TJX COMPANIES INC /DE/
Form 10-Q
August 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(mark one)
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended August 4, 2018
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 1-4908
The TJX Companies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-2207613
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
770 Cochituate Road Framingham, Massachusetts	01701
(Address of principal executive offices)	(Zip Code)

(508) 390-1000
(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO
The number of shares of registrant’s common stock outstanding as of August 4, 2018: 620,766,706

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
THE TJX COMPANIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
IN THOUSANDS EXCEPT PER SHARE AMOUNTS

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	$9,331,115	$8,357,700	$18,019,835	$16,141,724
Cost of sales, including buying and occupancy costs	6,635,815	5,972,675	12,814,054	11,502,747
Selling, general and administrative expenses	1,699,714	1,483,648	3,250,489	2,895,251
Interest expense, net	3,029	9,677	7,177	19,518
Income before provision for income taxes	992,557	891,700	1,948,115	1,724,208
Provision for income taxes	252,931	338,743	492,108	634,972
Net income	$739,626	$552,957	$1,456,007	$1,089,236
Basic earnings per share:				
Net income	$1.19	$0.87	$2.33	$1.70
Weighted average common shares – basic	623,426	639,127	625,019	641,776
Diluted earnings per share:				
Net income	$1.17	$0.85	$2.30	$1.67
Weighted average common shares – diluted	632,960	648,317	633,684	651,892
Cash dividends declared per share	$0.3900	$0.3125	$0.7800	$0.6250

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
IN THOUSANDS

	Thirteen Weeks Ended	
	August 4, 2018	July 29, 2017
Net income	$739,626	$552,957
Additions to other comprehensive income:		
Foreign currency translation adjustments, net of related tax benefit of $12,519 in fiscal 2019 and provision of $54,866 in fiscal 2018	(59,733)	130,667
Gain on net investment hedges, net of related tax provision of $4,912 in fiscal 2019	13,495	—
Reclassifications from other comprehensive income to net income:		
Amortization of prior service cost and deferred gains, net of related tax provisions of $773 in fiscal 2019 and $2,543 in fiscal 2018	3,162	3,866
Amortization of loss on cash flow hedge, net of related tax provisions of $76 in fiscal 2019 and $112 in fiscal 2018	210	171
Other comprehensive (loss) income, net of tax	(42,866)	134,704
Total comprehensive income	$696,760	$687,661

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Net income	$1,456,007	$1,089,236
Additions to other comprehensive income:		
Foreign currency translation adjustments, net of related tax benefit of $13,725 in fiscal 2019 and provision of $34,323 in fiscal 2018	(182,264)	125,422
Gain on net investment hedges, net of related tax provision of $7,113 in fiscal 2019	19,539	—
Reclassifications from other comprehensive income to net income:		
Amortization of prior service cost and deferred gains, net of related tax provisions of $2,101 in fiscal 2019 and $5,086 in fiscal 2018	5,770	7,732
Amortization of loss on cash flow hedge, net of related tax provisions of $153 in fiscal 2019 and $225 in fiscal 2018	416	342
Other comprehensive (loss) income, net of tax	(156,539)	133,496
Total comprehensive income	$1,299,468	$1,222,732

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
IN THOUSANDS, EXCEPT SHARE DATA

	August 4, 2018	February 3, 2018	July 29, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$2,872,717	$2,758,477	$2,449,305
Short-term investments	—	506,165	502,757
Accounts receivable, net	356,180	327,166	305,401
Merchandise inventories	4,498,523	4,187,243	3,864,454
Prepaid expenses and other current assets	583,348	706,676	427,428
Federal, state, and foreign income taxes recoverable	129,204	—	18,436
Total current assets	8,439,972	8,485,727	7,567,781
Net property at cost	5,100,454	5,006,053	4,744,690
Goodwill	98,114	100,069	197,522
Other assets	472,888	466,166	425,622
TOTAL ASSETS	$14,111,428	$14,058,015	$12,935,615
LIABILITIES			
Current liabilities:			
Accounts payable	$2,683,285	$2,488,373	$2,346,548
Accrued expenses and other current liabilities	2,414,186	2,522,961	2,208,014
Federal, state and foreign income taxes payable	40,346	114,203	101,971
Total current liabilities	5,137,817	5,125,537	4,656,533
Other long-term liabilities	1,289,353	1,320,505	1,116,524
Non-current deferred income taxes, net	225,073	233,057	392,651
Long-term debt	2,232,112	2,230,607	2,229,103
Commitments and contingencies (See Note K)			
SHAREHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value $1, no shares issued	—	—	—
Common stock, authorized 1,200,000,000 shares, par value $1, issued and outstanding 620,766,706; 628,009,022 and 636,274,241 respectively	620,767	628,009	636,274
Additional paid-in capital	—	—	—
Accumulated other comprehensive (loss)	(598,398)	(441,859)	(560,730)
Retained earnings	5,204,704	4,962,159	4,465,260
Total shareholders' equity	5,227,073	5,148,309	4,540,804
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$14,111,428	$14,058,015	$12,935,615

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
IN THOUSANDS

	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Operating Activities		
Net income	$1,456,007	$1,089,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	396,315	348,130
Loss on property disposals and impairment charges	8,605	3,176
Deferred income tax (benefit) provision	(18,227)	38,874
Share-based compensation	49,941	49,515
Changes in assets and liabilities:		
(Increase) in accounts receivable	(33,180)	(43,150)
(Increase) in merchandise inventories	(385,593)	(168,775)
(Increase) in taxes recoverable	(100,960)	(2,601)
Decrease (increase) in prepaid expenses and other current assets	174,729	(63,579)
Increase in accounts payable	237,690	84,558
(Decrease) in accrued expenses and other liabilities	(107,970)	(165,363)
(Decrease) in income taxes payable	(72,534)	(104,699)
Other	(44,158)	37,724
Net cash provided by operating activities	1,560,665	1,103,046
Investing Activities		
Property additions	(573,900)	(506,862)
Purchase of investments	(152,869)	(426,550)
Sales and maturities of investments	629,056	480,596
Other	26,652	—
Net cash (used in) investing activities	(71,061)	(452,816)
Financing Activities		
Cash payments for repurchase of common stock	(989,999)	(884,683)
Proceeds from issuance of common stock	163,485	60,818
Cash dividends paid	(440,874)	(369,456)
Cash payments of employee tax withholdings for performance based stock awards	(16,015)	(16,825)
Other	(2,226)	(1,599)
Net cash (used in) financing activities	(1,285,629)	(1,211,745)
Effect of exchange rate changes on cash	(89,735)	80,971
Net increase (decrease) in cash and cash equivalents	114,240	(480,544)
Cash and cash equivalents at beginning of year	2,758,477	2,929,849
Cash and cash equivalents at end of period	$2,872,717	$2,449,305

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
IN THOUSANDS

	Common Stock		Additional	Accumulated Other		
	Shares	Par Value $1	Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Total
Balance, February 3, 2018	628,009	$628,009	$ —	$ (441,859)	$4,962,159	$5,148,309
Net income	—	—	—	—	1,456,007	1,456,007
Cumulative effect of accounting change (See Note A)	—	—	—	—	58,712	58,712
Other comprehensive income (loss), net of tax	—	—	—	(156,539)	—	(156,539)
Cash dividends declared on common stock	—	—	—	—	(486,828)	(486,828)
Recognition of share-based compensation	—	—	49,941	—	—	49,941
Issuance of common stock under Stock Incentive Plan, net of shares used to pay tax withholdings	3,984	3,984	143,486	—	—	147,470
Common stock repurchased and retired	(11,226)	(11,226)	(193,427)	—	(785,346)	(989,999)
Balance, August 4, 2018	620,767	$620,767	$ —	$ (598,398)	$5,204,704	$5,227,073

The accompanying notes are an integral part of the unaudited consolidated financial statements.

THE TJX COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note A. Basis of Presentation and Summary of Significant Accounting Policies
Basis of Presentation
The Consolidated Financial Statements and Notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These Consolidated Financial Statements and Notes thereto are unaudited and, in the opinion of management, reflect all normal recurring adjustments, accruals and deferrals among periods required to match costs properly with the related revenue or activity, considered necessary by The TJX Companies, Inc. (together with its subsidiaries, "TJX") for a fair statement of its financial statements for the periods reported, all in conformity with GAAP consistently applied. The Consolidated Financial Statements and Notes thereto should be read in conjunction with the audited consolidated financial statements, including the related notes, contained in TJX's Annual Report on Form 10-K for the fiscal year ended February 3, 2018 ("fiscal 2018").
These interim results are not necessarily indicative of results for the full fiscal year. TJX's business, in common with the businesses of retailers generally, is subject to seasonal influences, with higher levels of sales and income generally realized in the second half of the year.
The February 3, 2018 balance sheet data was derived from audited financial statements and does not include all disclosures required by GAAP.
Fiscal Year
TJX's fiscal year ends on the Saturday nearest to the last day of January of each year. The current fiscal year ends February 2, 2019 ("fiscal 2019") and is a 52-week fiscal year. Fiscal 2018 was a 53-week fiscal year.
Use of Estimates
The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. TJX considers its accounting policies relating to inventory valuation, impairment of long-lived assets, goodwill and tradenames, retirement obligations, share-based compensation, casualty insurance, reserves for uncertain tax positions and loss contingencies to be the most significant accounting policies that involve management estimates and judgments. Actual amounts could differ from those estimates, and such differences could be material.
Summary of Accounting Policies
Revenue Recognition
TJX adopted Revenue from Contracts with Customers (referred to as "ASC 606"), on February 4, 2018 ("the adoption date"). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. TJX adopted the new guidance under the modified retrospective approach which resulted in a $59 million cumulative adjustment to increase retained earnings. The cumulative adjustment primarily related to revenue recognized on the value of unredeemed rewards certificates issued to customers as part of the Company's U.S. co-branded credit card loyalty program. We now recognize the estimated unredeemed awards when they are earned, rather than when merchandise credits expire or when the likelihood of redemption becomes remote. In addition, on-line sales are now recognized at the shipping point rather than receipt by the customer.
Other changes relate to the presentation of revenue as certain expenses previously presented as a reduction of revenue are now classified as selling, general and administrative expenses ("SG&A"). The new standard required a change in the presentation of our sales return reserve on the balance sheet, which we previously recorded net of the value of returned merchandise and now is presented at gross sales value with an asset established for the value of the merchandise returned. There is no change in the timing or amount of revenue recognized from point of sale at the registers in our stores, which constitutes the majority of the Company's revenue.
Financial results for fiscal periods after the adoption date are presented under ASC 606 while results from prior periods are not adjusted and continue to be reported under the accounting standards in effect for the prior period. We applied ASC 606 only to contracts that were not completed prior to fiscal 2019. Adoption of the new guidance

resulted in additional disclosure requirements and did not have a material impact on our financial condition or results of operations for the fiscal period ended August 4, 2018.

Net Sales

Net sales consist primarily of merchandise sales, which are recorded net of a reserve for estimated returns, any discounts and sales taxes, related to the sales of merchandise both within our stores and online. Net sales also include an immaterial amount of other revenues that represent less than 1.0% of total revenues, primarily generated from TJX's co-branded loyalty rewards credit card program offered in the United States only. In addition, certain customers may receive discounts which are accounted for as consideration reducing the transaction price. Merchandise sales from our stores are recognized at the point of sale when TJX provides the merchandise to the customer. The performance obligation is fulfilled at this point when the customer has obtained control by paying for and leaving with the merchandise. Merchandise sales made online are recognized when the product has been shipped, which is when legal title has passed and when TJX is entitled to payment, and the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the goods. Shipping and handling activities related to online sales occur after the customer obtains control of the goods. TJX's policy is to treat shipping costs as part of our fulfillment center costs within our operating expenditures. As a result, shipping fee revenues received is recognized when control of the goods transfer to the customer and is recorded as net sales. Shipping and handling costs incurred by TJX are included in cost of sales, including buying and occupancy costs. TJX disaggregates revenue by operating segment, see Note G—Segment Information.

Deferred Gift Card Revenue

Proceeds from the sale of gift cards as well as the value of store cards issued to customers as a result of a return or exchange are deferred until the customers use the cards to acquire merchandise, as TJX does not fulfill its performance obligation until the gift card has been redeemed. While gift cards have an indefinite life, substantially all are redeemed in the first year of issuance. Based on historical experience, we estimate the amount of gift cards and store cards that will not be redeemed and, to the extent allowed by local law, these amounts are amortized into income over the redemption period.

In thousands	August 4, 2018
Balance, February 3, 2018	$406,506
Deferred revenue	731,890
Effect of exchange rates changes on deferred revenue	(4,871)
Revenue recognized	(774,955)
Balance, August 4, 2018	$358,570

TJX recognized $775 million in gift card revenue for the six months ended August 4, 2018. Gift cards are combined in one homogeneous pool and are not separately identifiable. As such, the revenue recognized consists of gift cards that were part of the deferred revenue balance at the beginning of the period as well as gift cards that were issued during the period.

Sales Return Reserve

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. We have elected to apply the portfolio practical expedient and are estimating the variable consideration using the expected value method when calculating the returns reserve, as the difference to applying it to the individual contract would not differ materially. Returns are estimated based on historical experience and are required to be established and presented at the gross sales value with an asset established for the estimated value of the merchandise returned separate from the refund liability. Liabilities for return allowances are included in "Accrued expenses and other current liabilities" and the offsetting receivable is included in "Prepaid expenses and other current assets" on our consolidated balance sheets.

Goodwill

Goodwill includes the excess of the purchase price paid over the carrying value of the minority interest acquired in fiscal 1990 in TJX’s former 83%-owned subsidiary and represents goodwill associated with the T.J. Maxx chain, as well as the excess of cost over the estimated fair market value of the net assets acquired by TJX in the purchase of Winners in fiscal 1991, the purchase of Sierra Trading Post (“STP”) in fiscal 2013, and the purchase of Trade Secret in fiscal 2016, which was re-branded under the T.K. Maxx name during fiscal 2018. The following is a roll forward of goodwill by component:

In thousands	Marmaxx	Winners	Sierra Trading Post	T.K. Maxx in Australia	Total
Balance, January 28, 2017	$ 70,027	$ 1,686	$ 97,254	$ 26,904	$ 195,871
Impairment	—	—	(97,254)	—	(97,254)
Effect of exchange rate changes on goodwill	—	98	—	1,354	1,452
Balance, February 3, 2018	70,027	1,784	—	28,258	100,069
Effect of exchange rate changes on goodwill	—	(77)	—	(1,878)	(1,955)
Balance, August 4, 2018	$ 70,027	$ 1,707	$ —	$ 26,380	$ 98,114

Goodwill is considered to have an indefinite life and accordingly is not amortized. In the fourth quarter of fiscal 2018, the Company recorded an impairment charge of $99.3 million, which included $97.3 million of STP goodwill and $2.0 million for certain long-lived assets of STP, as the estimated fair value of the STP business fell below its carrying value due to a decrease in projected revenue growth rates. The impairment charge is included within the Marmaxx segment results. Goodwill, and the related impairments, if any, are included in the respective operating segment to which they relate.

Future Adoption of New Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued updated guidance on leases that aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. The new standard is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption is permitted. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which allows entities to apply the transition requirements at the effective date rather than at the beginning of the earliest comparative period presented as currently required. The effect of initially applying the standard can be recognized as a cumulative-effect adjustment to retained earnings in the period of adoption and an entity’s reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, Leases (Topic 840) (“ASC 840”), including the disclosure requirements of ASC 840. If the new transition method in ASU 2018-11 is not elected, the new standard must be adopted using a modified retrospective transition and requires application of the new guidance for leases that exist or are entered into after the beginning of the earliest comparative period presented. We plan to adopt this standard in the first quarter of the fiscal year ending February 1, 2020 ("fiscal 2020") using the optional transition method under ASU 2018-11.

The Company is in the process of implementing a new lease accounting system and has established a cross-functional team to implement the updated lease guidance. This team is in the process of evaluating our lease portfolio to assess the impact this standard will have on our Consolidated Financial Statements and Notes thereto. The Company expects this standard to have a material impact on its statement of financial condition as it will record a significant asset and liability associated with its nearly 4,200 leased locations. We plan to implement the transition package of three practical expedients permitted within the standard, which among other things, allows for the carryforward of historical lease classifications. We expect to make an accounting policy election that will keep leases with a term of 12 months or less off the balance sheet and result in recognizing those lease payments on a straight-line basis over the lease term. As our leases do not provide an implicit rate, we plan to use our incremental borrowing rate based on information available at commencement date to determine the present value of future payments. The Company has determined that the initial lease term will not differ under the new standard versus current accounting practice, and therefore the income statement impact of the new standard is not expected to be material.

Hedging Activities

In August 2017, the FASB issued updated guidance on hedge accounting. The updates allow hedge accounting for new types of interest rate hedges of financial instruments and simplify the documentation requirements to qualify for hedge accounting. In addition, any gain or loss from hedge ineffectiveness will be reported in the same income statement line with the effective hedge results and the hedged transaction. The updated guidance is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company has not yet determined the timing for adoption or estimated the effect on the Company’s consolidated financial statements.

Income Statement – Reporting Comprehensive Income

In February 2018, the FASB issued updated guidance related to reporting comprehensive income. The updated guidance allows for a one-time reclassification from accumulated other comprehensive income to retained earnings for stranded tax effect resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”). The updated guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for reporting periods for which financial statements have not yet been issued. The updated guidance should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the 2017 Tax Act is recognized. The Company has not yet determined the timing of adoption or estimated the effect on the Company’s consolidated financial statements.

Non-Employee Share-Based Payments

In June 2018, the FASB issued updated guidance related to compensation - stock compensation: Improvements to Non-Employee Share-Based Payment Accounting. The updated guidance aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees, with certain exceptions. The amendments in this ASU will be effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company does not anticipate this pronouncement will have an impact on its consolidated financial statements.

Recently Adopted Accounting Standards

Revenue Recognition

See Revenue Recognition in this Note A for the impact upon adoption.

Cash Flows

In the first quarter of fiscal 2019, TJX adopted a pronouncement that addresses differences in the way certain cash receipts and cash payments are presented in the statement of cash flows. The new guidance provides clarity around the cash flow classification for eight specific issues in an effort to reduce the current and potential future differences in practice. The standard did not have a material impact on our consolidated statements of cash flows.

Retirement Benefits

In the first quarter of fiscal 2019, TJX adopted a pronouncement related to retirement benefits, which requires that an employer report the service cost component of net periodic pension and net periodic post retirement cost in the same line item as other compensation costs arising from services rendered by the employees during the period. It also requires the other components of net periodic pension and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if such a subtotal is presented. The amendments in this update were applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement. The impact to prior periods was immaterial. As a result of the adoption, for the three and six months ended August 4, 2018, service costs are recorded in the same line items as other compensation costs and non-service costs are recorded in SG&A in our income statement.

Income Taxes

In the first quarter of fiscal 2019, TJX adopted Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (referred to as "ASU 2018-05"), which provides guidance on accounting for the tax effects of the 2017 Tax Act. This guidance allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law during the measurement period. The measurement period ends when the company has obtained, prepared, and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. We will continue to assess our provision for income taxes as future guidance is issued.

Note B. Property at Cost

The following table presents the components of property at cost:

In thousands	August 4, 2018	February 3, 2018	July 29, 2017
Land and buildings	$1,395,034	$1,355,777	$1,271,189
Leasehold costs and improvements	3,263,267	3,254,830	3,088,783
Furniture, fixtures and equipment	5,619,196	5,357,701	5,234,345
Total property at cost	$10,277,497	$9,968,308	$9,594,317
Less accumulated depreciation and amortization	5,177,043	4,962,255	4,849,627
Net property at cost	$5,100,454	$5,006,053	$4,744,690

Depreciation expense was $204.2 million for the three months ended August 4, 2018 and $174.5 million for the three months ended July 29, 2017. Depreciation expense was $397.9 million for the six months ended August 4, 2018 and $347.1 million for the six months ended July 29, 2017. Depreciation expense was $726.0 million for the twelve months ended February 3, 2018.

Note C. Accumulated Other Comprehensive Income (Loss)

Amounts included in accumulated other comprehensive income (loss) are recorded net of taxes. The following table details the changes in accumulated other comprehensive income (loss) for the six months ended August 4, 2018:

In thousands	Foreign Currency Translation	Deferred Benefit Costs	Cash Flow Hedge on Debt	Net Investment Hedges	Accumulated Other Comprehensive Income (Loss)
Balance, January 28, 2017	$(491,803)	$(199,481)	$(2,942)	$ —	$ (694,226)
Additions to other comprehensive income:					
Foreign currency translation adjustments (net of taxes of $36,929)	211,752	—	—	—	211,752
Recognition of net gains/losses on benefit obligations (net of taxes of $8,989)	—	24,691	—	—	24,691
Reclassifications from other comprehensive income to net income:					
Amortization of loss on cash flow hedge (net of taxes of $438)	—	—	696	—	696
Amortization of prior service cost and deferred gains/losses (net of taxes of $9,592)	—	15,228	—	—	15,228
Balance, February 3, 2018	$(280,051)	$(159,562)	$(2,246)	$ —	$ (441,859)
Additions to other comprehensive income:					
Foreign currency translation adjustments (net of taxes of $13,725)	(182,264)	—	—	—	(182,264)
Net investment hedges (net of taxes of $7,113)	—	—	—	19,539	19,539
Reclassifications from other comprehensive income to net income:					
Amortization of prior service cost and deferred gains (net of taxes of $2,101)	—	5,770	—	—	5,770
Amortization of loss on cash flow hedge (net of taxes of $153)	—	—	416	—	416
Balance, August 4, 2018	$(462,315)	$(153,792)	$(1,830)	$ 19,539	$ (598,398)

Note D. Capital Stock and Earnings Per Share

Capital Stock

TJX repurchased and retired 6.4 million shares of its common stock at a cost of $0.6 billion during the quarter ended August 4, 2018, on a “trade date” basis. During the six months ended August 4, 2018, TJX repurchased and retired 11.3 million shares of its common stock at a cost of $1.0 billion, on a "trade date" basis. TJX reflects stock repurchases in its financial statements on a “settlement date” or cash basis. TJX had cash expenditures under repurchase programs of $990 million for the six months ended August 4, 2018, and $885 million for the six months ended July 29, 2017. These expenditures were funded by cash generated from operations.

In February 2018, TJX announced that its Board of Directors had approved an additional stock repurchase program that authorized the repurchase of up to $3.0 billion of TJX common stock from time to time.

In February 2017, TJX announced that its Board of Directors had approved an additional stock repurchase program that authorized the repurchase of up to $1.0 billion of TJX common stock from time to time. Under this program, on a “trade date” basis through August 4, 2018, TJX repurchased 9.6 million shares of common stock at a cost of $864.2 million.

As of August 4, 2018, TJX had $3.1 billion available under these previously announced stock repurchase programs. All shares repurchased under the stock repurchase programs have been retired.

Earnings Per Share

The following tables present the calculation of basic and diluted earnings per share (“EPS”) for net income:

In thousands, except per share data	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Basic earnings per share				
Net income	$739,626	$552,957	$1,456,007	$1,089,236
Weighted average common shares outstanding for basic EPS	623,426	639,127	625,019	641,776
Basic earnings per share	$1.19	$0.87	$2.33	$1.70
Diluted earnings per share				
Net income	$739,626	$552,957	$1,456,007	$1,089,236
Shares for basic and diluted earnings per share calculations:				
Weighted average common shares outstanding for basic EPS	623,426	639,127	625,019	641,776
Assumed exercise/vesting of:				
Stock options and awards	9,534	9,190	8,665	10,116
Weighted average common shares outstanding for diluted EPS	632,960	648,317	633,684	651,892
Diluted earnings per share	$1.17	$0.85	$2.30	$1.67

The weighted average common shares for the diluted earnings per share calculation exclude the impact of outstanding stock options if the assumed proceeds per share of the option is in excess of the average price of TJX’s common stock for the related fiscal periods. Such options are excluded because they would have an antidilutive effect. There were no such options excluded for each of the thirteen weeks and twenty-six weeks ended August 4, 2018. There were 8.0 million such options excluded for the thirteen weeks and twenty-six weeks ended July 29, 2017.

Note E. Financial Instruments

As a result of its operating and financing activities, TJX is exposed to market risks from changes in interest and foreign currency exchange rates and fuel costs. These market risks may adversely affect TJX’s operating results and financial position. TJX seeks to minimize risk from changes in interest and foreign currency exchange rates and fuel costs through the use of derivative financial instruments when and to the extent deemed appropriate. TJX does not use derivative financial instruments for trading or other speculative purposes and does not use any leveraged derivative financial instruments. TJX recognizes all derivative instruments as either assets or liabilities in the statements of financial position and measures those instruments at fair value. The fair values of the derivatives are classified as assets or liabilities, current or non-current, based upon valuation results and settlement dates of the individual contracts. Changes to the fair value of derivative contracts that do not qualify for hedge accounting are reported in earnings in the period of the change. For derivatives that qualify for hedge accounting, changes in the fair value of the derivatives are either recorded in shareholders' equity as a component of other comprehensive income or are recognized currently in earnings, along with an offsetting adjustment against the basis of the item being hedged.

Diesel Fuel Contracts
TJX hedges portions of its estimated notional diesel requirements based on the diesel fuel expected to be consumed by independent freight carriers transporting TJX's inventory. Independent freight carriers transporting TJX's inventory charge TJX a mileage surcharge based on the price of diesel fuel. The hedge agreements are designed to mitigate the volatility of diesel fuel pricing (and the resulting per mile surcharges payable by TJX) by setting a fixed price per gallon for the period being hedged. During fiscal 2018, TJX entered into agreements to hedge a portion of its estimated notional diesel requirements for fiscal 2019, and during the first six months of fiscal 2019, TJX entered into agreements to hedge a portion of its estimated notional diesel requirements for the first six months of fiscal 2020. The hedge agreements outstanding at August 4, 2018 relate to approximately 49% of TJX's estimated notional diesel requirements for the remainder of fiscal 2019 and approximately 46% of TJX's estimated notional diesel requirements for the first six months of fiscal 2020. These diesel fuel hedge agreements will settle throughout the remainder of fiscal 2019 and throughout the first seven months of fiscal 2020. TJX elected not to apply hedge accounting to these contracts.
Foreign Currency Contracts
TJX enters into forward foreign currency exchange contracts to obtain economic hedges on portions of merchandise purchases made and anticipated to be made by the Company's operations in TJX International (United Kingdom, Ireland, Germany, Poland, Austria, The Netherlands and Australia), TJX Canada (Canada), Marmaxx (U.S.) and HomeGoods (U.S.) in currencies other than their respective functional currencies. These contracts typically have a term of twelve months or less. The contracts outstanding at August 4, 2018 cover a portion of such actual and anticipated merchandise purchases throughout the remainder of fiscal 2019 and throughout the first half of fiscal 2020. Additionally, TJX's operations in Europe are subject to foreign currency exposure as a result of their buying function being centralized in the United Kingdom. All merchandise is purchased centrally in the U.K. and then shipped and billed to the retail entities in other countries. This intercompany billing to TJX's European businesses' Euro denominated operations creates exposure to the central buying entity for changes in the exchange rate between the Euro and British Pound. The inflow of Euros to the central buying entity provides a natural hedge for merchandise purchased from third-party vendors that is denominated in Euros. However, with the growth of TJX's Euro denominated retail operations, the intercompany billings committed to the Euro denominated operations is generating Euros in excess of those needed to meet merchandise commitments to outside vendors. TJX calculates this excess Euro exposure each month and enters into forward contracts of approximately 30 days duration to mitigate the exposure. TJX elected not to apply hedge accounting to these contracts.
TJX also enters into derivative contracts, generally designated as fair value hedges, to hedge intercompany debt and intercompany interest payable. The changes in fair value of these contracts are recorded in selling, general and administrative expenses and are offset by marking the underlying item to fair value in the same period. Upon settlement, the realized gains and losses on these contracts are offset by the realized gains and losses of the underlying item in selling, general and administrative expenses.
TJX periodically reviews its net investments in foreign subsidiaries. During the fiscal quarter ended May 5, 2018, TJX entered into net investment hedge contracts related to a portion of its investment in TJX Canada. During the fiscal quarter ended August 4, 2018, TJX de-designated the net investment hedge contracts. The remaining life of the foreign currency contracts provided a natural hedge to the declared cash dividend from TJX Canada. The contracts settled during the second quarter of fiscal 2019 resulting in a pre-tax gain of $27 million while designated as a net investment hedge and subsequent to de-designation, a pre-tax gain of $19 million. The $27 million gain is reflected in shareholders equity as a component of other comprehensive income. The $19 million gain subsequent to de-designation is reflected in the income statement offsetting a foreign currency loss of $18 million on the declared dividends.

The following is a summary of TJX's derivative financial instruments, related fair value and balance sheet classification at August 4, 2018:

In thousands		Pay		Receive	Blended Contract Rate	Balance Sheet Location	Current Asset U.S.$	Current (Liability) U.S.$	Net Fair Value in U.S.$ at August 4, 2018
Fair value hedges:									
Intercompany balances, primarily debt and related interest									
	zł	67,000	£	14,035	0.2095	Prepaid Exp	$ 141	$—	$ 141
	€	53,950	£	47,868	0.8873	(Accrued Exp)	—	(518)	(518)
	£	30,000	C$	54,038	1.8013	Prepaid Exp	2,484	—	2,484
	U.S.$	77,079	£	55,000	0.7136	(Accrued Exp)	—	(5,097)	(5,097)
	A$	10,000	£	5,631	0.5631	(Accrued Exp)	—	(64)	(64)
Economic hedges for which hedge accounting was not elected:									
Diesel contracts		Fixed on 2.3M – 3.0M gal per month		Float on 2.3M – 3.0M gal per month	N/A	Prepaid Exp	6,864	—	6,864
Intercompany billings in Europe, primarily merchandise related									
	€	76,000	£	67,192	0.8841	(Accrued Exp)	—	(672)	(672)
Merchandise purchase commitments									
	C$	621,719	U.S.$	481,300	0.7741	Prepaid Exp / (Accrued Exp)	4,913	(2,940)	1,973
	C$	35,433	€	23,000	0.6491	(Accrued Exp)	—	(610)	(610)
	£	351,964	U.S.$	488,400	1.3876	Prepaid Exp	28,329	—	28,329
	U.S.$	3,274	£	2,475	0.7560	(Accrued Exp)		(49)	(49)
	A$	33,867	U.S.$	25,327	0.7478	Prepaid Exp / (Accrued Exp)	229	(16)	213
	zł	355,038	£	72,479	0.2041	(Accrued Exp)	—	(1,889)	(1,889)
	U.S.$	74,329	€	61,929	0.8332	(Accrued Exp)	—	(2,336)	(2,336)
Total fair value of derivative financial instruments							$ 42,960	$(14,191)	$ 28,769

The following is a summary of TJX's derivative financial instruments, related fair value and balance sheet classification at February 3, 2018:

In thousands		Pay		Receive	Blended Contract Rate	Balance Sheet Location	Current Asset U.S.$	Current (Liability) U.S.$	Net Fair Value in U.S.$ at February 3, 2018
Fair value hedges:									
Intercompany balances, primarily debt and related interest									
	zł	67,000	£	14,035	0.2095	(Accrued Exp)	$—	$(45)	$(45)
	€	51,950	£	46,095	0.8873	(Accrued Exp)	—	(318)	(318)
	U.S.$	77,079	£	55,000	0.7136	Prepaid Exp	1,636	—	1,636
Economic hedges for which hedge accounting was not elected:									
Diesel contracts									
		Fixed on 2.2M – 3.0M gal per month		Float on 2.2M– 3.0M gal per month	N/A	Prepaid Exp	7,854	—	7,854
Intercompany billings in TJX Europe, primarily merchandise related									
	€	26,000	£	22,948	0.8826	(Accrued Exp)	—	(2)	(2)
Merchandise purchase commitments									
	C$	462,464	U.S.$	367,200	0.7940	Prepaid Exp / (Accrued Exp)	49	(5,478)	(5,429)
	C$	22,562	€	15,000	0.6648	Prepaid Exp	557	—	557
	£	176,911	U.S.$	238,000	1.3453	Prepaid Exp / (Accrued Exp)	173	(12,838)	(12,665)
	zł	288,646	£	60,023	0.2079	(Accrued Exp)	—	(1,303)	(1,303)
	A$	28,635	U.S.$	22,230	0.7763	Prepaid Exp / (Accrued Exp)	43	(573)	(530)
	U.S.$	44,223	€	36,950	0.8355	Prepaid Exp	1,905	—	1,905
Total fair value of financial instruments							$12,217	$(20,557)	$(8,340)

The following is a summary of TJX's derivative financial instruments, related fair value and balance sheet classification at July 29, 2017:

In thousands	Pay	Receive	Blended Contract Rate	Balance Sheet Location	Current Asset U.S.$	Current (Liability) U.S.$	Net Fair Value in U.S.$ at July 29, 2017
Fair value hedges:							
Intercompany balances, primarily debt and related interest							
	zł 67,000	£13,000	0.1940	(Accrued Exp)	$ —	$(1,326)	$(1,326)
	€ 69,200	£59,813	0.8643	(Accrued Exp)	—	(3,044)	(3,044)
	U.S.$68,445	£55,000	0.8036	Prepaid Exp	4,174	—	4,174
	A$ 40,000	$23,781	0.5945	(Accrued Exp)	—	(676)	(676)
Economic hedges for which hedge accounting was not elected:							
Diesel contracts							
	Fixed on 2.0M – 2.5M gal per month	Float on 2.0M – 2.5M gal per month	N/A	Prepaid Exp	544	—	544
Intercompany billings in Europe, primarily merchandise related							
	€ 54,000	£47,790	0.8850	(Accrued Exp)	—	(730)	(730)
Merchandise purchase commitments							