

J C PENNEY CO INC

Form 10-Q

December 09, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 October 31, 2015

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: 1-15274

J. C. PENNEY COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

26-0037077

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

6501 Legacy Drive, Plano, Texas
(Address of principal executive offices)

75024 - 3698
(Zip Code)

(972) 431-1000

(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, 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 ☒ Smaller reporting company ☐
(Do not check if a 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. 306,004,010 shares of Common Stock of 50 cents par value, as of December 4, 2015.

J. C. PENNEY COMPANY, INC.

FORM 10-Q

For the Quarterly Period Ended October 31, 2015

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Part I. Financial Information

Item 1. Unaudited Interim Consolidated Financial Statements

J. C. PENNEY COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Total net sales	\$2,897	\$2,764	\$8,629	\$8,364
Cost of goods sold	1,815	1,751	5,441	5,417
Gross margin	1,082	1,013	3,188	2,947
Operating expenses/(income):				
Selling, general and administrative (SG&A)	947	988	2,813	2,961
Pension	12	1	35	4
Depreciation and amortization	152	156	459	474
Real estate and other, net	2	(90)	(14)	(160)
Restructuring and management transition	14	12	53	39
Total operating expenses	1,127	1,067	3,346	3,318
Operating income/(loss)	(45)	(54)	(158)	(371)
Loss on extinguishment of debt	—	34	—	34
Net interest expense	102	103	303	306
Income/(loss) before income taxes	(147)	(191)	(461)	(711)
Income tax expense/(benefit)	(10)	(3)	(19)	1
Net income/(loss)	\$(137)	\$(188)	\$(442)	\$(712)
Earnings/(loss) per share:				
Basic	\$(0.45)	\$(0.62)	\$(1.45)	\$(2.33)
Diluted	\$(0.45)	\$(0.62)	\$(1.45)	\$(2.33)
Weighted average shares – basic	306.0	305.3	305.8	305.1
Weighted average shares – diluted	306.0	305.3	305.8	305.1

See the accompanying notes to the unaudited Interim Consolidated Financial Statements.

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J. C. PENNEY COMPANY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Unaudited)

(\$ in millions)	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net income/(loss)	\$(137	) \$(188	) \$(442	) \$(712
Other comprehensive income/(loss), net of tax:				
Retirement benefit plans				
Reclassification for amortization of net actuarial (gain)/loss	18	10	53	30
Reclassification for amortization of prior service (credit)/cost	—	(1	) —	(1
Cash flow hedges				
Net gain/(loss) on interest rate swaps	(6	) —	(12) —
Total other comprehensive income/(loss), net of tax	12	9	41	29
Total comprehensive income/(loss), net of tax	\$(125	) \$(179	) \$(401	) \$(683

See the accompanying notes to the unaudited Interim Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

	October 31, 2015 (Unaudited)	November 1, 2014 (Unaudited)	January 31, 2015
(In millions, except per share data)			
Assets			
Current assets:			
Cash in banks and in transit	\$152	\$141	\$119
Cash short-term investments	486	543	1,199
Cash and cash equivalents	638	684	1,318
Merchandise inventory	3,669	3,358	2,652
Deferred taxes	208	175	172
Prepaid expenses and other	218	223	189
Total current assets	4,733	4,440	4,331
Property and equipment (net of accumulated depreciation of \$3,686, \$3,558 and \$3,617)	4,905	5,312	5,148
Prepaid pension	289	695	220
Other assets	623	618	610
Total Assets	\$10,550	\$11,065	\$10,309
Liabilities and Stockholders' Equity			
Current liabilities:			
Merchandise accounts payable	\$1,453	\$1,289	\$997
Other accounts payable and accrued expenses	1,246	1,079	1,103
Current portion of capital leases and note payable	26	30	28
Current maturities of long-term debt	106	28	28
Total current liabilities	2,831	2,426	2,156
Long-term capital leases and note payable	14	40	38
Long-term debt	5,147	5,229	5,227
Deferred taxes	395	357	363
Other liabilities	616	583	611
Total Liabilities	9,003	8,635	8,395
Stockholders' Equity			
Common stock ⁽¹⁾	153	152	152
Additional paid-in capital	4,639	4,597	4,606
Reinvested earnings/(accumulated deficit)	(2,221)	) (1,720)	) (1,779)
Accumulated other comprehensive income/(loss)	(1,024)	) (599)	) (1,065)
Total Stockholders' Equity	1,547	2,430	1,914
Total Liabilities and Stockholders' Equity	\$10,550	\$11,065	\$10,309

1,250 million shares of common stock are authorized with a par value of \$0.50 per share. The total shares issued (1) and outstanding were 305.5 million, 304.8 million and 304.9 million as of October 31, 2015, November 1, 2014 and January 31, 2015, respectively.

See the accompanying notes to the unaudited Interim Consolidated Financial Statements.

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J. C. PENNEY COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ in millions)	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Cash flows from operating activities				
Net income/(loss)	\$(137	) \$(188	) \$(442	) \$(712
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:				
Restructuring and management transition	(1	) 2	3	5
Asset impairments and other charges	4	5	6	9
Net gain on sale of non-operating assets	(1	) (2	) (9	) (23
Net gain on sale of operating assets	(1	) (90	) (9	) (91
Loss on extinguishment of debt	—	34	—	34
Depreciation and amortization	152	156	459	474
Benefit plans	4	(5	) 14	(18
Stock-based compensation	12	8	33	24
Deferred taxes	(15	) (5	) (32	) (24
Change in cash from:				
Inventory	(664	) (510	) (1,017	) (423
Prepaid expenses and other assets	(22	) (15	) (33	) (34
Merchandise accounts payable	331	305	456	341
Current income taxes	4	2	10	6
Accrued expenses and other	102	(17	) 145	(22
Net cash provided by/(used in) operating activities	(232	) (320	) (416	) (454
Cash flows from investing activities				
Capital expenditures	(93	) (61	) (234	) (202
Net proceeds from sale of non-operating assets	—	2	13	28
Net proceeds from sale of operating assets	1	66	6	68
Joint venture return of investment	—	—	—	8
Net cash provided by/(used in) investing activities	(92	) 7	(215	) (98
Cash flows from financing activities				
Payments on short-term borrowings	—	—	—	(650
Net proceeds from issuance of long-term debt	—	393	—	893
Premium on early retirement of debt	—	(33	) —	(33
Payments of capital leases and note payable	(4	) (4	) (27	) (22
Payments of long-term debt	(7	) (394	) (20	) (405
Financing costs	—	(1	) —	(61
Tax withholding payments for vested restricted stock	—	—	(2	) (1
Net cash provided by/(used in) financing activities	(11	) (39	) (49	) (279
Net increase/(decrease) in cash and cash equivalents	(335	) (352	) (680	) (831
Cash and cash equivalents at beginning of period	973	1,036	1,318	1,515
Cash and cash equivalents at end of period	\$638	\$684	\$638	\$684
Supplemental cash flow information				
Income taxes received/(paid), net	\$—	) \$(1	) \$(2	) \$(20
Interest received/(paid), net	(128) (160) (312) (343
Supplemental non-cash investing and financing activity				

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Property contributed to joint venture	—	—	—	30	
Increase/(decrease) in other accounts payable related to purchases of property and equipment and software	(19) (2) 10	(7)
Financing costs withheld from proceeds of long-term debt	—	7	—	7	
Purchase of property and equipment and software through capital leases and a note payable	—	—	—	3	

See the accompanying notes to the unaudited Interim Consolidated Financial Statements.

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J. C. PENNEY COMPANY, INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Consolidation

Basis of Presentation

J. C. Penney Company, Inc. is a holding company whose principal operating subsidiary is J. C. Penney Corporation, Inc. (JCP). JCP was incorporated in Delaware in 1924, and J. C. Penney Company, Inc. was incorporated in Delaware in 2002, when the holding company structure was implemented. The holding company has no independent assets or operations, and no direct subsidiaries other than JCP. The holding company and its consolidated subsidiaries, including JCP, are collectively referred to in this quarterly report as “we,” “us,” “our,” “ourselves” or the “Company,” unless otherwise indicated.

J. C. Penney Company, Inc. is a co-obligor (or guarantor, as appropriate) regarding the payment of principal and interest on JCP’s outstanding debt securities. The guarantee of certain of JCP’s outstanding debt securities by J. C. Penney Company, Inc. is full and unconditional.

These unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited Interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (2014 Form 10-K). We follow substantially the same accounting policies to prepare quarterly financial statements as are followed in preparing annual financial statements. A description of such significant accounting policies is included in the 2014 Form 10-K. The January 31, 2015 financial information was derived from the audited Consolidated Financial Statements, with related footnotes, included in the 2014 Form 10-K. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31. As used herein, “three months ended October 31, 2015” and “three months ended November 1, 2014” refer to the 13-week periods ended October 31, 2015 and November 1, 2014, respectively. “Nine months ended October 31, 2015” and “nine months ended November 1, 2014” refer to the 39-week periods ended October 31, 2015 and November 1, 2014, respectively. Fiscal years 2015 and 2014 contain 52 weeks.

Basis of Consolidation

All significant inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications were made to prior period amounts to conform to the current period presentation. None of the reclassifications affected our net income/(loss) in any period.

Use of Estimates and Assumptions

The preparation of unaudited Interim Consolidated Financial Statements, in conformity with GAAP, requires us to make assumptions and use estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to: inventory valuation under the retail method, specifically actual and expected permanent reductions to retail prices (markdowns and markdown accruals) and adjustments for shortages (shrinkage); valuation of long-lived assets and indefinite-lived intangible assets for impairments; fair value of interest rate swaps; reserves for closed stores, workers’ compensation and general liability (insurance), environmental contingencies, income taxes and litigation; and pension and other postretirement benefits accounting. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

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2. Effect of New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in this ASU are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. The Company early adopted ASU 2015-03 retrospectively in its second quarter ended August 1, 2015. As a result of the retrospective adoption, the Company reclassified unamortized debt issuance costs of \$95 million and \$100 million as of January 31, 2015 and November 1, 2014, respectively, from Other assets to a reduction in Long-term debt on the unaudited Interim Consolidated Balance Sheets. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous interim and annual reporting periods.

3. Earnings/(Loss) per Share

Net income/(loss) and shares used to compute basic and diluted earnings/(loss) per share (EPS) are reconciled below:

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Earnings/(loss)				
Net income/(loss)	\$(137)	\$(188)	\$(442)	\$(712)
Shares				
Weighted average common shares outstanding (basic shares)	306.0	305.3	305.8	305.1
Adjustment for assumed dilution:				
Stock options, restricted stock awards and warrant	—	—	—	—
Weighted average shares assuming dilution (diluted shares)	306.0	305.3	305.8	305.1
EPS				
Basic	\$(0.45)	\$(0.62)	\$(1.45)	\$(2.33)
Diluted	\$(0.45)	\$(0.62)	\$(1.45)	\$(2.33)

The following average potential shares of common stock were excluded from the diluted EPS calculation because their effect would have been anti-dilutive:

(Shares in millions)	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Stock options, restricted stock awards and warrant	32.0	26.9	31.8	26.1

4. Credit Facility

The Company has a \$2,350 million asset-based senior credit facility (2014 Credit Facility) that is comprised of a \$1,850 million revolving line of credit (Revolving Facility) and a \$500 million term loan (2014 Term Loan). As of the end of the third quarter of 2015, we had \$494 million outstanding on the 2014 Term Loan and no borrowings outstanding under the Revolving Facility. In addition, as of the end of the third quarter of 2015, based on our borrowing base, we had \$1,665 million available for borrowing, of which \$294 million was reserved for outstanding standby and import letters of credit, none of which have been drawn on, leaving \$1,371 million for future borrowings. The applicable rate for standby and import letters of credit was 2.50% and 1.25%, respectively, while the commitment fee was 0.375% for the unused portion of the Revolving Facility.

On November 16, 2015, the Company announced that it has received \$500 million of incremental bank commitments to increase the size of the Revolving Facility under the 2014 Credit Facility to \$2,350 million. In connection with upsizing the Revolving Facility, the Company also intends to prepay and retire the outstanding principal amount of the 2014 Term Loan.

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5. Long-term Debt

(\$ in millions)	Outstanding Principal			Unamortized Debt Issuance Costs			Net Carrying Amount		
	October 31, 2015	November 1, 2014	January 31, 2015	October 31, 2015	November 1, 2014	January 31, 2015	October 31, 2015	November 1, 2014	January 31, 2015
5.65% Senior Notes Due 2020 ⁽¹⁾	\$400	\$ 400	\$ 400	\$4	\$ 5	\$5	\$396	\$ 395	\$ 395
5.75% Senior Notes Due 2018 ⁽¹⁾	300	300	300	1	1	1	299	299	299
6.375% Senior Notes Due 2036 ⁽¹⁾	400	400	400	6	7	7	394	393	393
6.9% Notes Due 2026	2	2	2	—	—	—	2	2	2
7.125% Debentures Due 2023	10	10	10	—	—	—	10	10	10
7.4% Debentures Due 2037	326	326	326	1	1	1	325	325	325
7.625% Notes Due 2097	500	500	500	—	—	—	500	500	500
7.65% Debentures Due 2016	78	78	78	—	—	—	78	78	78
7.95% Debentures Due 2017	220	220	220	—	—	—	220	220	220
8.125% Senior Notes Due 2019	400	400	400	8	10	10	392	390	390
2013 Term Loan Facility	2,199	2,222	2,216	45	62	58	2,154	2,160	2,158
2014 Term Loan	494	499	498	11	14	13	483	485	485
Total debt, excluding capital leases and note payable	\$5,329	\$ 5,357	\$ 5,350	\$76	\$ 100	\$95	\$5,253	\$ 5,257	\$ 5,255
Less: current maturities							106	28	28
Total long-term debt, excluding capital leases and note payable							\$5,147	\$ 5,229	\$ 5,227

(1) These debt issuances contain change of control provisions that would obligate us, at the holders' option, to repurchase the debt at a price equal to 101% of the principal amount of the debt.

6. Derivative Financial Instruments

Effective May 7, 2015, we entered into interest rate swap agreements with notional amounts totaling \$1,250 million to fix a portion of our variable LIBOR-based interest payments. The interest rate swap agreements have a weighted-average fixed rate of 2.04%, mature on May 7, 2020 and have been designated as cash flow hedges.

The fair value of our interest rate swaps are recorded on the unaudited Interim Consolidated Balance Sheets as an asset or a liability (see Note 7). The effective portion of the interest rate swaps' changes in fair values is reported in Accumulated other comprehensive income/(loss) (see Note 8), and the ineffective portion is reported in Net income/(loss). Amounts in Accumulated other comprehensive income/(loss) are reclassified into net income/(loss) when the related interest payments affect earnings. For the periods presented, all of the interest rate swaps were 100% effective.

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Information regarding the pre-tax changes in the fair value of our interest rate swaps is as follows:

(\$ in millions)	Three Months Ended		Nine Months Ended		Line Item in the Unaudited Interim Financial Statements
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	
Gain/(loss) recognized in other comprehensive income/(loss)	\$(10	) \$—	\$(19	) \$—	Accumulated other comprehensive income
Gain/(loss) recognized in net income/(loss)	—	—	(2	) —	Interest expense

Information regarding the gross amounts of our derivative instruments in the unaudited Interim Consolidated Balance Sheets is as follows:

(\$ in millions)	Asset Derivatives at Fair Value				Liability Derivatives at Fair Value			
	Balance Sheet Location	October 31, 2015	November 1, 2014	January 31, 2015	Balance Sheet Location	October 31, 2015	November 1, 2014	January 31, 2015
Derivatives designated as hedging instruments:								
Interest rate swaps	N/A	\$—	\$—	\$—	Other accounts payable and accrued expenses	\$2	\$—	\$—
Interest rate swaps	N/A	—	—	—	Other liabilities	19	—	—
Total derivatives designated as hedging instruments		\$—	\$—	\$—		\$21	\$—	\$—

7. Fair Value Disclosures

Cash Flow Hedges Measured on a Recurring Basis

Our cash flow hedges are valued in the market using discounted cash flow techniques which use quoted market interest rates in discounted cash flow calculations which consider the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the fair value measurement hierarchy.

Our cash flow hedges measured at fair value are as follows:

(\$ in millions)	Cash Flow Hedges at Fair Value		
	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
October 31, 2015	\$—	\$(21) \$—
November 1, 2014	—	—	—
January 31, 2015	—	—	—

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Other Financial Instruments

Carrying values and fair values of financial instruments that are not carried at fair value in the unaudited Interim Consolidated Balance Sheets are as follows:

(\$ in millions)	October 31, 2015		November 1, 2014		January 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, excluding unamortized debt issuance costs, including current maturities	\$5,329	\$4,947	\$5,357	\$4,910	\$5,350	\$4,834

The fair value of long-term debt was estimated by obtaining quotes from brokers or was based on current rates offered for similar debt. As of October 31, 2015, November 1, 2014 and January 31, 2015, the fair values of cash and cash equivalents and accounts payable approximated their carrying values due to the short-term nature of these instruments. In addition, the fair values of capital lease commitments and the note payable approximated their carrying values. These items have been excluded from the table above.

Concentrations of Credit Risk

We have no significant concentrations of credit risk.

8. Stockholders' Equity

The following table shows the change in the components of stockholders' equity for the nine months ended October 31, 2015:

(in millions)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Reinvested Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
January 31, 2015	304.9	\$152	\$4,606	\$(1,779)	\$(1,065)	\$1,914
Net income/(loss)	—	—	—	(442)	—	(442)
Other comprehensive income/(loss)	—	—	—	—	41	41
Stock-based compensation	0.6	1	33	—	—	34
October 31, 2015	305.5	\$153	\$4,639	\$(2,221)	\$(1,024)	\$1,547

Comprehensive Income

The tax effects allocated to each component of other comprehensive income/(loss) are as follows:

(\$ in millions)	Three Months Ended October 31, 2015			November 1, 2014		
	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	\$29	\$(11)	\$18	\$16	\$(6)	\$10
Reclassification for amortization of prior service (credit)/cost	—	—	—	(1)	—	(1)
Cash flow hedges						
Net gain/(loss) on interest rate swaps	(10)	4	(6)	—	—	—
Total	\$19	\$(7)	\$12	\$15	\$(6)	\$9

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(\$ in millions)	Nine Months Ended October 31, 2015			November 1, 2014		
	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount	Gross Amount	Income Tax (Expense)/ Benefit	Net Amount
Retirement benefit plans						
Reclassification for amortization of net actuarial (gain)/loss	\$87	\$(34)	\$53	\$49	\$(19)	\$30
Reclassification for amortization of prior service (credit)/cost	—	—	—	(1)	—	(1)
Cash flow hedges						
Net gain/(loss) on interest rate swaps	(19)	7	(12)	—	—	—
Total	\$68	\$(27)	\$41	\$48	\$(19)	\$29

The following table shows the changes in accumulated other comprehensive income/(loss) balances for the nine months ended October 31, 2015:

(\$ in millions)	Net Gain/(Loss)	Actuarial	Prior Service Credit/(Cost)	Foreign Currency Translation	Gain/(Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
January 31, 2015	\$(1,023)	\$(40)	\$(2)	\$—		\$(1,065)
Other comprehensive income/(loss) before reclassifications	—					