due July 2017 ("2017 Notes")(b)	—	709	710
Foreign Facilities	23	7	5
Total Senior Unsecured Debt	$ 668	$ 1,361	$ 1,360
Total	$ 5,724	$ 5,721	$ 5,717
Current Portion of Long-term Debt	(23)	(6)	(4)
Total Long-term Debt, Net of Current Portion	$ 5,701	$ 5,715	$ 5,713

(a) The balances include a fair value interest rate hedge adjustment which increased the debt balance by $6 million as of October 29, 2016, $8 million as of January 30, 2016 and $7 million as of October 31, 2015.

(b) The balances include a fair value interest rate hedge adjustment which increased the debt balance by $10 million as of January 30, 2016 and $11 million as of October 31, 2015.

In the fourth quarter of 2015, the Company adopted ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* The impact of the adoption of this standard is a decrease to Other Assets and Long-term Debt on the October 31, 2015 Consolidated Balance Sheet of $49 million. For additional information, see Note 2, "New Accounting Pronouncements."

Issuance of Notes

In June 2016, the Company issued $700 million of 6.75% notes due in July 2036. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by certain of the Company's 100% owned subsidiaries (the "Guarantors"). The proceeds from the issuance were $692 million, which were net of issuance costs of $8 million. These issuance costs are being amortized through the maturity date of July 2036 and are included within Long-term Debt on the October 29, 2016 Consolidated Balance Sheet.

In October 2015, the Company issued $1 billion of 6.875% notes due in November 2035. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by the Guarantors. The proceeds from the issuance were $988 million, which were net of issuance costs of $12 million. These issuance costs are being amortized through the maturity date of November 2035 and are included within Long-term Debt on the Consolidated Balance Sheets.

Repurchase of Notes

In July 2016, the Company used the proceeds from the 2036 Notes to repurchase the $700 million 2017 Notes for $742 million. The pre-tax loss on extinguishment of this debt was $36 million (after-tax net loss of $22 million), which is net of gains of $7 million related to terminated interest rate swaps associated with the 2017 Notes. This loss is included in Other Income in the year-to-date 2016 Consolidated Statement of Income.

Revolving Facilities

The Company maintains a secured revolving credit facility (“Revolving Facility”). The Revolving Facility has aggregate availability of $1 billion and expires July 18, 2019. The fees related to committed and unutilized amounts are 0.30% per annum, and the fees related to outstanding letters of credit are 1.50% per annum. In addition, the interest rate on outstanding U.S. dollar borrowings or British pound borrowings is London Interbank Offered Rate (“LIBOR”) plus 1.50% per annum. The interest rate on outstanding Canadian dollar borrowings is Canadian Dollar Offered Rate ("CDOR") plus 1.50% per annum.

The Revolving Facility contains fixed charge coverage and debt to EBITDA financial covenants. The Company is required to maintain a fixed charge coverage ratio of not less than 1.75 to 1.00 and a consolidated debt to consolidated EBITDA ratio not exceeding 4.00 to 1.00 for the most recent four-quarter period. In addition, the Revolving Facility provides that investments and restricted payments may be made, without limitation on amount, if (a) at the time of and after giving effect to such investment or restricted payment, the ratio of consolidated debt to consolidated EBITDA for the most recent four-quarter period is less than 3.00 to 1.00 and (b) no default or event of default exists. As of October 29, 2016, the Company was in compliance with both of its financial covenants, and the ratio of consolidated debt to consolidated EBITDA was less than 3.00 to 1.00.

As of October 29, 2016, there were no borrowings outstanding under the Revolving Facility.

The Revolving Facility supports the Company’s letter of credit program. The Company had $8 million of outstanding letters of credit as of October 29, 2016 that reduce its remaining availability under the Revolving Facility.

In addition to the Revolving Facility, the Company maintains various revolving and term loan bank facilities with availability totaling $100 million to support its foreign operations ("Foreign Facilities"). Current borrowings on these Foreign Facilities mature between November 15, 2016 and October 26, 2017. The interest rates on outstanding borrowings are based upon the applicable benchmark rate for the currency of each borrowing.

During the third quarter of 2016, the Company borrowed $10 million and made payments of $4 million under the Foreign Facilities. The maximum daily amount outstanding at any point in time during 2016 was $23 million. As of October 29, 2016, there were borrowings of $23 million outstanding under the Foreign Facilities.

Interest Rate Swap Arrangements

For information related to the Company’s fair value interest rate swap arrangements, see Note 11, “Derivative Financial Instruments.”

11. Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency exchange rates and interest rates. The Company does not use derivative instruments for trading purposes. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) in shareholders’ equity and reclassified into earnings in the same period during which the hedged item affects earnings. Gains and losses on the derivative representing hedge ineffectiveness, if any, are recognized in current earnings.

For derivative financial instruments that are designated and qualify as fair value hedges, the change in the fair value of the derivative instrument has an equal and offsetting impact to the carrying value of the liability on the balance sheet.

For derivative financial instruments that are not designated as hedging instruments, the gain or loss on the derivative instrument is recognized in current earnings in Other Income in the Consolidated Statements of Income.

Foreign Exchange Risk

The Company's Canadian dollar and British pound denominated earnings are subject to exchange rate risk as substantially all of its merchandise sold in Canada and the U.K. is sourced through U.S. dollar transactions. As a result, the Company uses foreign currency forward contracts designated as cash flow hedges to mitigate the foreign currency exposure associated with forecasted U.S. dollar-denominated merchandise purchases. These forward contracts currently have a maximum term of 18 months. Amounts are reclassified from accumulated other comprehensive income (loss) upon sale of the hedged merchandise to the customer. These gains and losses are recognized in Cost of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income.

The Company uses foreign currency forward contracts not designated as cash flow hedges to manage the impact of fluctuations in foreign currency exchange rates relative to recognized merchandise payable balances denominated in non-functional currencies. The fair value of these non-designated foreign currency forward contracts is not significant as of October 29, 2016.

The Company has a cross-currency swap related to an intercompany loan of approximately CAD$170 million maturing in January 2018 which is designated as a cash flow hedge of foreign currency exchange risk. This cross-currency swap mitigates the exposure to fluctuations in the U.S. dollar-Canadian dollar exchange rate related to the Company's Canadian operations. The cross-currency swap requires the periodic exchange of fixed-rate Canadian dollar interest payments for fixed-rate U.S. dollar interest payments as well as exchange of Canadian dollar and U.S. dollar principal payments upon maturity. Changes in the U.S. dollar-Canadian dollar exchange rate and the related swap settlements result in reclassification of amounts from accumulated other comprehensive income (loss) to earnings to completely offset foreign currency transaction gains and losses recognized on the intercompany loan.

The following table provides the U.S. dollar notional amount of outstanding foreign currency derivative financial instruments as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Notional Amount	$ 362	$ 147	$ 147

The following table provides a summary of the fair value and balance sheet classification of outstanding derivative financial instruments designated as foreign currency cash flow hedges as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Other Current Assets	$ 6	$ —	$ —
Other Long-term Assets	20	27	27

The following table provides a summary of the net of tax financial statement effect of the gains and losses on derivative financial instruments designated as foreign currency cash flow hedges for the third quarter and year-to-date 2016 and 2015:

	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
	(in millions)			
Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)	$ 9	$ 2	$ (2)	$ 6
(Gain) Loss Reclassified from Accumulated Other Comprehensive Income into Cost of Goods Sold, Buying and Occupancy Expense (a)	—	—	—	—
(Gain) Loss Reclassified from Accumulated Other Comprehensive Income into Other Income (b)	(4)	3	5	(7)

(a) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings when the hedged merchandise is sold to the customer. No ineffectiveness was associated with these foreign currency cash flow hedges.

(b) Represents reclassification of amounts from accumulated other comprehensive income (loss) to earnings to completely offset foreign currency transaction gains and losses recognized on the intercompany loan. No ineffectiveness was associated with this foreign currency cash flow hedge.

We estimate that $4 million of foreign currency cash flow hedge gains included in accumulated other comprehensive income (loss) as of October 29, 2016 will be reclassified into earnings within the following 12 months. Actual amounts ultimately reclassified depend on the exchange rates in effect when derivative contracts that are currently outstanding mature.

Interest Rate Risk

The Company has interest rate swap arrangements related to $300 million of the outstanding 2019 Notes that are designated as interest rate fair value hedges. The interest rate swap arrangements effectively convert the fixed interest rate on the related debt to a variable interest rate based on LIBOR plus a fixed percentage. The changes in the fair value of the interest rate swaps have an equal and offsetting impact to the carrying value of the debt on the balance sheet. The differential to be paid or received on the interest rate swap arrangements is accrued and recognized as an adjustment to interest expense.

The following table provides a summary of the fair value and balance sheet classification of the derivative financial instruments designated as interest rate fair value hedges as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Other Long-term Assets	$ 6	$ 11	$ 10

12. Fair Value Measurements

The following table provides a summary of the principal value and estimated fair value of long-term debt as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Principal Value	$ 5,750	$ 5,750	$ 5,750
Fair Value (a)	6,352	6,209	6,322

(a) The estimated fair value of the Company’s publicly traded debt is based on reported transaction prices which are considered Level 2 inputs in accordance with ASC Topic 820, *Fair Value Measurement*. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The authoritative guidance included in ASC Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted market prices included in Level 1, such as quoted prices of similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table provides a summary of assets and liabilities measured in the consolidated financial statements at fair value on a recurring basis as of October 29, 2016, January 30, 2016 and October 31, 2015:

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of October 29, 2016				
Assets:				
Cash and Cash Equivalents	$ 654	$ —	$ —	$ 654
Marketable Securities	8	—	—	8
Interest Rate Fair Value Hedges	—	6	—	6
Foreign Currency Cash Flow Hedges	—	26	—	26
As of January 30, 2016				
Assets:				
Cash and Cash Equivalents	$ 2,548	$ —	$ —	$ 2,548
Marketable Securities	22	—	—	22
Interest Rate Fair Value Hedges	—	11	—	11
Foreign Currency Cash Flow Hedges	—	27	—	27
As of October 31, 2015				
Assets:				
Cash and Cash Equivalents	$ 1,311	$ —	$ —	$ 1,311
Marketable Securities	13	—	—	13
Interest Rate Fair Value Hedges	—	10	—	10
Foreign Currency Cash Flow Hedges	—	27	—	27

The Company's Level 1 fair value measurements use unadjusted quoted prices in active markets for identical assets. In the first quarter of 2015, the Company invested $50 million in U.S. Treasury Bills which were classified as available-for-sale. These securities were sold in the third quarter of 2015. In the third quarter of 2015, the Company invested $10 million in marketable equity securities which were classified as available-for-sale. In the first quarter of 2016, the Company sold a portion of this investment and received cash proceeds of $10 million and recognized a pre-tax gain of $4 million (after-tax gain of $3 million). The gain is included within Other Income in the year-to-date 2016 Consolidated Statement of Income, and the cash proceeds are included in Proceeds from Sale of Marketable Securities within the Investing Activities section of the 2016 Consolidated Statement of Cash Flows. These securities are classified as Level 1 fair value measurements as they are traded with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis.

The Company’s Level 2 fair value measurements use market approach valuation techniques. The primary inputs to these techniques include benchmark interest rates and foreign currency exchange rates, as applicable to the underlying instruments.

Management believes that the carrying values of accounts receivable, accounts payable, accrued expenses and current debt approximate fair value because of their short maturity.

13. Comprehensive Income

The following table provides the rollforward of accumulated other comprehensive income (loss) for year-to-date 2016:

	Foreign Currency Translation	Cash Flow Hedges	Marketable Securities	Accumulated Other Comprehensive Income (Loss)
		(in millions)		
Balance as of January 30, 2016	$ 28	$ 4	$ 8	$ 40
Other Comprehensive Income (Loss) Before Reclassifications	(25)	(1)	(6)	(32)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	5	(4)	1
Tax Effect	—	(1)	4	3
Current-period Other Comprehensive Income (Loss)	(25)	3	(6)	(28)
Balance as of October 29, 2016	$ 3	$ 7	$ 2	$ 12

The following table provides the rollforward of accumulated other comprehensive income (loss) for year-to-date 2015:

	Foreign Currency Translation	Cash Flow Hedges	Marketable Securities	Accumulated Other Comprehensive Income (Loss)
		(in millions)		
Balance as of January 31, 2015	$ 51	$ (16)	$ —	$ 35
Other Comprehensive Income (Loss) Before Reclassifications	5	6	3	14
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	(7)	—	(7)
Tax Effect	—	—	(1)	(1)
Current-period Other Comprehensive Income (Loss)	5	(1)	2	6
Balance as of October 31, 2015	$ 56	$ (17)	$ 2	$ 41

The following table provides a summary of the reclassification adjustments out of accumulated other comprehensive income (loss) for the third quarter and year-to-date 2016 and 2015:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Location on Consolidated Statements of Income
	Third Quarter		Year-to-Date		
	2016	2015	2016	2015	
		(in millions)			
(Gain) Loss on Cash Flow Hedges	$ (4)	$ 3	$ 5	$ (7)	Other Income
	—	—	—	—	Provision for Income Taxes
	$ (4)	$ 3	$ 5	$ (7)	Net Income
Sale of Available-for-Sale Securities	$ —	$ —	$ (4)	$ —	Other Income
	—	—	1	—	Provision for Income Taxes
	$ —	$ —	$ (3)	$ —	Net Income

14. Commitments and Contingencies

The Company is subject to various claims and contingencies related to lawsuits, taxes, insurance, regulatory and other matters arising out of the normal course of business. Actions filed against the Company from time to time include commercial, tort, intellectual property, customer, employment, data privacy, securities and other claims, including purported class action lawsuits. Management believes that the ultimate liability arising from such claims and contingencies, if any, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

Guarantees

In connection with the disposition of certain businesses, the Company has remaining guarantees of approximately $18 million related to lease payments under the current terms of noncancellable leases expiring at various dates through 2021. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate to leases that commenced prior to the disposition of the businesses. In certain instances, the Company's guarantee may remain in effect if the term of a lease is extended. The Company has not recorded a liability with respect to these guarantee obligations as it concluded that payments under these guarantees were not probable as of October 29, 2016.

In connection with the sale and leaseback under noncancellable operating leases of certain assets, the Company provides residual value guarantees to the lessor if the leased assets cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The leases expire in 2020, and the total amount of the guarantees is approximately $105 million. The Company recorded a liability of $3 million related to these guarantee obligations as of October 29, 2016 and January 30, 2016, which is included in Other Long-term Liabilities on the Consolidated Balance Sheets.

15. Retirement Benefits

The Company sponsors a tax-qualified defined contribution retirement plan and a non-qualified supplemental retirement plan for substantially all of its associates within the U.S. Participation in the tax-qualified plan is available to associates who meet certain age and service requirements. Participation in the non-qualified plan is available to associates who meet certain age, service, job level and compensation requirements.

The qualified plan permits participating associates to elect contributions up to the maximum limits allowable under the Internal Revenue Code. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible annual compensation and years of service. Associate contributions and Company matching contributions vest immediately. Additional Company contributions and the related investment earnings are subject to vesting based on years of service. Total expense recognized related to the qualified plan was $15 million for the third quarter of 2016 and 2015. Total expense recognized related to the qualified plan was $47 million for year-to-date 2016 and $46 million for year-to-date 2015.

The non-qualified plan is an unfunded plan which provides benefits beyond the Internal Revenue Code limits for qualified defined contribution plans. The plan permits participating associates to elect contributions up to a maximum percentage of eligible compensation. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible compensation and years of service. The plan also permits participating associates to defer additional compensation up to a maximum amount which the Company does not match. Associates' accounts are credited with interest using a fixed rate determined by the Company and reviewed by the Compensation Committee of the Board of Directors, prior to the beginning of each year. Associate contributions and the related interest vest immediately. Company contributions, along with related interest, are subject to vesting based on years of service. Associates may elect in-service distributions for the unmatched additional deferred compensation component only. The remaining vested portion of associates' accounts in the plan will be distributed upon termination of employment in either a lump sum or in annual installments over a specified period of up to 10 years. Total expense recognized related to the non-qualified plan was $7 million for the third quarter of 2016 and $9 million for the third quarter of 2015. Total expense recognized related to the non-qualified plan was $20 million for year-to-date 2016 and $22 million for year-to-date 2015.

16. Segment Information

The Company has three reportable segments: Victoria's Secret, Bath & Body Works and Victoria's Secret and Bath & Body Works International.

The Victoria's Secret segment sells women's intimate and other apparel and personal care and beauty products under the Victoria's Secret and PINK brand names. Victoria's Secret merchandise is sold through retail stores located in the U.S. and Canada and its website, *www.VictoriasSecret.com*.

The Bath & Body Works segment sells personal care, soaps, sanitizers and home fragrance products under the Bath & Body Works, White Barn, C.O. Bigelow and other brand names. Bath & Body Works merchandise is sold at retail stores located in the U.S. and Canada and through its website, *www.BathandBodyWorks.com.*

The Victoria's Secret and Bath & Body Works International segment includes the Victoria's Secret and Bath & Body Works company-owned and partner-operated stores located outside of the U.S. and Canada. These businesses include the following:

- Victoria's Secret Beauty and Accessories, comprised of company-owned stores in Greater China, as well as stores operated by partners under franchise, license and wholesale arrangements, which feature Victoria's Secret branded beauty and accessories products;
- Victoria's Secret International, comprised of company-owned stores in the U.K., as well as stores operated by partners under franchise, license and wholesale arrangements; and
- Bath & Body Works International stores operated by partners under franchise, license and wholesale arrangements.

Other consists of the following:

- Mast Global, a merchandise sourcing and production function serving the Company and its international partners;
- La Senza, comprised of company-owned stores in the U.S. and Canada, as well as stores operated by partners under franchise, license and wholesale arrangements, which feature women's intimate apparel;
- Henri Bendel, operator of 29 specialty stores which feature handbags, jewelry and other accessory products; and
- Corporate functions including non-core real estate, equity investments and other governance functions such as treasury and tax.

The following table provides the Company’s segment information for the third quarter and year-to-date 2016 and 2015:

	Victoria’s Secret	Bath & Body Works	Victoria’s Secret and Bath & Body Works International	Other	Total
			(in millions)		
2016					
Third Quarter:					
Net Sales	$ 1,584	$ 770	$ 104	$ 123	$ 2,581
Operating Income (Loss)	164	145	9	(34)	284
Year-to-Date:					
Net Sales	$ 5,192	$ 2,232	$ 299	$ 362	$ 8,085
Operating Income (Loss)	679	405	30	(99)	1,015
2015					
Third Quarter:					
Net Sales	$ 1,567	$ 705	$ 93	$ 117	$ 2,482
Operating Income (Loss)	211	136	18	(26)	339
Year-to-Date:					
Net Sales	$ 5,058	$ 2,067	$ 273	$ 361	$ 7,759
Operating Income (Loss)	797	371	60	(114)	1,114

The Company's international net sales include sales from company-owned stores, royalty revenue from franchise and license arrangements, wholesale revenues and direct sales shipped internationally. Certain of these sales are subject to the impact of fluctuations in foreign currency. The Company’s international net sales across all segments totaled $330 million and $295 million for the third quarter of 2016 and 2015, respectively. The Company’s international net sales across all segments totaled $958 million and $901 million for year-to-date 2016 and 2015, respectively.

17. Subsequent Events

Subsequent to October 29, 2016, the Company repurchased an additional 0.2 million shares of common stock for $11 million under the February 2016 repurchase program. For additional information, see Note 3, "Earnings Per Share and Shareholders' Equity (Deficit)."

18. Supplemental Guarantor Financial Information

The Company’s 2019 Notes, 2020 Notes, 2021 Notes, 2022 Notes, 2023 Notes, 2035 Notes and 2036 Notes are jointly and severally guaranteed on a full and unconditional basis by the Guarantors. The Company is a holding company, and its most significant assets are the stock of its subsidiaries. The Guarantors represent: (a) substantially all of the sales of the Company’s domestic subsidiaries, (b) more than 90% of the assets owned by the Company’s domestic subsidiaries, other than real property, certain other assets and intercompany investments and balances and (c) more than 95% of the accounts receivable and inventory directly owned by the Company’s domestic subsidiaries.

The following supplemental financial information sets forth for the Company and its guarantor and non-guarantor subsidiaries: the Condensed Consolidating Balance Sheets as of October 29, 2016, January 30, 2016 and October 31, 2015 and the Condensed Consolidating Statements of Income, Comprehensive Income and Cash Flows for the periods ended October 29, 2016 and October 31, 2015. The Company adopted ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* and ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes,* effective January 30, 2016. As such, amounts have been recast to include the retrospective application of these standards. For additional information, see Note 2, "New Accounting Pronouncements."

L BRANDS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(in millions)
(Unaudited)

	October 29, 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ —	$ 370	$ 284	$ —	$ 654
Accounts Receivable, Net	1	260	64	—	325
Inventories	—	1,501	150	—	1,651
Other	—	158	98	—	256
Total Current Assets	1	2,289	596	—	2,886
Property and Equipment, Net	—	1,955	815	—	2,770
Goodwill	—	1,318	30	—	1,348
Trade Names and Other Intangible Assets, Net	—	411	—	—	411
Net Investments in and Advances to/from Consolidated Affiliates	4,475	15,461	1,815	(21,751)	—
Deferred Income Taxes	1	11	18	—	30
Other Assets	133	35	661	(611)	218
Total Assets	$ 4,610	$ 21,480	$ 3,935	$ (22,362)	$ 7,663
LIABILITIES AND EQUITY (DEFICIT)					
Current Liabilities:					
Accounts Payable	$ —	$ 580	$ 382	$ —	$ 962
Accrued Expenses and Other	111	513	285	—	909
Current Portion of Long-term Debt	—	—	23	—	23
Income Taxes	—	(2)	115	—	113
Total Current Liabilities	111	1,091	805	—	2,007
Deferred Income Taxes	(3)	(83)	348	—	262
Long-term Debt	5,701	597	—	(597)	5,701
Other Long-term Liabilities	1	747	147	(14)	881
Total Equity (Deficit)	(1,200)	19,128	2,635	(21,751)	(1,188)
Total Liabilities and Equity (Deficit)	$ 4,610	$ 21,480	$ 3,935	$ (22,362)	$ 7,663

L BRANDS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(in millions)

	January 30, 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ —	$ 2,190	$ 358	$ —	$ 2,548
Accounts Receivable, Net	1	202	58	—	261
Inventories	—	978	144	—	1,122
Other	—	115	110	—	225
Total Current Assets	1	3,485	670	—	4,156
Property and Equipment, Net	—	1,574	756	—	2,330
Goodwill	—	1,318	—	—	1,318
Trade Names and Other Intangible Assets, Net	—	411	—	—	411
Net Investments in and Advances to/from Consolidated Affiliates	5,368	13,649	1,242	(20,259)	—
Deferred Income Taxes	—	11	19	—	30
Other Assets	141	40	679	(612)	248
Total Assets	$ 5,510	$ 20,488	$ 3,366	$ (20,871)	$ 8,493
LIABILITIES AND EQUITY (DEFICIT)					
Current Liabilities:					
Accounts Payable	$ —	$ 333	$ 335	$ —	$ 668
Accrued Expenses and Other	100	519	358	—	977
Current Portion of Long-term Debt	—	—	6	—	6
Income Taxes	(3)	237	(10)	—	224
Total Current Liabilities	97	1,089	689	—	1,875
Deferred Income Taxes	(3)	(86)	346	—	257
Long-term Debt	5,714	597	1	(597)	5,715
Other Long-term Liabilities	—	670	248	(14)	904
Total Equity (Deficit)	(298)	18,218	2,082	(20,260)	(258)
Total Liabilities and Equity (Deficit)	$ 5,510	$ 20,488	$ 3,366	$ (20,871)	$ 8,493

L BRANDS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET
(in millions)
(Unaudited)

	October 31, 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ —	$ 1,085	$ 226	$ —	$ 1,311
Accounts Receivable, Net	3	216	64	—	283
Inventories	—	1,465	155	—	1,620
Other	—	151	164	—	315
Total Current Assets	3	2,917	609	—	3,529
Property and Equipment, Net	—	1,594	756	—	2,350
Goodwill	—	1,318	—	—	1,318
Trade Names and Other Intangible Assets, Net	—	411	—	—	411
Net Investments in and Advances to/from Consolidated Affiliates	4,943	14,725	1,786	(21,454)	—
Deferred Income Taxes	—	9	18	—	27
Other Assets	142	34	694	(612)	258
Total Assets	$ 5,088	$ 21,008	$ 3,863	$ (22,066)	$ 7,893
LIABILITIES AND EQUITY (DEFICIT)					
Current Liabilities:					
Accounts Payable	$ 1	$ 525	$ 387	$ —	$ 913
Accrued Expenses and Other	76	463	265	—	804
Current Portion of Long-term Debt	—	—	4	—	4
Income Taxes	—	—	7	—	7
Total Current Liabilities	77	988	663	—	1,728
Deferred Income Taxes	(3)	(66)	310	—	241
Long-term Debt	5,712	597	1	(597)	5,713
Other Long-term Liabilities	—	646	235	(13)	868
Total Equity (Deficit)	(698)	18,843	2,654	(21,456)	(657)
Total Liabilities and Equity (Deficit)	$ 5,088	$ 21,008	$ 3,863	$ (22,066)	$ 7,893

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)
(Unaudited)

	Third Quarter 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Sales	$ —	$ 2,478	$ 846	$ (743)	$ 2,581
Costs of Goods Sold, Buying and Occupancy	—	(1,545)	(678)	667	(1,556)
Gross Profit	—	933	168	(76)	1,025
General, Administrative and Store Operating Expenses	(1)	(685)	(111)	56	(741)
Operating Income (Loss)	(1)	248	57	(20)	284
Interest Expense	(97)	(20)	(2)	22	(97)
Other Income	—	—	3	—	3
Income (Loss) Before Income Taxes	(98)	228	58	2	190
Provision for Income Taxes	—	82	(14)	—	68
Equity in Earnings (Loss), Net of Tax	220	47	4	(271)	—
Net Income (Loss)	$ 122	$ 193	$ 76	$ (269)	$ 122

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Third Quarter 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Income (Loss)	$ 122	$ 193	$ 76	$ (269)	$ 122
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	(15)	—	(15)
Unrealized Gain on Cash Flow Hedges	—	—	9	—	9
Reclassification of Cash Flow Hedges to Earnings	—	—	(4)	—	(4)
Total Other Comprehensive Income (Loss), Net of Tax	—	—	(10)	—	(10)
Total Comprehensive Income (Loss)	$ 122	$ 193	$ 66	$ (269)	$ 112

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)
(Unaudited)

	Third Quarter 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Sales	$ —	$ 2,357	$ 893	$ (768)	$ 2,482
Costs of Goods Sold, Buying and Occupancy	—	(1,456)	(720)	725	(1,451)
Gross Profit	—	901	173	(43)	1,031
General, Administrative and Store Operating Expenses	(4)	(629)	(100)	41	(692)
Operating Income (Loss)	(4)	272	73	(2)	339
Interest Expense	(79)	(11)	(2)	13	(79)
Other Income	—	—	—	—	—
Income (Loss) Before Income Taxes	(83)	261	71	11	260
Provision for Income Taxes	—	62	34	—	96
Equity in Earnings (Loss), Net of Tax	247	8	(37)	(218)	—
Net Income (Loss)	$ 164	$ 207	$ —	$ (207)	$ 164

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Third Quarter 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Income (Loss)	$ 164	$ 207	$ —	$ (207)	$ 164
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	(7)	—	(7)
Unrealized Gain on Cash Flow Hedges	—	—	2	—	2
Reclassification of Cash Flow Hedges to Earnings	—	—	3	—	3
Unrealized Gain on Marketable Securities	—	—	2	—	2
Total Other Comprehensive Income (Loss), Net of Tax	—	—	—	—	—
Total Comprehensive Income (Loss)	$ 164	$ 207	$ —	$ (207)	$ 164

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)
(Unaudited)

	Year-to-Date 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Sales	$ —	$ 7,674	$ 2,512	$ (2,101)	$ 8,085
Costs of Goods Sold, Buying and Occupancy	—	(4,785)	(2,058)	1,939	(4,904)
Gross Profit	—	2,889	454	(162)	3,181
General, Administrative and Store Operating Expenses	(6)	(1,959)	(330)	129	(2,166)
Operating Income (Loss)	(6)	930	124	(33)	1,015
Interest Expense	(295)	(40)	(7)	47	(295)
Other Income (Loss)	(36)	2	117	—	83
Income (Loss) Before Income Taxes	(337)	892	234	14	803
Provision for Income Taxes	(13)	216	74	—	277
Equity in Earnings (Loss), Net of Tax	850	332	268	(1,450)	—
Net Income (Loss)	$ 526	$ 1,008	$ 428	$ (1,436)	$ 526

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Year-to-Date 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Income (Loss)	$ 526	$ 1,008	$ 428	$ (1,436)	$ 526
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	(25)	—	(25)
Unrealized Loss on Cash Flow Hedges	—	—	(2)	—	(2)
Reclassification of Cash Flow Hedges to Earnings	—	—	5	—	5
Unrealized Loss on Marketable Securities	—	—	(3)	—	(3)
Reclassification of Gain on Marketable Securities to Earnings	—	—	(3)	—	(3)
Total Other Comprehensive Income (Loss), Net of Tax	—	—	(28)	—	(28)
Total Comprehensive Income (Loss)	$ 526	$ 1,008	$ 400	$ (1,436)	$ 498

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
(in millions)
(Unaudited)

	Year-to-Date 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Sales	$ —	$ 7,314	$ 2,523	$ (2,078)	$ 7,759
Costs of Goods Sold, Buying and Occupancy	—	(4,487)	(2,041)	1,970	(4,558)
Gross Profit	—	2,827	482	(108)	3,201
General, Administrative and Store Operating Expenses	(10)	(1,874)	(302)	99	(2,087)
Operating Income (Loss)	(10)	953	180	(9)	1,114
Interest Expense	(237)	(23)	(7)	30	(237)
Other Income	—	4	71	—	75
Income (Loss) Before Income Taxes	(247)	934	244	21	952
Provision for Income Taxes	—	230	105	—	335
Equity in Earnings (Loss), Net of Tax	864	386	217	(1,467)	—
Net Income (Loss)	$ 617	$ 1,090	$ 356	$ (1,446)	$ 617

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Year-to-Date 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Income (Loss)	$ 617	$ 1,090	$ 356	$ (1,446)	$ 617
Other Comprehensive Income (Loss), Net of Tax:					
Foreign Currency Translation	—	—	5	—	5
Unrealized Gain on Cash Flow Hedges	—	—	6	—	6
Reclassification of Cash Flow Hedges to Earnings	—	—	(7)	—	(7)
Unrealized Gain on Marketable Securities	—	—	2	—	2
Total Other Comprehensive Income (Loss), Net of Tax	—	—	6	—	6
Total Comprehensive Income (Loss)	$ 617	$ 1,090	$ 362	$ (1,446)	$ 623

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in millions)
(Unaudited)

	Year-to-Date 2016				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Cash Provided by (Used for) Operating Activities	$ (342)	$ 402	$ 256	$ —	$ 316
Investing Activities:					
Capital Expenditures	—	(648)	(177)	—	(825)
Return of Capital from Easton Town Center, LLC	—	—	108	—	108
Acquisition, Net of Cash Acquired of $1	—	—	(33)	—	(33)
Proceeds from Sale of Marketable Securities	—	—	10	—	10
Net Investments in Consolidated Affiliates	—	—	(27)	27	—
Other Investing Activities	—	1	18	—	19
Net Cash Provided by (Used for) Investing Activities	—	(647)	(101)	27	(721)
Financing Activities:					
Proceeds from the Issuance of Long-term Debt, Net of Issuance Costs	692	—	—	—	692
Payment of Long-term Debt	(742)	—	—	—	(742)
Borrowings from Revolving Facilities	—	—	20	—	20
Repayments on Revolving Facilities	—	—	(4)	—	(4)
Dividends Paid	(1,096)	—	—	—	(1,096)
Repurchases of Common Stock	(410)	—	—	—	(410)
Excess Tax Benefits from Share-based Compensation	—	35	4	—	39
Net Financing Activities and Advances to/from Consolidated Affiliates	1,881	(1,608)	(246)	(27)	—
Proceeds from Exercise of Stock Options	17	—	—	—	17
Financing Costs and Other	—	(2)	—	—	(2)
Net Cash Provided by (Used for) Financing Activities	342	(1,575)	(226)	(27)	(1,486)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	—	—	(3)	—	(3)
Net Decrease in Cash and Cash Equivalents	—	(1,820)	(74)	—	(1,894)
Cash and Cash Equivalents, Beginning of Period	—	2,190	358	—	2,548
Cash and Cash Equivalents, End of Period	$ —	$ 370	$ 284	$ —	$ 654

L BRANDS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in millions)
(Unaudited)

	Year-to-Date 2015				
	L Brands, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated L Brands, Inc.
Net Cash Provided by (Used for) Operating Activities	$ (254)	$ 377	$ 139	$ —	$ 262
Investing Activities:					
Capital Expenditures	—	(440)	(163)	—	(603)
Proceeds from the Sale of Assets	—	—	196	—	196
Proceeds from Divestiture of Third-party Apparel Sourcing Business	—	1	84	—	85
Proceeds from Sale of Marketable Securities	—	50	—	—	50
Purchase of Marketable Securities	—	(50)	(10)	—	(60)
Net Cash Provided by (Used for) Investing Activities	—	(439)	107	—	(332)
Financing Activities:					
Proceeds from Issuance of Long-term Debt, Net of Issuance Costs	988	—	—	—	988
Borrowings from Revolving Facilities	—	—	5	—	5
Dividends Paid	(1,026)	—	—	—	(1,026)
Repurchases of Common Stock	(363)	—	—	—	(363)
Excess Tax Benefits from Share-based Compensation	—	57	8	—	65
Net Financing Activities and Advances to/from Consolidated Affiliates	624	(370)	(254)	—	—
Proceeds from Exercise of Stock Options	31	—	—	—	31
Financing Costs and Other	—	(2)	—	—	(2)
Net Cash Provided by (Used for) Financing Activities	254	(315)	(241)	—	(302)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	—	—	2	—	2
Net Increase (Decrease) in Cash and Cash Equivalents	—	(377)	7	—	(370)
Cash and Cash Equivalents, Beginning of Period	—	1,462	219	—	1,681
Cash and Cash Equivalents, End of Period	$ —	$ 1,085	$ 226	$ —	$ 1,311

Review Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of L Brands, Inc.:

We have reviewed the consolidated balance sheet of L Brands, Inc. and subsidiaries as of October 29, 2016 and October 31, 2015, and the related consolidated statements of income and comprehensive income for the thirteen and thirty-nine week periods ended October 29, 2016 and October 31, 2015, and cash flows for the thirty-nine week periods ended October 29, 2016 and October 31, 2015. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of L Brands, Inc. and subsidiaries as of January 30, 2016, and the related consolidated statements of income, comprehensive income, total equity (deficit), and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 18, 2016. In our opinion, the accompanying consolidated balance sheet of L Brands, Inc. and subsidiaries as of January 30, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Grandview Heights, Ohio
December 2, 2016

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION ACT OF 1995

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

L Brands, Inc. cautions any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this report or made by our company or our management involve risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," "planned," "potential" and any similar expressions may identify forward-looking statements. Risks associated with the following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our company or our management:

- general economic conditions, consumer confidence, consumer spending patterns and market disruptions including severe weather conditions, natural disasters, health hazards, terrorist activities, financial crises, political crises or other major events, or the prospect of these events;
- the seasonality of our business;
- the dependence on mall traffic and the availability of suitable store locations on appropriate terms;
- our ability to grow through new store openings and existing store remodels and expansions;
- our ability to successfully expand internationally and related risks;
- our relationships with independent franchise, license and wholesale partners;
- our direct channel businesses;
- our ability to protect our reputation and our brand images;
- our ability to attract customers with marketing, advertising and promotional programs;
- our ability to protect our trade names, trademarks and patents;
- the highly competitive nature of the retail industry and the segments in which we operate;
- consumer acceptance of our products and our ability to keep up with fashion trends, develop new merchandise and launch new product lines successfully;
- our ability to source, distribute and sell goods and materials on a global basis, including risks related to:
  - political instability, significant health hazards, environmental hazards or natural disasters;
  - duties, taxes and other charges;
  - legal and regulatory matters;
  - volatility in currency exchange rates;
  - local business practices and political issues;
  - potential delays or disruptions in shipping and transportation and related pricing impacts;
  - disruption due to labor disputes; and
  - changing expectations regarding product safety due to new legislation;
- our geographic concentration of supplier and distribution facilities in central Ohio;
- fluctuations in foreign currency exchange rates;
- stock price volatility;
- our ability to pay dividends and related effects;
- our ability to maintain our credit rating;
- our ability to service or refinance our debt;
- our ability to retain key personnel;
- our ability to attract, develop and retain qualified employees and manage labor-related costs;
- the ability of our manufacturers to deliver products in a timely manner, meet quality standards and comply with applicable laws and regulations;
- fluctuations in product input costs;
- fluctuations in energy costs;
- increases in the costs of mailing, paper and printing;
- claims arising from our self-insurance;
- our ability to implement and maintain information technology systems and to protect associated data;
- our ability to maintain the security of customer, associate, supplier or company information;
- our ability to comply with regulatory requirements;
- legal and compliance matters; and
- tax matters.

We are not under any obligation and do not intend to make publicly available any update or other revisions to any of the forward-looking statements contained in this report to reflect circumstances existing after the date of this report or to reflect the occurrence of future events even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Additional information regarding these and other factors can be found in "Item 1A. Risk Factors" in our 2015 Annual Report on Form 10-K.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The following information should be read in conjunction with our financial statements and the related notes included in Item 1. Financial Statements.

Executive Overview

In the third quarter of 2016, our operating income decreased $55 million, or 16%, to $284 million, and our operating income rate decreased to 11.0% from 13.7%. Net sales increased $99 million to $2.581 billion, comparable sales increased 2%, and comparable store sales were flat. At Victoria's Secret, net sales increased 1%, and operating income decreased 22%. At Bath & Body Works, net sales increased 9%, and operating income increased 7%. At Victoria's Secret and Bath & Body Works International, net sales increased 12%, and operating income decreased 51%. For additional information related to our third quarter 2016 financial performance, see "Results of Operations."

The global retail sector and our business continue to face an uncertain environment and, as a result, we continue to manage our business carefully and focus on the execution of the retail fundamentals.

At the same time, we are aggressively focusing on bringing compelling merchandise assortments and store and digital experiences to our customers. We will look for, and capitalize on, those opportunities available to us. We believe that our brands, which lead their categories and offer high emotional content to customers at accessible prices, are well-positioned.

Adjusted Financial Information

In addition to our results provided in accordance with GAAP above and throughout this Form 10-Q, provided below are non-GAAP measurements which present net income and earnings per share in 2016 and 2015 on an adjusted basis, which remove certain special items. We believe that these special items are not indicative of our ongoing operations due to their size and nature. We use adjusted financial information as key performance measures of results of operations for the purpose of evaluating performance internally. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Instead, we believe that the presentation of adjusted financial information provides additional information to investors to facilitate the comparison of past and present operations. Further, our definition of adjusted financial information may differ from similarly titled measures used by other companies. The table below reconciles the GAAP financial measures to the non-GAAP financial measures.

	Year-to-Date	
(in millions, except per share amounts)	**2016**	**2015**
Detail of Special Items included in Operating Income - Income (Expense)		
Victoria's Secret Restructuring (a)	$ (35)	$ —
Total Special Items included in Operating Income	$ (35)	$ —
Detail of Special Items included in Other Income - Income (Loss)		
Loss on Extinguishment of Debt (b)	$ (36)	$ —
Gain on Distribution from Easton Town Center, LLC (c)	108	—
Gain on Divestiture of Third-Party Apparel Sourcing Business (d)	—	78
Total Special Items included in Other Income	$ 72	$ 78
Detail of Special Items included in Provision for Income Taxes - Provision		
Tax effect of Special Items	$ (11)	$ (9)
Total Special Items included in Provision for Income Taxes	$ (11)	$ (9)
Reconciliation of Reported Operating Income to Adjusted Operating Income		
Reported Operating Income	$ 1,015	$ 1,114
Special Items included in Operating Income	35	—
Adjusted Operating Income	$ 1,050	$ 1,114
Reconciliation of Reported Net Income to Adjusted Net Income		
Reported Net Income	$ 526	$ 617
Special Items included in Net Income	(26)	(69)
Adjusted Net Income	$ 500	$ 548
Reconciliation of Reported Earnings Per Diluted Share to Adjusted Earnings Per Diluted Share		
Reported Earnings Per Diluted Share	$ 1.81	$ 2.08
Special Items included in Earnings Per Diluted Share	(0.09)	(0.24)
Adjusted Earnings Per Diluted Share	$ 1.72	$ 1.84

(a) In the first quarter of 2016, we announced strategic actions within the Victoria's Secret segment designed to focus the brand on its core merchandise categories and streamline operations. As a result of these actions, we recorded charges related to severance and related costs, fabric cancellations and catalogue paper write-offs. For additional information see Note 5, "Restructuring Activities" included in Item 1. Financial Statements.

(b) In the second quarter of 2016, we repurchased our $700 million 6.90% Senior Unsecured Notes due July 2017 resulting in a pre-tax loss on extinguishment of $36 million (after-tax loss of $22 million). For additional information see Note 10, "Long-term Debt" included in Item 1. Financial Statements.

(c) In the second quarter of 2016, we received a $124 million cash distribution from Easton Town Center, LLC resulting in a pre-tax gain of $108 million (after-tax gain of $70 million). For additional information see Note 8, "Equity Investments and Other" included in Item 1. Financial Statements.

(d) In the first quarter of 2015, we divested our remaining ownership interest in our third-party apparel sourcing business. We received cash proceeds of $85 million and recognized a pre-tax gain of $78 million (after-tax gain of $69 million). For additional information see Note 8, "Equity Investments and Other" included in Item 1. Financial Statements.

Company-Owned Store Data

The following table compares the third quarter of 2016 company-owned store data to the third quarter of 2015 and year-to-date 2016 store data to year-to-date 2015:

	Third Quarter			Year-to-Date		
	2016	2015	% Change	2016	2015	% Change
Sales per Average Selling Square Foot						
Victoria's Secret U.S.	$ 174	$ 181	(4)%	$ 563	$ 576	(2)%
Bath & Body Works U.S.	164	160	3 %	485	472	3 %
Sales per Average Store (in thousands)						
Victoria's Secret U.S.	$ 1,091	$ 1,108	(2)%	$ 3,523	$ 3,525	— %
Bath & Body Works U.S.	399	379	5 %	1,170	1,116	5 %
Average Store Size (selling square feet)						
Victoria's Secret U.S.	6,330	6,151	3 %			
Bath & Body Works U.S.	2,444	2,374	3 %			
Total Selling Square Feet (in thousands)						
Victoria's Secret U.S.	7,153	6,864	4 %			
Bath & Body Works U.S.	3,891	3,735	4 %			

The following table compares third quarter of 2016 company-owned store data to the third quarter of 2015 and year-to-date 2016 store data to year-to-date 2015:

	Third Quarter		Year-to-Date	
Number of Stores	2016	2015	2016	2015
Victoria's Secret U.S.				
Beginning of Period	1,123	1,105	1,118	1,098
Opened	10	13	19	24
Closed	(3)	(2)	(7)	(6)
End of Period	1,130	1,116	1,130	1,116
Victoria's Secret Canada				
Beginning of Period	46	43	46	41
Opened	—	2	—	4
Closed	—	—	—	—
End of Period	46	45	46	45
Bath & Body Works U.S.				
Beginning of Period	1,583	1,565	1,574	1,558
Opened	11	9	23	19
Closed	(2)	(1)	(5)	(4)
End of Period	1,592	1,573	1,592	1,573
Bath & Body Works Canada				
Beginning of Period	102	91	98	88
Opened	—	7	4	10
Closed	—	—	—	—
End of Period	102	98	102	98
Victoria's Secret U.K.				
Beginning of Period	16	10	14	10
Opened	1	—	3	—
Closed	—	—	—	—
End of Period	17	10	17	10
Victoria's Secret Beauty and Accessories				
Beginning of Period	28	—	—	—
Acquired (a)	—	—	26	—
Opened	2	—	4	—
Closed	(1)	—	(1)	—
End of Period	29	—	29	—
La Senza U.S.				
Beginning of Period	—	—	—	—
Opened	3	—	3	—
Closed	—	—	—	—
End of Period	3	—	3	—
La Senza Canada				
Beginning of Period	125	133	126	145
Opened	—	1	—	1
Closed	—	(2)	(1)	(14)
End of Period	125	132	125	132
Henri Bendel				
Beginning of Period	29	29	29	29
Opened	—	—	—	—
Closed	—	—	—	—
End of Period	29	29	29	29
Total				
Beginning of Period	3,052	2,976	3,005	2,969
Acquired (a)	—	—	26	—
Opened	27	32	56	58
Closed	(6)	(5)	(14)	(24)
End of Period	3,073	3,003	3,073	3,003

(a) Relates to the acquisition of Victoria's Secret Beauty and Accessories franchise stores in Greater China. For additional information see Note 4, "Acquisition" included in Item 1. Financial Statements.

Noncompany-Owned Store Data

The following table compares the third quarter of 2016 noncompany-owned store data to the third quarter of 2015 and year-to-date 2016 store data to year-to-date 2015:

	Third Quarter		Year-to-Date	
Number of Stores	2016	2015	2016	2015
Victoria’s Secret Beauty & Accessories				
Beginning of Period	365	325	373	290
Opened	18	19	43	57
Closed	(2)	(2)	(9)	(5)
Transferred (a)	—	—	(26)	—
End of Period	381	342	381	342
Victoria's Secret				
Beginning of Period	22	17	19	14
Opened	4	1	7	4
Closed	—	—	—	—
End of Period	26	18	26	18
Bath & Body Works				
Beginning of Period	140	101	125	80
Opened	10	9	26	32
Closed	—	—	(1)	(2)
End of Period	150	110	150	110
La Senza				
Beginning of Period	213	233	221	266
Opened	3	2	4	3
Closed	(9)	(3)	(18)	(37)
End of Period	207	232	207	232
Total				
Beginning of Period	740	676	738	650
Opened	35	31	80	96
Closed	(11)	(5)	(28)	(44)
Transferred (a)	—	—	(26)	—
End of Period	764	702	764	702

(a) Relates to the acquisition of Victoria's Secret Beauty and Accessories franchise stores in Greater China. For additional information see Note 4, "Acquisition" included in Item 1. Financial Statements.

Results of Operations

Third Quarter of 2016 Compared to Third Quarter of 2015

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for the third quarter of 2016 in comparison to the third quarter of 2015:

Third Quarter	2016	2015	Operating Income Rate 2016	Operating Income Rate 2015
	(in millions)			
Victoria’s Secret	$ 164	$ 211	10.3 %	13.5 %
Bath & Body Works	145	136	18.9 %	19.3 %
Victoria’s Secret and Bath & Body Works International	9	18	8.6 %	19.6 %
Other (a)	(34)	(26)	(28.1)%	(23.1)%
Total Operating Income	$ 284	$ 339	11.0 %	13.7 %

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For the third quarter of 2016, operating income decreased $55 million, or 16%, to $284 million, and the operating income rate decreased to 11.0% from 13.7%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for the third quarter of 2016 in comparison to the third quarter of 2015:

Third Quarter	2016	2015	% Change
	(in millions)		
Victoria’s Secret Stores (a)	$ 1,286	$ 1,282	—%
Victoria’s Secret Direct	298	285	4%
Total Victoria’s Secret	1,584	1,567	1%
Bath & Body Works Stores (a)	682	637	7%
Bath & Body Works Direct	88	68	30%
Total Bath & Body Works	770	705	9%
Victoria’s Secret and Bath & Body Works International (b)	104	93	12%
Other (c)	123	117	5%
Total Net Sales	$ 2,581	$ 2,482	4%

(a) Includes company-owned stores in the U.S. and Canada.
(b) Includes Victoria's Secret and Bath & Body Works company-owned and partner-operated stores outside of the U.S. and Canada.
(c) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for the third quarter of 2016 to the third quarter of 2015:

Third Quarter	Victoria's Secret	Bath & Body Works	Victoria's Secret and Bath & Body Works International	Other	Total
			(in millions)		
2015 Net Sales	$ 1,567	$ 705	$ 93	$ 117	$ 2,482
Comparable Store Sales	(23)	27	1	—	5
Sales Associated with New, Closed and Non-comparable Remodeled Stores, Net	27	18	17	—	62
Foreign Currency Translation	—	—	(5)	—	(5)
Direct Channels	13	20	—	2	35
International Wholesale, Royalty and Other	—	—	(2)	4	2
2016 Net Sales	$ 1,584	$ 770	$ 104	$ 123	$ 2,581

The following table compares the third quarter of 2016 comparable sales to the third quarter of 2015:

Third Quarter	2016	2015
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	(1)%	6%
Bath & Body Works (b)	7 %	7%
Total Comparable Sales	2 %	7%
Comparable Store Sales (a)		
Victoria's Secret (b)	(2)%	7%
Bath & Body Works (b)	5 %	6%
Total Comparable Store Sales	— %	7%

(a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable store sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. Comparable store sales attributable to our international stores are calculated on a constant currency basis.

(b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For the third quarter of 2016, net sales increased $17 million to $1.584 billion, comparable sales decreased 1% and comparable store sales decreased 2%. Net sales increased primarily due to increases in PINK and sport, driven by a compelling merchandise assortment that incorporated newness, innovation and fashion. These results were partially offset by decreases in swim and apparel due to a strategic decision to exit these categories, core bras due to lower average unit retail prices, and beauty as we reposition the category.

The decrease in comparable store sales was primarily driven by a decrease in total transactions.

Bath & Body Works

For the third quarter of 2016, net sales increased $65 million to $770 million, comparable sales increased 7% and comparable store sales increased 5%. Net sales increased across most categories including home fragrance, Signature Collection and soaps and sanitizers, which all incorporated newness, innovation and fashion.

The increase in comparable store sales was driven by an increase in total transactions.

Victoria's Secret and Bath & Body Works International

For the third quarter of 2016, net sales increased $11 million to $104 million primarily related to recently acquired Victoria's Secret Beauty and Accessories stores in Greater China, company-owned Victoria's Secret stores in the U.K., and additional stores opened by our partners. These results were partially offset by the negative impacts of foreign currency at Victoria's Secret U.K. and Victoria's Secret Beauty and Accessories.

Other

For the third quarter of 2016, net sales increased $6 million to $123 million primarily related to an increase in net sales at La Senza and international sourcing revenues.

Gross Profit

For the third quarter of 2016, our gross profit decreased $6 million to $1.025 billion, and our gross profit rate (expressed as a percentage of net sales) decreased to 39.7% from 41.6%, primarily driven by the following:

Victoria's Secret

For the third quarter of 2016, the gross profit decrease was driven by a decline in merchandise margin primarily due to a decline in beauty as we reposition the category, promotions and pricing to drive trial in key categories and clearance activity on non-go forward merchandise categories. Buying and occupancy expenses decreased primarily driven by the discontinuation of catalogue production, and were partially offset by an increase in occupancy expense due to investments in store real estate.

The gross profit rate decrease was driven primarily by increases in the promotional and clearance activity described above, partially offset by lower buying and occupancy expenses due to decreased catalogue costs.

Bath & Body Works

For the third quarter of 2016, the gross profit increase was driven by higher merchandise margin dollars primarily related to the increase in net sales. The increase in merchandise margin was partially offset by an increase in occupancy expense due to investments in store real estate.

The gross profit rate decrease was driven by an increase in occupancy expenses primarily due to investments in store real estate.

Victoria's Secret and Bath & Body Works International

For the third quarter of 2016, the gross profit decrease was driven by higher occupancy expenses due to investments in store real estate in Greater China and the negative impacts of foreign currency on merchandise margin at Victoria's Secret U.K. These decreases were partially offset by increased merchandise margin dollars generated from higher net sales from recently acquired stores in Greater China.

The gross profit rate decrease was driven primarily by an increase in occupancy expenses due to investments in store real estate and the negative impacts of foreign currency on merchandise margin at Victoria's Secret U.K.

General, Administrative and Store Operating Expenses

For the third quarter of 2016, our general, administrative and store operating expenses increased $49 million to $741 million primarily due to corporate expenses in Greater China, increased legal expenses and increased store selling expenses related to higher sales volumes.

The general, administrative and store operating expense rate increased to 28.7% from 27.9% due to corporate expenses in Greater China, increased legal expenses and increased selling expenses, partially offset by leverage from higher sales.

Other Income and Expense

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for the third quarter of 2016 and 2015:

Third Quarter	2016	2015
Average daily borrowings (in millions)	$ 5,770	$ 4,765
Average borrowing rate (in percentages)	6.75%	6.70%

For the third quarter of 2016, our interest expense increased $18 million to $97 million primarily due to an increase in average borrowings related to the October 2015 $1 billion note issuance.

Other Income

For the third quarter of 2016, our other income increased $3 million to $3 million primarily driven by a gain on a distribution received from an investment.

Provision for Income Taxes

For the third quarter of 2016, our effective tax rate was 36.0% compared to 36.8% in the third quarter of 2015. The third quarter 2016 rate was lower than our combined federal and state statutory rate primarily due to the favorable resolution of certain tax matters. The third quarter 2015 rate was lower than the Company's combined federal and state statutory rate primarily due to foreign earnings taxed at a rate lower than our combined federal and state rate.

Year-to-Date 2016 Compared to Year-to-Date 2015

Operating Income

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for year-to-date 2016 in comparison to year-to-date 2015:

Year-to-Date	2016	2015	Operating Income Rate 2016	Operating Income Rate 2015
	(in millions)			
Victoria's Secret	$ 679	$ 797	13.1 %	15.8 %
Bath & Body Works	405	371	18.2 %	18.0 %
Victoria's Secret and Bath & Body Works International	30	60	9.9 %	21.9 %
Other (a)	(99)	(114)	(27.3)%	(31.8)%
Total Operating Income	$ 1,015	$ 1,114	12.6 %	14.4 %

(a) Includes Mast Global, La Senza, Henri Bendel and Corporate.

For year-to-date 2016, operating income decreased $99 million, or 9%, to $1.015 billion, and the operating income rate decreased to 12.6% from 14.4%. The drivers of the operating income results are discussed in the following sections.

Net Sales

The following table provides net sales for year-to-date 2016 in comparison to year-to-date 2015:

Year-to-Date	2016	2015	% Change
	(in millions)		
Victoria's Secret Stores (a)	$ 4,136	$ 4,065	2%
Victoria's Secret Direct	1,056	993	6%
Total Victoria's Secret	5,192	5,058	3%
Bath & Body Works Stores (a)	1,977	1,863	6%
Bath & Body Works Direct	255	204	25%
Total Bath & Body Works	2,232	2,067	8%
Victoria's Secret and Bath & Body Works International (b)	299	273	10%
Other (c)	362	361	—%
Total Net Sales	$ 8,085	$ 7,759	4%

(a) Includes company-owned stores in the U.S. and Canada.
(b) Includes Victoria's Secret and Bath & Body Works company-owned and partner-operated stores outside of the U.S. and Canada.
(c) Includes Mast Global, La Senza, Henri Bendel and Corporate.

The following table provides a reconciliation of net sales for year-to-date 2016 to year-to-date 2015:

Year-to-Date	Victoria's Secret	Bath & Body Works	Victoria's Secret and Bath & Body Works International	Other	Total
			(in millions)		
2015 Net Sales	$ 5,058	$ 2,067	$ 273	$ 361	$ 7,759
Comparable Store Sales	(9)	69	2	4	66
Sales Associated with New, Closed and Non-comparable Remodeled Stores, Net	85	48	40	(5)	168
Foreign Currency Translation	(5)	(3)	(12)	(4)	(24)
Direct Channels	63	51	—	7	121
International Wholesale, Royalty and Other	—	—	(4)	(1)	(5)
2016 Net Sales	$ 5,192	$ 2,232	$ 299	$ 362	$ 8,085

The following table compares year-to-date 2016 comparable sales to year-to-date 2015:

Year-to-Date	2016	2015
Comparable Sales (Stores and Direct) (a)		
Victoria's Secret (b)	1%	3%
Bath & Body Works (b)	6%	6%
Total Comparable Sales	3%	4%
Comparable Store Sales (a)		
Victoria's Secret (b)	—%	5%
Bath & Body Works (b)	4%	5%
Total Comparable Store Sales	1%	5%

(a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. A store is typically included in the calculation of comparable store sales when it has been open or owned 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store. Comparable store sales attributable to our international stores are calculated on a constant currency basis.

(b) Includes company-owned stores in the U.S. and Canada.

The results by segment are as follows:

Victoria's Secret

For year-to-date 2016, net sales increased $134 million to $5.192 billion, comparable sales increased 1% and comparable store sales were flat. Net sales increased primarily due to increases in PINK and sport, driven by a compelling merchandise assortment that incorporated newness, innovation and fashion. These results were partially offset by decreases in swim and apparel due to a strategic decision to exit these categories, core bras due to lower average unit retail prices, and beauty as we reposition the category.

Bath & Body Works

For year-to-date 2016, net sales increased $165 million to $2.232 billion, comparable sales increased 6% and comparable store sales increased 4%. Net sales increased across most categories including home fragrance, Signature Collection and soaps and sanitizers, which all incorporated newness, innovation and fashion.

The increase in comparable store sales was driven by an increase in average dollar sales.

Victoria's Secret and Bath & Body Works International

For year-to-date 2016, net sales increased $26 million to $299 million primarily related to newly acquired Victoria's Secret Beauty and Accessories stores in Greater China, company-owned Victoria's Secret stores in the U.K., and additional stores opened by our partners. These results were partially offset by the negative impacts of foreign currency at Victoria's Secret U.K. and Victoria's Secret Beauty and Accessories.

Other

For year-to-date 2016, net sales increased $1 million to $362 million primarily due to increases in our La Senza and Henri Bendel direct channels, partially offset by store closures and the negative impacts of foreign currency at La Senza.

Gross Profit

For year-to-date 2016, our gross profit decreased $20 million to $3.181 billion, and our gross profit rate (expressed as a percentage of net sales) decreased to 39.3% from 41.3%, primarily driven by the following:

Victoria's Secret

For year-to-date 2016, the gross profit decrease was primarily driven by a decline in merchandise margin due to clearance activity on non-go forward merchandise categories, promotions and pricing to drive trial in beauty and other key categories, and fabric cancellations related to restructuring activities. Buying and occupancy expenses increased primarily driven by an increase in occupancy expense resulting from investments in real estate, partially offset by a decrease in catalogue costs.

The gross profit rate decrease was driven primarily by increases in the promotional and clearance activity described above, the expenses related to the restructuring activities and investments in store real estate, partially offset by lower buying and occupancy expenses due to decreased catalogue costs.

Bath & Body Works

For year-to-date 2016, the gross profit increase was primarily driven by higher merchandise margin dollars related to the increase in net sales. The increase in merchandise margin was partially offset by higher occupancy expenses due to investments in store real estate.

The gross profit rate decrease was driven by an increase in occupancy expenses primarily due to investments in store real estate.

Victoria's Secret and Bath & Body Works International

For year-to-date 2016, the gross profit decrease was primarily due to higher occupancy expenses driven by investments in store real estate in Greater China and the U.K., and lower merchandise margin dollars at Victoria's Secret Beauty and Accessories due to the negative impacts of foreign currency and business performance. These decreases were partially offset by increased merchandise margin dollars generated from higher net sales.

The gross profit rate decrease was driven primarily by higher occupancy expenses due to investments in store real estate and a decrease in the merchandise margin rate at Victoria's Secret Beauty and Accessories.

General, Administrative and Store Operating Expenses

For year-to-date 2016, our general, administrative and store operating expenses increased $79 million to $2.166 billion primarily driven by increased store selling expenses related to higher sales volume and investments in selling to improve the customer experience, severance charges related to the Victoria's Secret restructuring and corporate expenses in Greater China.

The general, administrative and store operating expense rate decreased to 26.8% from 26.9% primarily due to leverage from higher sales, partially offset by deleverage associated with the Victoria's Secret restructuring and corporate expenses in Greater China.

Other Income and Expense

Interest Expense

The following table provides the average daily borrowings and average borrowing rates for year-to-date 2016 and 2015:

Year-to-Date	2016	2015
Average daily borrowings (in millions)	$ 5,843	$ 4,755
Average borrowing rate (in percentages)	6.73%	6.63%

For year-to-date 2016, our interest expense increased $58 million to $295 million primarily due to an increase in average borrowings related to the October 2015 $1 billion note issuance.

Other Income

For year-to-date 2016, our other income increased $8 million to $83 million primarily driven by a distribution received from Easton Town Center, LLC resulting in a pre-tax gain of $108 million, partially offset by a $36 million pre-tax loss on extinguishment of the 2017 Notes. In 2015, we recognized a pre-tax gain of $78 million due to the divestiture of our remaining ownership interest in the third-party apparel sourcing business.

Provision for Income Taxes

For year-to-date 2016, our effective tax rate was 34.5% compared to 35.2% year-to-date 2015. The year-to-date 2016 rate was lower than our combined federal and state statutory rate primarily due to the favorable resolution of certain tax matters. The year-to-date 2015 rate was lower than our combined federal and state statutory rate primarily due to the foreign portion of the divestiture of our third-party apparel sourcing business.

FINANCIAL CONDITION

Liquidity and Capital Resources

Liquidity, or access to cash, is an important factor in determining our financial stability. We are committed to maintaining adequate liquidity. Cash generated from our operating activities provides the primary resources to support current operations, growth initiatives, seasonal funding requirements and capital expenditures. Our cash provided from operations is impacted by our net income and working capital changes. Our net income is impacted by, among other things, sales volume, seasonal sales patterns, success of new product introductions and profit margins. Historically, sales are higher during the fourth quarter of the fiscal year due to seasonal and holiday-related sales patterns. Generally, our need for working capital peaks during the summer and fall months as inventory builds in anticipation of the holiday period.

We believe in returning value to our shareholders through a combination of dividends and share repurchase programs. During 2016, we have paid $1.096 billion in regular and special dividends and repurchased $410 million of our common stock. We use cash flow generated from operating activities and financing activities to fund our dividends and share repurchase programs.

Our total cash and cash equivalents held by foreign subsidiaries were $282 million as of October 29, 2016. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. are repatriated to the U.S., in certain circumstances we may be subject to additional income taxes.

The following table provides our debt balance, net of debt issuance costs and unamortized discounts, as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Senior Unsecured Debt with Subsidiary Guarantee			
$1 billion, 6.875% Fixed Interest Rate Notes due November 2035 ("2035 Notes")	$ 989	$ 988	$ 988
$1 billion, 5.625% Fixed Interest Rate Notes due February 2022 ("2022 Notes")	992	991	990
$1 billion, 6.625% Fixed Interest Rate Notes due April 2021 ("2021 Notes")	992	990	990
$700 million, 6.75% Fixed Interest Rate Notes due July 2036 ("2036 Notes")	692	—	—
$500 million, 8.50% Fixed Interest Rate Notes due June 2019 ("2019 Notes") (a)	498	499	497
$500 million, 5.625% Fixed Interest Rate Notes due October 2023 ("2023 Notes")	497	496	496
$400 million, 7.00% Fixed Interest Rate Notes due May 2020 ("2020 Notes")	396	396	396
Total Senior Unsecured Debt with Subsidiary Guarantee	$ 5,056	$ 4,360	$ 4,357
Senior Unsecured Debt			
$350 million, 6.95% Fixed Interest Rate Debentures due March 2033 ("2033 Notes")	$ 348	$ 348	$ 348
$300 million, 7.60% Fixed Interest Rate Notes due July 2037 ("2037 Notes")	297	297	297
$700 million, 6.90% Fixed Interest Rate Notes due July 2017 ("2017 Notes") (b)	—	709	710
Foreign Facilities	23	7	5
Total Senior Unsecured Debt	$ 668	$ 1,361	$ 1,360
Total	$ 5,724	$ 5,721	$ 5,717
Current Portion of Long-term Debt	(23)	(6)	(4)
Total Long-term Debt, Net of Current Portion	$ 5,701	$ 5,715	$ 5,713

(a) The balances include a fair value interest rate hedge adjustment which increased the debt balance by $6 million as of October 29, 2016, $8 million as of January 30, 2016 and $7 million as of October 31, 2015.

(b) The balances include a fair value interest rate hedge adjustment which increased the debt balance by $10 million as of January 30, 2016 and $11 million as of October 31, 2015.

Issuance of Notes

In June 2016, we issued $700 million of 6.75% notes due in July 2036. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by our Guarantors. The proceeds from the issuance were $692 million, which were net of issuance costs of $8 million. These issuance costs are being amortized through the maturity date of July 2036 and are included within Long-term Debt on the October 29, 2016 Consolidated Balance Sheet.

In October 2015, we issued $1 billion of 6.875% notes due in November 2035. The obligation to pay principal and interest on these notes is jointly and severally guaranteed on a full and unconditional basis by our Guarantors. The proceeds from the issuance were $988 million, which were net of issuance costs of $12 million. These issuance costs are being amortized through the maturity date of November 2035 and are included within Long-term Debt on the Consolidated Balance Sheets.

Repurchase of Notes

In July 2016, we used the proceeds from the 2036 Notes to repurchase the $700 million 2017 Notes for $742 million. The pre-tax loss on extinguishment of this debt was $36 million (after-tax net loss of $22 million), which is net of gains of $7 million related to terminated interest rate swaps associated with the 2017 Notes. This loss is included in Other Income in the year-to-date 2016 Consolidated Statement of Income.

Revolving Facilities

We maintain a secured revolving credit facility (“Revolving Facility”). The Revolving Facility has aggregate availability of $1 billion and expires July 18, 2019. The fees related to committed and unutilized amounts are 0.30% per annum, and the fees related to outstanding letters of credit are 1.50% per annum. In addition, the interest rate on outstanding U.S. dollar borrowings or British pound borrowings is LIBOR plus 1.50% per annum. The interest rate on outstanding Canadian dollar borrowings is CDOR plus 1.50% per annum.

The Revolving Facility contains fixed charge coverage and debt to EBITDA financial covenants. We are required to maintain a fixed charge coverage ratio of not less than 1.75 to 1.00 and a consolidated debt to consolidated EBITDA ratio not exceeding 4.00 to 1.00 for the most recent four-quarter period. In addition, the Revolving Facility provides that investments and restricted payments may be made, without limitation on amount, if (a) at the time of and after giving effect to such investment or restricted payment, the ratio of consolidated debt to consolidated EBITDA for the most recent four-quarter period is less than 3.00 to 1.00 and (b) no default or event of default exists. As of October 29, 2016, we were in compliance with both of our financial covenants, and the ratio of consolidated debt to consolidated EBITDA was less than 3.00 to 1.00.

As of October 29, 2016, there were no borrowings outstanding under the Revolving Facility.

The Revolving Facility supports our letter of credit program. We had $8 million of outstanding letters of credit as of October 29, 2016 that reduce our remaining availability under our Revolving Facility.

In addition to the Revolving Facility, we maintain various revolving and term loan bank facilities with availability totaling $100 million to support our foreign operations ("Foreign Facilities"). Current borrowings on these Foreign Facilities mature between November 15, 2016 and October 26, 2017. The interest rates on outstanding borrowings are based upon the applicable benchmark rate for the currency of each borrowing.

During the third quarter of 2016, we borrowed $10 million and made payments of $4 million under the Foreign Facilities. The maximum daily amount outstanding at any point in time during 2016 was $23 million. As of October 29, 2016, there were borrowings of $23 million outstanding under the Foreign Facilities.

Interest Rate Swap Arrangements

We have interest rate swap arrangements related to $300 million of the outstanding 2019 Notes that are designated as interest rate fair value hedges. The interest rate swap arrangements effectively convert the fixed interest rate on the related debt to a variable interest rate based on LIBOR plus a fixed percentage. The changes in the fair value of the interest rate swaps have an equal and offsetting impact to the carrying value of the debt on the balance sheet. The differential to be paid or received on the interest rate swap arrangements is accrued and recognized as an adjustment to interest expense.

Working Capital and Capitalization

We believe that our available short-term and long-term capital resources are sufficient to fund foreseeable requirements.

The following table provides a summary of our working capital position and capitalization as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Net Cash Provided by Operating Activities (a)	$ 316	$ 1,869	$ 262
Capital Expenditures (a)	825	727	603
Working Capital	879	2,281	1,801
Capitalization:			
Long-term Debt	5,701	5,715	5,713
Shareholders’ Equity (Deficit)	(1,190)	(259)	(658)
Total Capitalization	$ 4,511	$ 5,456	$ 5,055
Remaining Amounts Available Under Credit Agreements (b)	$ 992	$ 992	$ 981

(a) The January 30, 2016 amounts represent a twelve-month period, and the October 29, 2016 and October 31, 2015 amounts represent nine-month periods.

(b) Letters of credit issued reduce our remaining availability under the Revolving Facility. We have outstanding letters of credit that reduce our remaining availability under the Revolving Facility of $8 million as of October 29, 2016 and January 30, 2016 and $19 million as of October 31, 2015.

Credit Ratings

The following table provides our credit ratings as of October 29, 2016:

	Moody’s	S&P	Fitch
Corporate	Ba1	BB+	BB+
Senior Unsecured Debt with Subsidiary Guarantee	Ba1	BB+	BB+
Senior Unsecured Debt	Ba2	BB-	BB
Outlook	Stable	Stable	Stable

Our borrowing costs under our Revolving Facility are linked to our credit ratings at Moody's, S&P and Fitch. If we receive an upgrade or downgrade to our corporate credit ratings by Moody's, S&P or Fitch, the borrowing costs could decrease or increase, respectively. The guarantees of our obligations under the Revolving Facility by the Guarantors and the security interests granted in our and the Guarantors' collateral securing such obligations are released if our credit ratings are higher than a certain level. Additionally, the restrictions imposed under the Revolving Facility on our ability to make investments and to make restricted payments cease to apply if our credit ratings are higher than certain levels. Credit rating downgrades by any of the agencies do not accelerate the repayment of any of our debt.

Common Stock Share Repurchases

Under the authority of our Board of Directors, we repurchased shares of our common stock under the following repurchase programs for year-to-date 2016 and 2015:

Repurchase Program	Amount Authorized	Shares Repurchased 2016	Shares Repurchased 2015	Amount Repurchased 2016	Amount Repurchased 2015	Average Stock Price of Shares Repurchased within Program
	(in millions)	(in thousands)		(in millions)		
February 2016	$ 500	5,270	NA	$ 410	NA	$ 77.75
June 2015	$ 250	NA	1,375	NA	$ 113	$ 82.31
February 2015	$ 250	NA	2,788	NA	$ 250	$ 89.45

In the first quarter of 2016, our Board of Directors approved a new $500 million share repurchase program, which included $17 million remaining under the June 2015 repurchase program.

The February 2016 repurchase program had $90 million remaining as of October 29, 2016. Subsequent to October 29, 2016, we repurchased an additional 0.2 million shares of common stock for $11 million under this program.

There were no share repurchases reflected in Accounts Payable on the October 29, 2016, January 30, 2016 and October 31, 2015 Consolidated Balance Sheets.

We use cash flow generated from operating and financing activities to fund our share repurchase programs. The timing and amount of any repurchases will be made at our discretion taking into account a number of factors including market conditions.

Dividend Policy and Procedures

Under the authority and declaration of our Board of Directors, we paid the following dividends during year-to-date 2016 and 2015:

	Ordinary Dividends	Special Dividends	Total Dividends	Total Paid
		(per share)		(in millions)
2016				
Third Quarter	$ 0.60	$ —	$ 0.60	$ 173
Second Quarter	0.60	—	0.60	173
First Quarter	0.60	2.00	2.60	750
2016 Total	$ 1.80	$ 2.00	$ 3.80	$ 1,096
2015				
Third Quarter	$ 0.50	$ —	$ 0.50	$ 146
Second Quarter	0.50	—	0.50	146
First Quarter	0.50	2.00	2.50	734
2015 Total	$ 1.50	$ 2.00	$ 3.50	$ 1,026

Our Board of Directors will determine future dividends and share repurchase authorizations after giving consideration to the Company's levels of profit and cash flow, capital requirements, current and forecasted liquidity, the restrictions placed upon us by our borrowing arrangements as well as financial and other conditions existing at the time. We use cash flow generated from operating activities to fund our ordinary dividends and a combination of cash flow generated from operating activities and financing activities to fund our special dividends and share repurchases.

Cash Flow

The following table provides a summary of our cash flow activity for year-to-date 2016 and 2015:

	Year-to-Date	
	2016	2015
	(in millions)	
Cash and Cash Equivalents, Beginning of Period	$ 2,548	$ 1,681
Net Cash Flows Provided by Operating Activities	316	262
Net Cash Flows Used for Investing Activities	(721)	(332)
Net Cash Flows Used for Financing Activities	(1,486)	(302)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(3)	2
Net Decrease in Cash and Cash Equivalents	(1,894)	(370)
Cash and Cash Equivalents, End of Period	$ 654	$ 1,311

Operating Activities

Net cash provided by operating activities in 2016 was $316 million, including net income of $526 million. Net income included depreciation and amortization of $378 million, gain on distribution from Easton Town Center, LLC of $108 million, share-based compensation expense of $70 million, excess tax benefits from share-based compensation of $39 million, and loss on extinguishment of debt of $36 million. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant items in working capital were the seasonal increases in Inventories (and related increases in Accounts Payable), as we build our inventory levels in anticipation of the holiday season, which generates a substantial portion of our operating cash flow for the year. In addition, our Income Taxes Payable decrease was due to seasonal tax payments.

Net cash provided by operating activities in 2015 was $262 million, including net income of $617 million. Net income included depreciation and amortization of $335 million, gain on divestiture of the third-party apparel sourcing business of $78 million, share-based compensation expense of $73 million and excess tax benefits from share-based compensation of $65 million. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant items in working capital were the seasonal increases in Inventories (and related increases in Accounts Payable), as we build our inventory levels in anticipation of the holiday season, which generates a substantial portion of our operating cash flow for the year. In addition, our Income Taxes Payable decrease was due to seasonal tax payments.

Investing Activities

Net cash used for investing activities in 2016 was $721 million consisting primarily of capital expenditures of $825 million and $33 million related to the acquisition of our Victoria's Secret Beauty and Accessories franchise partner's operations and stores in Greater China, partially offset by a $108 million return of capital from Easton Town Center, LLC and proceeds from the sale of marketable securities of $10 million. The capital expenditures included $691 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

Net cash used for investing activities in 2015 was $332 million consisting primarily of capital expenditures of $603 million and purchases of marketable securities of $60 million, partially offset by proceeds from the sale of assets of $196 million, the divestiture of the third-party apparel sourcing business of $85 million and proceeds from the sale of marketable securities of $50 million. The capital expenditures included $476 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

Financing Activities

Net cash used for financing activities in 2016 was $1.486 billion consisting primarily of quarterly and special dividend payments aggregating to $3.80 per share, or $1.096 billion, $742 million to repurchase our 2017 Notes, and repurchases of common stock of $410 million, partially offset by net proceeds of $692 million from the 2036 Notes issuance, excess tax benefits from share-based compensation of $39 million and proceeds from the exercise of stock options of $17 million.

Net cash used for financing activities in 2015 was $302 million consisting primarily of quarterly and special dividend payments aggregating to $3.50 per share, or $1.026 billion, and repurchases of common stock of $363 million, partially offset by the net proceeds from the 2035 Notes issuance of $988 million, excess tax benefits from share-based compensation of $65 million and proceeds from the exercise of stock options of $31 million.

Contingent Liabilities and Contractual Obligations

In connection with the disposition of certain businesses, we have remaining guarantees of approximately $18 million related to lease payments under the current terms of noncancellable leases expiring at various dates through 2021. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate to leases that commenced prior to the disposition of the businesses. In certain instances, our guarantee may remain in effect if the term of a lease is extended. We have not recorded a liability with respect to these guarantee obligations as we concluded that payments under these guarantees were not probable as of October 29, 2016.

In connection with the sale and leaseback under noncancellable operating leases of certain assets, we provided residual value guarantees to the lessor if the leased assets cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The leases expire in 2020, and the total amount of the guarantees is approximately $105 million. We recorded a liability of $3 million related to these guarantee obligations as of October 29, 2016 and January 30, 2016, which is included in Other Long-term Liabilities on the Consolidated Balance Sheets.

Our contractual obligations primarily consist of long-term debt and the related interest payments, operating leases, purchase orders for merchandise inventory and other long-term obligations. These contractual obligations impact our short-term and long-term liquidity and capital resource needs. There have been no material changes in our contractual obligations since January 30, 2016, as discussed in "Contingent Liabilities and Contractual Obligations" in our 2015 Annual Report on Form 10-K, other than the issuance of the 2036 Notes and the repurchase of the 2017 Notes. Certain of our contractual obligations may fluctuate during the normal course of business (primarily changes in our merchandise inventory-related purchase obligations which fluctuate throughout the year as a result of the seasonal nature of our operations).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance will be effective beginning in fiscal year 2018, with early adoption as of fiscal year 2017 permitted. The standard allows for either a full retrospective or a modified retrospective transition method. We are currently evaluating this standard, including the transition method and timing of adoption, and the related impact on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance requires companies classified as lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective beginning in fiscal year 2019, with early adoption permitted. We are currently evaluating this standard, including the timing of adoption, and the related impact on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

Simplifying the Presentation of Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This guidance requires companies to recognize income tax effects of awards in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The standard also will require all tax-related cash flows resulting from share-based payments to be reported as operating activities on the statements of cash flows, and any cash payments made to taxing authorities on an employee's behalf as financing activities. The standard will be effective beginning in fiscal year 2017, with early adoption permitted. We have determined that we will adopt ASU 2016-09 in the first quarter of fiscal year 2017. We are currently evaluating the related impact on our Consolidated Statements of Income and Comprehensive Income, Balance Sheets and Statements of Cash Flows.

IMPACT OF INFLATION

While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on the results of operations and financial condition have been minor.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long-lived assets, claims and contingencies, income taxes and revenue recognition. Management bases our estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

There have been no material changes to the critical accounting policies and estimates disclosed in our 2015 Annual Report on Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in foreign currency exchange rates or interest rates. We use derivative financial instruments like cross-currency swaps, foreign currency forward contracts and interest rate swap arrangements to manage exposure to market risks. We do not use derivative financial instruments for trading purposes.

Foreign Exchange Rate Risk

We have operations in foreign countries which expose us to market risk associated with foreign currency exchange rate fluctuations. To mitigate the translation risk to our earnings and the fair value of our Canadian operations associated with fluctuations in the U.S. dollar-Canadian dollar exchange rate, we entered into a cross-currency swap related to a Canadian dollar denominated intercompany loan. This cross-currency swap requires the periodic exchange of fixed rate Canadian dollar interest payments for fixed rate U.S. dollar interest payments as well as exchange of Canadian dollar and U.S. dollar principal payments upon maturity. The swap arrangement matures in January 2018 at the same time as the related loan. As a result of the Canadian dollar denominated intercompany loan and the related cross-currency swap, we do not believe there is any material translation risk to our Canadian net earnings associated with fluctuations in the U.S. dollar-Canadian dollar exchange rate.

In addition, our Canadian dollar, British pound and Chinese yuan denominated earnings are subject to exchange rate risk as substantially all of our merchandise sold in Canada, the U.K. and China is sourced through U.S. dollar transactions. Although we utilize foreign currency forward contracts to partially offset risks associated with Canadian dollar and British pound denominated earnings, these measures may not succeed in offsetting all of the short-term impact of foreign currency rate movements and generally may not be effective in offsetting the long-term impact of sustained shifts in foreign currency rates.

Further, although our royalty arrangements with our international partners are denominated in U.S. dollars, the royalties we receive in U.S. dollars are calculated based on sales in the local currency. As a result, our royalties in these arrangements are exposed to foreign currency exchange rate fluctuations.

Interest Rate Risk

Our investment portfolio primarily consists of interest-bearing instruments that are classified as cash and cash equivalents based on their original maturities. Our investment portfolio is maintained in accordance with our investment policy, which specifies permitted types of investments, specifies credit quality standards and maturity profiles and limits credit exposure to any single issuer. The primary objective of our investment activities are the preservation of principal, the maintenance of liquidity and the maximization of interest income while minimizing risk. Typically, our investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits. Given the short-term nature and quality of investments in our portfolio, we do not believe there is any material risk to principal associated with increases or decreases in interest rates.

The majority of our long-term debt as of October 29, 2016, has fixed interest rates. We will from time to time adjust our exposure to interest rate risk by entering into interest rate swap arrangements. As of October 29, 2016, we have interest rate swap arrangements with notional amounts of $300 million related to a portion of our 2019 Notes.

The effect of the interest rate swap arrangements is to convert the respective amount of debt from a fixed interest rate to a variable interest rate. The variable interest rate associated with these swap arrangements fluctuates based on changes in three-month LIBOR.

For the balance of our long-term debt that is not subject to interest rate swap arrangements, our exposure to interest rate changes is limited to the fair value of the debt issued, which would not have a material impact on our earnings or cash flows.

Fair Value of Financial Instruments

As of October 29, 2016, we believe that the carrying values of accounts receivable, accounts payable, accrued expenses and current debt approximate fair value because of their short maturity.

The following table provides a summary of the principal value and fair value of long-term debt and swap arrangements as of October 29, 2016, January 30, 2016 and October 31, 2015:

	October 29, 2016	January 30, 2016	October 31, 2015
		(in millions)	
Long-term Debt:			
Principal Value	$ 5,750	$ 5,750	$ 5,750
Fair Value, Estimated (a)	6,352	6,209	6,322
Foreign Currency Cash Flow Hedges (b)	(26)	(27)	(27)
Interest Rate Fair Value Hedges (b)	(6)	(11)	(10)

(a) The estimated fair value is based on reported transaction prices. The estimates presented are not necessarily indicative of the amounts that we could realize in a current market exchange.

(b) Hedge arrangements are in an asset position.

Concentration of Credit Risk

We maintain cash and cash equivalents and derivative contracts with various major financial institutions. We monitor the relative credit standing of financial institutions with whom we transact and limit the amount of credit exposure with any one entity. Typically, our investment portfolio is primarily comprised of U.S. government obligations, U.S. Treasury and AAA-rated money market funds, commercial paper and bank deposits. We also periodically review the relative credit standing of franchise, license and wholesale partners and other entities to which we grant credit terms in the normal course of business.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. In August 2016, we implemented a new Human Resources and Payroll system. Various processes and controls were modified due to the new system. Additionally, we implemented additional compensating controls over financial reporting to ensure the accuracy and integrity of our financial statements during the post-implementation phase. We believe the system and process changes will enhance internal control over financial reporting in future periods. There were no other changes in our internal control over financial reporting that occurred in the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are a defendant in a variety of lawsuits arising in the ordinary course of business. Actions filed against our Company from time to time include commercial, tort, intellectual property, customer, employment, data privacy, securities and other claims, including purported class action lawsuits. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, our current legal proceedings are not expected to have a material adverse effect on our financial position or results of operations.

Item 1A. RISK FACTORS

The risk factors that affect our business and financial results are discussed in “Item 1A: Risk Factors” in the 2015 Annual Report on Form 10-K. We wish to caution the reader that the risk factors discussed in “Item 1A: Risk Factors” in our 2015 Annual Report on Form 10-K and those described elsewhere in this report or other SEC filings, could cause actual results to differ materially from those stated in any forward-looking statements.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides our repurchases of our common stock during the third quarter of 2016:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Programs (c)	Maximum Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Programs (c)
	(in thousands)		(in thousands)	
August 2016	266	$ 72.89	257	$ 93,314
September 2016	66	71.65	42	90,359
October 2016	64	70.53	3	90,162
Total	396		302	

(a) The total number of shares repurchased includes shares repurchased as part of publicly announced programs, with the remainder relating to shares repurchased in connection with tax payments due upon vesting of employee restricted stock awards and the use of our stock to pay the exercise price on employee stock options.
(b) The average price paid per share includes any broker commissions.
(c) For additional share repurchase program information, see Note 3, "Earnings Per Share and Shareholders' Equity (Deficit)" included in Item 1. Financial Statements.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibits

15	Letter re: Unaudited Interim Financial Information re: Incorporation of Report of Independent Registered Public Accounting Firm.
31.1	Section 302 Certification of CEO.
31.2	Section 302 Certification of CFO.
32	Section 906 Certification (by CEO and CFO).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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.

L BRANDS, INC.
(Registrant)

By: /s/ STUART B. BURGDOERFER

Stuart B. Burgdoerfer
Executive Vice President and Chief Financial Officer *

Date: December 2, 2016

* Mr. Burgdoerfer is the principal financial officer and the principal accounting officer and has been duly authorized to sign on behalf of the Registrant.

Exhibit 15

December 2, 2016

To the Board of Directors and Shareholders
of L Brands, Inc.:

We are aware of the incorporation by reference in the following Registration Statements of L Brands, Inc. and, with respect to the Registration Statement on Form S-3 and Form S-4 in the related Prospectus of L Brands, Inc.:

Registration Statement (Form S-3 ASR No. 333-191968)
Registration Statement (Form S-4 No. 333-163026)
Registration Statement (Form S-8 No. 33-49871)
Registration Statement (Form S-8 No. 333-110465)
Registration Statement (Form S-8 No. 333-04927)
Registration Statement (Form S-8 No. 333-04941)
Registration Statement (Form S-8 No. 333-118407)
Registration Statement (Form S-8 No. 333-161841)
Registration Statement (Form S-8 No. 333-176588)
Registration Statement (Form S-8 No. 333-206787)
Registration Statement (Form S-4 No. 333-209114)
Registration Statement (Form S-3 ASR No. 333-209236);

of our report dated December 2, 2016 relating to the unaudited consolidated interim financial statements of L Brands, Inc. and its subsidiaries that are included in its Form 10-Q for the quarter ended October 29, 2016.

/s/ Ernst & Young LLP

Grandview Heights, Ohio

Exhibit 31.1

Section 302 Certification

I, Leslie H. Wexner, certify that:

1. I have reviewed this report on Form 10-Q of L Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LESLIE H. WEXNER

Leslie H. Wexner
Chairman and Chief Executive Officer

Date: December 2, 2016

Exhibit 31.2

Section 302 Certification

I, Stuart B. Burgdoerfer, certify that:

1. I have reviewed this report on Form 10-Q of L Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STUART B. BURGDOERFER

Stuart B. Burgdoerfer

Executive Vice President and
Chief Financial Officer

Date: December 2, 2016

Exhibit 32

Section 906 Certification

Leslie H. Wexner, the Chairman and Chief Executive Officer, and Stuart B. Burgdoerfer, the Executive Vice President and Chief Financial Officer, of L Brands, Inc. (the “Company”), each certifies that, to the best of his knowledge:

(i) the Quarterly Report of the Company on Form 10-Q dated December 2, 2016 for the period ending October 29, 2016 (the “Form 10-Q”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LESLIE H. WEXNER

Leslie H. Wexner
Chairman and Chief Executive Officer

/s/ STUART B. BURGDOERFER

Stuart B. Burgdoerfer
Executive Vice President and Chief Financial Officer

Date: December 2, 2016