COGENT COMMUNICATIONS GROUP INC
Form 10-Q
November 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

OR

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

Commission File No. 1-31227

COGENT COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2337274**
(State of Incorporation)	(I.R.S. Employer Identification Number)

1015 31st Street N.W.

Washington, D.C. 20007

(Address of Principal Executive Offices and Zip Code)

(202) 295-4200

(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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

Common Stock, $.001 par value 45,839,535 Shares Outstanding as of October 31, 2011.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 224,051	$ 56,283
Accounts receivable, net of allowance for doubtful accounts of $2,593 and $2,464, respectively	24,774	23,702
Prepaid expenses and other current assets	9,863	8,654
Total current assets	258,688	88,639
Property and equipment, net	308,941	280,455
Deposits and other assets - $463 and $462 restricted, respectively	10,475	7,009
Total assets	$ 578,104	$ 376,103
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 9,971	$ 15,979
Accrued liabilities	19,215	19,538
Current maturities, capital lease obligations	9,914	6,143
Total current liabilities	39,100	41,660
Senior secured notes	175,000	
Capital lease obligations, net of current maturities	124,089	105,562
Convertible senior notes, net of discount of $16,758 and $20,758, respectively	75,220	71,220
Other long term liabilities	6,056	5,860
Total liabilities	419,465	224,302
Commitments and contingencies:		
Stockholders equity:		
Common stock, $0.001 par value; 75,000,000 shares authorized; 45,842,335 and 45,838,510 shares issued and outstanding, respectively	46	46
Additional paid-in capital	486,945	482,737
Accumulated other comprehensive income	1,556	1,044
Accumulated deficit	(329,908)	(332,026)
Total stockholders equity	158,639	151,801
Total liabilities and stockholders equity	$ 578,104	$ 376,103

The accompanying notes are an integral part of these condensed consolidated balance sheets.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three Months Ended September 30, 2011 (Unaudited)	Three Months Ended September 30, 2010 (Unaudited)
Service revenue	$ 77,367	$ 66,783
Operating expenses:		
Network operations (including $122 and $104 of equity-based compensation expense, respectively, exclusive of depreciation and amortization shown separately below)	33,619	30,639
Selling, general, and administrative (including $1,782 and $1,695 of equity-based compensation expense, respectively)	18,984	17,659
Depreciation and amortization	15,188	14,736
Total operating expenses	67,791	63,034
Operating income	9,576	3,749
Interest income and other, net	81	(24)
Interest expense	(8,953)	(4,100)
Income (loss) before income taxes	704	(375)
Income tax provision	(423)	(87)
Net income (loss)	$ 281	$ (462)
Net income (loss) per common share:		
Basic and diluted net income (loss) per common share	$ 0.01	$ (0.01)
Weighted-average common shares - basic	45,080,859	44,585,230
Weighted-average common shares - diluted	45,559,972	44,585,230

The accompanying notes are an integral part of these condensed consolidated statements of operations.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Nine Months Ended September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)
Service revenue	$ 226,406	$ 193,955
Operating expenses:		
Network operations (including $388 and $246 of equity-based compensation expense, respectively, exclusive of depreciation and amortization shown separately below)	790,767	

Cost of sales (exclusive of depreciation and amortization)
245,196

247,545

511,281

501,545

Gross profit
128,405

123,871

298,996

289,222

Selling, general and administrative expenses
108,227

107,903

220,354

217,115

Depreciation and amortization
15,979

15,891

31,671

32,352

Asset impairment charges
974

2,826

1,458

2,826

Other costs
6

191

10

259

Operating income (loss)
3,219

(2,940
)

45,503

36,670

Interest expense
(745
)

(540
)

(1,254
)

(931
)
Interest income
454

364

925

681

Income (loss) before provision for income taxes
2,928

(3,116
)

45,174

36,420

Provision (benefit) for income taxes
(11,362
)

(1,105
)

(5,345
)

12,446

Net income (loss)
$
14,290

$
(2,011
)

$
50,519

$
23,974

Earnings (loss) per common share

Basic
$
0.81

$
(0.11
)

$
2.86

$
1.26

Diluted
$
0.79

$
(0.11
)

$
2.76

$
1.24

Weighted average common shares outstanding

Basic
17,704

18,811

17,659

19,006

Diluted
18,177

18,811

18,289

19,357

Cash dividends declared and paid per common share
$
0.40

$
0.20

$
0.80

$
0.40

See accompanying notes to these consolidated financial statements.

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THE CHILDREN’S PLACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(In thousands)			
Net income (loss)	$14,290	$(2,011)	$50,519	$23,974
Other comprehensive income:				
Foreign currency translation adjustment	12,238	(4,114)	7,321	7,589
Change in fair value of cash flow hedges, net of income taxes	34	(44)	(70)	135
Total comprehensive income (loss)	$26,562	$(6,169)	$57,770	$31,698

See accompanying notes to these consolidated financial statements.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Twenty-six Weeks Ended	
	July 29, 2017	July 30, 2016
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$50,519	$23,974
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	31,671	32,352
Stock-based compensation	14,480	12,631
Excess tax benefits from stock-based compensation	—	(1,470)
Deferred taxes	934	(10,468)
Asset impairment charges	1,458	2,826
Deferred rent expense and lease incentives	(5,160)	(5,458)
Other	(19)	532
Changes in operating assets and liabilities:		
Inventories	(22,882)	(25,972)
Accounts receivable and other assets	(3,208)	(6,123)
Income taxes payable, net of prepayments	(28,534)	18,399
Accounts payable and other current liabilities	35,827	32,670
Deferred rent and other liabilities	(3,637)	1,290
Net cash provided by operating activities	71,449	75,183
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,156)	(16,036)
Purchase of short-term investments	(55,800)	(75,100)
Proceeds from sale of short-term investments	49,300	40,100
Change in company-owned life insurance policies	(518)	(151)
Net cash used in investing activities	(30,174)	(51,187)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock, including shares surrendered for tax withholdings and transaction costs	(57,380)	(84,693)
Payment of dividends	(14,091)	(7,556)
Borrowings under revolving loan	340,052	279,815
Repayments under revolving loan	(300,932)	(235,955)
Exercise of stock options	—	438
Excess tax benefits from stock-based compensation	—	1,470
Net cash used in financing activities	(32,351)	(46,481)
Effect of exchange rate changes on cash and cash equivalents	(301)	5,780
Net increase (decrease) in cash and cash equivalents	8,623	(16,705)
Cash and cash equivalents, beginning of period	193,709	187,534
Cash and cash equivalents, end of period	$202,332	$170,829

See accompanying notes to these consolidated financial statements.

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THE CHILDREN’S PLACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Twenty-six Weeks Ended	
	July 29, 2017	July 30, 2016
	(In thousands)	
OTHER CASH FLOW INFORMATION:		
Net cash paid during the period for income taxes	$25,988	$3,632
Cash paid during the period for interest	1,118	794
Increase (decrease) in accrued purchases of property and equipment	(3,607)	562

See accompanying notes to these consolidated financial statements.

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THE CHILDREN'S PLACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

Description of Business

The Children's Place, Inc. and subsidiaries (the "Company") is the largest pure-play children's specialty apparel retailer in North America. The Company provides apparel, accessories, footwear and other items for children. The Company designs, contracts to manufacture, sells at retail and wholesale and licenses to sell trend right, high-quality merchandise at value prices, the substantial majority of which is under its proprietary "The Children's Place", "Place" and "Baby Place" brand names.

The Company classifies its business into two segments: The Children's Place U.S. and The Children's Place International. Included in The Children's Place U.S. segment are the Company's U.S. and Puerto Rico-based stores and revenue from its U.S.- based wholesale business. Included in The Children's Place International segment are its Canadian-based stores, revenue from the Company's Canada wholesale business, as well as revenue from international franchisees. Each segment includes an e-commerce business located at www.childrensplace.com.

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of The Children's Place, Inc. (the "Company") as of July 29, 2017 and July 30, 2016 and the results of its consolidated operations for the thirteen and twenty-six weeks ended July 29, 2017 and July 30, 2016 and cash flows for the twenty-six weeks ended July 29, 2017 and July 30, 2016. The consolidated financial position as of January 28, 2017 was derived from audited financial statements. Due to the seasonal nature of the Company's business, the results of operations for the twenty-six weeks ended July 29, 2017 and July 30, 2016 are not necessarily indicative of operating results for a full fiscal year. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

Terms that are commonly used in the Company's notes to consolidated financial statements are defined as follows:

- Second Quarter 2017 — The thirteen weeks ended July 29, 2017
- Second Quarter 2016 — The thirteen weeks ended July 30, 2016
- Year-To-Date 2017 — The twenty-six weeks ended July 29, 2017
- Year-To-Date 2016 — The twenty-six weeks ended July 30, 2016
- FASB — Financial Accounting Standards Board
- SEC — U.S. Securities and Exchange Commission
- U.S. GAAP — Generally Accepted Accounting Principles in the United States
- FASB ASC — FASB Accounting Standards Codification, which serves as the source for authoritative U.S. GAAP, except that rules and interpretive releases by the SEC are also sources of authoritative U.S. GAAP for SEC registrants

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. FASB ASC 810--Consolidation is considered when determining whether an entity is subject to consolidation.

Fiscal Year

The Company's fiscal year is a 52-week or 53-week period ending on the Saturday on or nearest to January 31.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of

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the financial statements, and amounts of revenues and expenses reported during the period. Actual results could differ from the assumptions used and estimates made by management, which could have a material impact on the Company's financial position or results of operations. Significant estimates inherent in the preparation of the consolidated financial statements include: reserves for the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived assets; fair value measurements; accounting for income taxes and related uncertain tax positions; insurance reserves; valuation of stock-based compensation awards and related estimated forfeiture rates, among others.

Reclassifications

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

Short-term Investments

Short-term investments consist of investments which the Company expects to convert into cash within one year, including time deposits, which have original maturities greater than 90 days. The Company classifies its investments in securities at the time of purchase as held-to-maturity and reevaluates such classifications on a quarterly basis. Held-to-maturity investments consist of securities that the Company has the intent and ability to retain until maturity. These securities are recorded at cost and adjusted for the amortization of premiums and discounts, which approximates fair value. Cash inflows and outflows related to the sale and purchase of investments are classified as investing activities in the Company's consolidated statements of cash flows. All of the Company's short-term investments are U.S. dollar denominated time deposits with banking institutions in Hong Kong that have six month maturity dates from inception.

Revenue Recognition

The Company recognizes revenue, including shipping and handling fees billed to customers, upon purchase at the Company's retail stores or when received by the customer if the product was purchased via the internet, net of coupon redemptions and anticipated sales returns. Sales tax collected from customers is excluded from revenue. An allowance for estimated sales returns is calculated based upon the Company's sales return experience and is recorded in accrued expenses and other current liabilities.

The Company's policy with respect to gift cards is to record revenue as the gift cards are redeemed for merchandise. Prior to their redemption, gift cards are recorded as a liability, included in accrued expenses and other current liabilities. The Company recognizes breakage income for the estimated portion of unredeemed gift cards that is unlikely to be redeemed and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property and is recorded in selling, general and administrative expenses.

In fiscal 2016, the Company launched a new points-based customer loyalty program to replace its prior program. In this program, customers earn points based on purchases and other promotional activities. These points can be redeemed for coupons to discount future purchases. The Company has developed an estimated value of each point earned based on the awards customers can attain less a reasonable breakage rate. The value of each point earned is recorded as deferred revenue and is included in accrued expenses and other current liabilities.

The Company has an international expansion program through territorial agreements with franchisees. The Company generates revenues from the franchisees from the sale of product and, in certain cases, sales royalties. The Company records net sales and cost of goods sold on the sale of product to franchisees when the franchisee takes ownership of the product. The Company records net sales for royalties when the applicable franchisee sells the product to their customers. Under certain agreements, the Company receives a fee from each franchisee for exclusive territorial rights. The Company records this territorial fee as deferred revenue and amortizes the fee into gross sales over the life of the territorial agreement.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost or net realizable value, with cost determined on an average cost basis. The Company capitalizes supply chain costs in inventory and these costs are reflected in cost of sales as the inventories are sold. Inventory includes items that have been marked down to the Company's best estimate of their lower of cost or net realizable value and an estimate for inventory shrinkage. The Company bases its decision to mark down merchandise upon its current rate of sale, the seasonal nature of the product and the expected sell-through of the item. Inventory shrinkage is estimated in interim periods based upon the historical results of physical inventories in the context of current year facts and circumstances.

Impairment of Long-Lived Assets

The Company periodically reviews its long-lived assets when events indicate that their carrying value may not be recoverable. Such events include historical trends or projected trend of cash flow losses or a future expectation that the Company will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment, the Company groups its long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In that regard, the Company groups its assets into two categories: corporate-related and store-related. Corporate-related assets consist of those associated with the Company's corporate offices, distribution centers and its information technology systems. Store-related assets consist of leasehold improvements, furniture and fixtures, certain computer equipment and lease-related assets associated with individual stores.

For store-related assets, the Company reviews all stores that have reached comparable sales status, or sooner if circumstances should dictate, on at least an annual basis. The Company believes waiting this period of time allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed. For each store that shows indications of operating losses, the Company projects future cash flows over the remaining life of the lease and compares the total undiscounted cash flows to the net book value of the related long-lived assets. If the undiscounted cash flows are less than the related net book value of the long-lived assets, they are written down to their fair market value. The Company primarily determines fair market value to be the discounted future cash flows associated with those assets. In evaluating future cash flows, the Company considers external and internal factors. External factors comprise the local environment in which the store resides, including mall traffic, competition and their effect on sales trends. Internal factors include the Company's ability to gauge the fashion taste of its customers, control variable costs such as cost of sales and payroll and in certain cases, its ability to renegotiate lease costs.

Stock-based Compensation

The Company generally grants time vesting stock awards ("Deferred Awards") and performance-based stock awards ("Performance Awards") to employees at management levels. The Company also grants Deferred Awards to its non-employee directors. Deferred Awards are granted in the form of a defined number of restricted stock units that require each recipient to complete a service period. Deferred Awards generally vest ratably over three years, except for those granted to non-employee directors, which generally vest after one year. Performance Awards are granted in the form of restricted stock units which have performance criteria that must be achieved for the awards to vest (the "Target Shares") in addition to a service period requirement. For Performance Awards issued during fiscal 2014 and 2015 (the “2014 and 2015 Performance Awards”), an employee may earn from 0% to 300% of their Target Shares based on the achievement of adjusted earnings per share for a cumulative three-fiscal year performance period and our total shareholder return (“TSR”) relative to that of companies in our peer group. The 2014 and 2015 Performance Awards cliff vest, if earned, after completion of the applicable three year performance period. The 2014 and 2015 Performance Awards grant date fair value was estimated using a Monte Carlo simulation covering the period from the valuation date through the end of the applicable performance period using our simulated stock price as well as the TSR of companies in our peer group. For Performance Awards issued during fiscal 2016 and 2017 (the “2016 and 2017 Performance Awards”), an employee may earn from 0% to 200% of their Target Shares based on the achievement of cumulative adjusted earnings per share achieved for the three-year performance period, adjusted operating margin expansion achieved for the three-year performance period and adjusted return on invested capital achieved as of the end of the performance period. The 2016 and 2017 Performance Awards cliff vest, if earned, after completion of the three-year performance period. The fair value of the 2016 and 2017 Performance Awards granted is based on the closing price of our common stock on the grant date. Stock-based compensation expense is recognized ratably over the related service period reduced for estimated forfeitures of those awards not expected to vest due to employee turnover. Stock-based compensation expense, as it relates to Performance Awards, is also adjusted based on the Company's estimate of adjusted earnings per share, adjusted operating margin expansion, and adjusted return on invested capital as they occur.

Deferred Compensation Plan

The Company has a deferred compensation plan (the "Deferred Compensation Plan"), which is a nonqualified plan, for eligible senior level employees. Under the plan, participants may elect to defer up to 80% of his or her base salary and/or up to 100% of his or her bonus to be earned for the year following the year in which the deferral election is made. The Deferred Compensation Plan also permits members of the Board of Directors to elect to defer payment of all or a portion of their retainer and other fees to be earned for the year following the year in which a deferral election is made. In addition, eligible employees and directors of the Company may also elect to defer payment of any shares of Company stock that is earned with respect to stock-based awards. Directors may elect to have all or a certain portion of their fees earned for their service on the Board invested in shares of the Company's common stock. Such elections are irrevocable. The Company is not required to contribute to the Deferred Compensation Plan, but at its sole discretion, can make additional contributions on behalf of the participants.

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Deferred amounts are not subject to forfeiture and are deemed invested among investment funds offered under the Deferred Compensation Plan, as directed by each participant. Payments of deferred amounts (as adjusted for earnings and losses) are payable following separation from service or at a date or dates elected by the participant at the time the deferral is elected. Payments of deferred amounts are generally made in either a lump sum or in annual installments over a period not exceeding 15 years. All deferred amounts are payable in the form in which they were made except for board fees invested in shares of the Company's common stock, which will be settled in shares of Company common stock. Earlier distributions are not permitted except in the case of an unforeseen hardship.

The Company has established a rabbi trust that serves as an investment to shadow the Deferred Compensation Plan liability. The assets of the rabbi trust are general assets of the Company and as such, would be subject to the claims of creditors in the event of bankruptcy or insolvency. Investments of the rabbi trust consist of mutual funds and Company common stock. The Deferred Compensation Plan liability, excluding Company common stock, is included in other long-term liabilities and changes in the balance, except those relating to payments, are recognized as compensation expense in selling, general and administrative expenses. The value of the mutual funds is included in other assets and related earnings and losses are recognized as investment income or loss, which is included in selling, general and administrative expenses. Company stock deferrals are included in the equity section of the Company's consolidated balance sheet as treasury stock and as a deferred compensation liability. Deferred stock is recorded at fair market value at the time of deferral and any subsequent changes in fair market value are not recognized.

Fair Value Measurement and Financial Instruments

FASB ASC 820--Fair Value Measurements and Disclosure provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

The Company's cash and cash equivalents, short-term investments, assets of the Company's Deferred Compensation Plan, accounts receivable, accounts payable and revolving loan are all short-term in nature. As such, their carrying amounts approximate fair value and fall within Level 1 of the fair value hierarchy. The Company stock that is included in the Deferred Compensation Plan is not subject to fair value measurement.

The Company's assets and liabilities include foreign exchange forward contracts that are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and our counterparties' credit risks. Based on these inputs, the Company's derivative assets and liabilities are classified within Level 2 of the valuation hierarchy.

The Company's assets measured at fair value on a nonrecurring basis include long-lived assets. The Company reviews the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to fall within Level 3 of the fair value hierarchy.

Recently Issued Accounting Standards

Adopted in Fiscal 2017

In March 2016, the FASB issued guidance relating to the accounting for share-based payment transactions. This guidance involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classifications of awards as either equity or liabilities and classification on the statement of cash flows.

With respect to the accounting for income taxes, this guidance requires, on a prospective basis, recognition of excess tax benefits and tax deficiencies (resulting from an increase or decrease in the fair value of an award from grant date to the vesting date) in the provision for income taxes as a discrete item in the quarterly period in which they occur. The guidance also requires that the value of shares withheld from employees upon vesting of stock awards in order to satisfy any applicable tax withholding requirements be presented within financing activities in the consolidated statement of cash flows. This presentation requirement is consistent with the Company’s current presentation, and will therefore have no impact to the Company. The

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Company adopted this guidance prospectively in the first fiscal quarter of 2017 and the adoption resulted in a reduction of our provision for income taxes of approximately $15.8 million for Year-To-Date 2017.

The future impacts that this adoption will have on our provision or benefit for income taxes are dependent in part upon future grants and vesting of stock-based compensation awards and other factors that are not fully controllable or predicable by the Company, such as the future market price of the Company's common stock and the future achievement of performance criteria that affect performance-based awards. Therefore, the impact on the consolidated financial statements will be dependent upon future events which are unpredictable. However, based on the number of outstanding unvested Deferred and Performance Awards expected to vest during the second half of fiscal 2017, the adoption of this guidance will not have a significant impact on our provision for income taxes and net income during the remainder of fiscal 2017.

In November 2015, the FASB issued guidance relating to balance sheet classification of deferred taxes. This guidance simplifies the current guidance by requiring entities to classify all deferred tax assets and liabilities, together with any related valuation allowance, as noncurrent on the balance sheet. The Company adopted this guidance in the first fiscal quarter of 2017 and applied its provisions prospectively. As a result, the prior periods were not retrospectively adjusted.

In July 2015, the FASB issued an update to accounting guidance to simplify the measurement of inventory. Prior to adoption, all inventory was measured at the lower of cost or market. The update requires an entity to measure inventory within the scope of the guidance at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The update does not apply to inventory measured using last-in, first-out or the retail inventory methods. The adoption was applied prospectively and did not have a material impact on the Company’s consolidated financial statements.

To Be Adopted After Fiscal 2017

In February 2016, the FASB issued guidance relating to the accounting for leases. This guidance applies a right of use model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The lease term is the noncancellable period of the lease, and includes both periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that termination option. The standard is effective for the Company beginning in its fiscal year 2019, including interim periods within those fiscal years, and early adoption is permitted. We are in the process of developing an implementation plan and beginning to gather information to assess which of our real estate, personal property and other arrangements may meet the definition of a lease as contemplated in the guidance. While we are currently reviewing the potential impact of this standard, we would expect that the adoption of this standard will require us to recognize right-of-use assets and lease liabilities that will be material to our consolidated balance sheet given the extent of our lease portfolio.

In May 2014, the FASB issued guidance relating to revenue recognition from contracts with customers. This guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. New disclosures will also be required about the nature, amount, timing and uncertainty of revenues and related cash flows. In August 2015, the FASB issued guidance to defer the effective date by one year and, therefore, the standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017 and is to be applied retrospectively.

We have begun the process of reviewing our current accounting policies and business practices to identify potential differences that would result from applying the new guidance. The majority of our revenue is generated from sales of finished products directly to the consumer, which will continue to be recognized when control is transferred. We are also evaluating the impact that the guidance may have on the accounting for our retail promotional programs, including our loyalty and private label credit card programs, as well as gift cards. The new guidance requires gift card breakage income to be recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. We plan to adopt this guidance in the first quarter of fiscal 2018 using the modified-retrospective method and are currently reviewing the potential financial impact of adoption of this standard.

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2. STOCKHOLDERS' EQUITY

Share Repurchase Programs

The Company's Board of Directors has authorized the following share repurchase programs active during Year-To-Date 2017 and Year-To-Date 2016: (1) $100 million in January 2015 (the "2015 Share Repurchase Program"); (2) $250 million in December 2015 (the "2015 $250 Million Share Repurchase Program"); and (3) $250 million in March 2017 (the "2017 Share Repurchase Program"). The 2015 Share Repurchase Program has been completed. At July 29, 2017, there was approximately $305.6 million in the aggregate remaining on the 2015 $250 Million and 2017 Share Repurchase Programs. Under the 2015 $250 Million and 2017 Share Repurchase Programs, the Company may repurchase shares in the open market at current market prices at the time of purchase or in privately negotiated transactions. The timing and actual number of shares repurchased under a program will depend on a variety of factors including price, corporate and regulatory requirements and other market and business conditions. The Company may suspend or discontinue a program at any time, and may thereafter reinstitute purchases, all without prior announcement.

Pursuant to the Company's practice, including due to restrictions imposed by the Company's insider trading policy during black-out periods, the Company withholds and surrenders shares of vesting stock awards and makes payments to taxing authorities as required by law to satisfy the withholding tax requirements of all recipients. The Company's payment of the withholding taxes in exchange for the surrendered shares constitutes a purchase of its common stock. The Company also acquires shares of its common stock in conjunction with liabilities owed under the Company's Deferred Compensation Plan, which are held in treasury.

The following table summarizes the Company's share repurchases:

	Twenty-six Weeks Ended			
	July 29, 2017		July 30, 2016	
	Shares	Value	Shares	Value
	(In thousands)			
Shares repurchases related to:				
2015 Share Repurchase Program	—	—	310	$20,726
2015 $250 Million Share Repurchase Program (1) (2)	507	$57,379	818	63,967
Shares acquired and held in treasury	1.2	$124	2	$124

(1) Inclusive of 0.3 million shares for approximately $31.7 million withheld to cover taxes in conjunction with the vesting of stock awards.

(2) Subsequent to July 29, 2017 and through August 18, 2017, the Company repurchased approximately 44,000 shares for approximately $4.7 million.

In accordance with the FASB ASC 505--Equity, the par value of the shares retired is charged against common stock and the remaining purchase price is allocated between additional paid-in capital and retained earnings. The portion charged against additional paid-in capital is done using a pro rata allocation based on total shares outstanding. Related to all shares retired during Year-To-Date 2017 and Year-To-Date 2016, approximately $50.3 million and $70.8 million, respectively, were charged to retained earnings.

Dividends

The Second Quarter 2017 dividend of $0.40 per share was paid on July 10, 2017 to shareholders of record on the close of business on June 19, 2017. During Year-To-Date 2017, $14.9 million was charged to retained earnings, of which $14.1 million related to cash dividends paid and $0.8 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards. During Year-To-Date 2016, $7.9 million was charged to retained earnings, of which $7.6 million related to cash dividends paid and $0.3 million related to dividend share equivalents on unvested Deferred Awards and Performance Awards.

The Company's Board of Directors declared a quarterly cash dividend of $0.40 per share to be paid on October 3, 2017 to shareholders of record on the close of business on September 12, 2017. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by the Company's Board of

Directors based on a number of factors, including business and market conditions, the Company’s future financial performance and other investment priorities.

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3. STOCK-BASED COMPENSATION

The following table summarizes the Company’s stock-based compensation expense:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(In thousands)			
Deferred Awards	$2,661	$2,121	$5,926	$4,427
Performance Awards	4,160	3,966	8,554	8,204
Total stock-based compensation expense (1)	$6,821	$6,087	$14,480	$12,631

(1) During the Second Quarter 2017 and the Second Quarter 2016, approximately $1.0 million and $0.9 million, respectively, were included in cost of sales. During Year-To-Date 2017 and Year-To-Date 2016, approximately $2.0 million and $1.5 million, respectively, were included in cost of sales. All other stock-based compensation is included in selling, general and administrative expenses.

The Company recognized a tax benefit related to stock-based compensation expense of approximately $5.6 million and $5.0 million during Year-To-Date 2017 and Year-To-Date 2016, respectively.

Awards Granted During Year-To-Date 2017

The Company granted Deferred Awards and Performance Awards to various executives and members of our Board of Directors during Year-To-Date 2017. Awards were also granted in connection with new hires and contractual obligations. Generally, the Deferred Awards have a three year vesting period with one third of the award vesting annually. Generally, the Deferred Awards granted to members of the Board of Directors vest after one year. Performance Awards granted during Year-To-Date 2017 have a three-year performance period, and, if earned, vest upon completion of the three-year performance period. Depending on the cumulative adjusted earnings per share achieved for the three-year performance period, adjusted operating margin expansion achieved for the three-year performance period and adjusted return on invested capital achieved as of the end of fiscal 2019, the percentage of Target Shares earned range from 0% to 200%.

Changes in the Company’s Unvested Stock Awards during Year-To-Date 2017

Deferred Awards

	Number of Shares	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested Deferred Awards, beginning of period	469	$ 61.19
Granted	191	110.81
Vested	(178)	60.94
Forfeited	(30)	74.15
Unvested Deferred Awards, end of period	452	$ 81.39

Total unrecognized stock-based compensation expense related to unvested Deferred Awards approximated $26.4 million as of July 29, 2017, which will be recognized over a weighted average period of approximately 2.3 years.

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Performance Awards

	Number of Shares [1]	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested Performance Awards, beginning of period	515	$ 68.11
Granted	161	114.40
Shares earned in excess of target	192	50.97
Vested shares, including shares vested in excess of target	(286)	50.97
Forfeited	(27)	81.66
Unvested Performance Awards, end of period	555	$ 83.76

(1) For those awards in which the performance period is complete, the number of unvested shares is based on actual shares that will vest upon completion of the service period.

For those awards in which the performance period is not yet complete, the number of unvested shares in the table above is based on the participants earning their Target Shares at 100%. However, the cumulative expense recognized reflects changes in estimated adjusted earnings per share, adjusted operating margin expansion, and adjusted return on invested capital as they occur. Total unrecognized stock-based compensation expense related to unvested Performance Awards approximated $38.5 million as of July 29, 2017, which will be recognized over a weighted average period of approximately 2.0 years.

4. EARNINGS (LOSS) PER COMMON SHARE

The following table reconciles net income (loss) and share amounts utilized to calculate basic and diluted earnings per common share:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(In thousands)			
Net income (loss)	$14,290	$(2,011)	$50,519	$23,974
Basic weighted average common shares	17,704	18,811	17,659	19,006
Dilutive effect of stock awards	473	—	630	351
Diluted weighted average common shares	18,177	18,811	18,289	19,357
Antidilutive stock awards	—	2	—	1

Antidilutive stock awards (Deferred Awards and Performance Awards) represent those awards that are excluded from the earnings per share calculation as a result of their antidilutive effect in the application of the treasury stock method in accordance with FASB ASC 260--Earnings per Share.

The diluted loss per share amounts presented in the consolidated statements of operations for the Second Quarter 2016 exclude the dilutive effect of stock awards, which would have been anti-dilutive as a result of the net loss for that period.

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5. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

	July 29, 2017	January 28, 2017	July 30, 2016
	(In thousands)		
Property and equipment:			
Land and land improvements	$3,403	$3,403	$3,403
Building and improvements	35,548	35,548	35,548
Material handling equipment	48,345	48,345	48,345
Leasehold improvements	316,823	317,884	326,292
Store fixtures and equipment	221,990	223,873	227,528
Capitalized software	213,902	204,901	181,957
Construction in progress	24,888	7,316	15,641
	864,899	841,270	838,714
Accumulated depreciation and amortization	(601,588)	(576,990)	(561,519)
Property and equipment, net	$263,311	$264,280	$277,195

At July 29, 2017, the Company performed impairment testing on 1,026 stores with a total net book value of approximately $84.9 million. During the Second Quarter 2017, the Company recorded asset impairment charges of $1.0 million for three stores, all of which were fully impaired. During Year-To-Date 2017, the Company recorded asset impairment charges of $1.5 million for nine stores, all of which were fully impaired.

At July 30, 2016, the Company performed impairment testing on 1,062 stores with a total net book value of approximately $106.5 million. During the Second Quarter 2016, the Company recorded asset impairment charges of $1.5 million for twelve stores, of which four were fully impaired and eight were partially impaired. Additionally, during the Second Quarter 2016, the Company recorded asset impairment charges of $1.3 million related to the write-down of some previously capitalized development costs and obsolete systems.

As of July 29, 2017, January 28, 2017 and July 30, 2016, the Company had approximately $5.8 million, $9.4 million and $6.7 million, respectively, in property and equipment for which payment had not yet been made. These amounts are included in accounts payable and accrued expenses and other current liabilities.

6. CREDIT FACILITY

The Company and certain of its domestic subsidiaries maintain a credit agreement with Wells Fargo Bank, National Association (“Wells Fargo”), Bank of America, N.A., HSBC Business Credit (USA) Inc., and JPMorgan Chase Bank, N.A. as lenders (collectively, the “Lenders”) and Wells Fargo, as Administrative Agent, Collateral Agent and Swing Line Lender (the “Credit Agreement”).

The Credit Agreement, which expires in September 2020, consists of a $250 million asset based revolving credit facility, with a $50 million sublimit for standby and documentary letters of credit and an uncommitted accordion feature that could provide up to $50 million of additional availability. Revolving credit loans outstanding under the Credit Agreement bear interest, at the Company’s option, at:

(i) the prime rate plus a margin of 0.50% to 0.75% based on the amount of the Company’s average excess availability under the facility; or

(ii) the London InterBank Offered Rate, or “LIBOR”, for an interest period of one, two, three or six months, as selected by the Company, plus a margin of 1.25% to 1.50% based on the amount of the Company’s average excess availability under the facility.

The Company is charged a fee of 0.25% on the unused portion of the commitments. Letter of credit fees range from 0.625% to 0.75% for commercial letters of credit and from 0.75% to 1.00% for standby letters of credit. Letter of credit fees are determined based on the amount of the Company's average excess availability under the facility. The amount available for loans and letters of credit under the Credit Agreement is determined by a borrowing base consisting of certain credit card

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receivables, certain trade and franchise receivables, certain inventory, and the fair market value of certain real estate, subject to certain reserves.

The outstanding obligations under the Credit Agreement may be accelerated upon the occurrence of certain events, including, among others, non-payment, breach of covenants, the institution of insolvency proceedings, defaults under other material indebtedness and a change of control, subject, in the case of certain defaults, to the expiration of applicable grace periods. The Company is not subject to any early termination fees.

The Credit Agreement contains covenants, which include conditions on stock buybacks and the payment of cash dividends or similar payments. Credit extended under the Credit Agreement is secured by a first priority security interest in substantially all of the Company's U.S. assets excluding intellectual property, software, equipment and fixtures.

The Company has capitalized an aggregate of approximately $4.3 million in deferred financing costs related to the Credit Agreement. The unamortized balance of deferred financing costs at July 29, 2017 was approximately $0.8 million. Unamortized deferred financing costs are amortized over the remaining term of the Credit Agreement.

The table below presents the components of the Company's credit facility:

	July 29, 2017	January 28, 2017	July 30, 2016
	(In millions)		
Credit facility maximum	$250.0	$ 250.0	$250.0
Borrowing base	250.0	223.8	249.2
Outstanding borrowings	54.5	15.4	43.9
Letters of credit outstanding—standby	7.0	7.3	7.9
Utilization of credit facility at end of period	61.5	22.7	51.8
Availability (1)	$188.5	$ 201.1	$197.4
Interest rate at end of period	2.7 %	2.8 %	2.0 %

	Year-To-Date 2017	Fiscal 2016	Year-To-Date 2016
Average end of day loan balance during the period	$ 62.9	$39.9	$ 39.3
Highest end of day loan balance during the period	98.2	95.8	75.1
Average interest rate	2.7 %	2.4 %	2.4 %

(1) The sublimit availability for the letters of credit was $43.0 million, $42.7 million, and $42.1 million at July 29, 2017, January 28, 2017, and July 30, 2016, respectively.

7. LEGAL AND REGULATORY MATTERS

The Company is a defendant in Rael v. The Children's Place, Inc., a purported class action, pending in the U.S. District Court, Southern District of California. In the initial complaint filed in February 2016, the plaintiff alleged that the Company falsely advertised discount prices in violation of California's Unfair Competition Law, False Advertising Law, and Consumer Legal Remedies Act. The plaintiff filed an amended complaint in April 2016, adding allegations of violations of other state consumer protection laws. In August 2016, the plaintiff filed a second amended complaint, adding an additional plaintiff and removing the other state law claims. The plaintiffs' second amended complaint seeks to represent a class of California purchasers and seeks, among other items, injunctive relief, damages, and attorneys' fees and costs.

The Company engaged in mediation proceedings with the plaintiffs in December 2016 and April 2017. In April 2017, the parties reached an agreement in principle to settle the matter on a class basis with all individuals in the U.S. who made a qualifying purchase at The Children's Place between February 11, 2012 through the date of preliminary approval by the court of the settlement. The proposed settlement provides for merchandise vouchers for class members who submit valid claims, as well as payment of legal fees and expenses and claims administration expenses. The proposed settlement, if ultimately entered into by the parties and approved by the court, will result in the dismissal of all claims through the date of the court’s preliminary approval of the settlement. However, if the proposed settlement is rejected by the court, the parties will likely return to litigation, and in such event, no assurance can be given as to the ultimate outcome of this matter. In connection with

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the agreement in principle regarding a proposed settlement, the Company recorded a reserve for $5.0 million in its consolidated financial statements in the first quarter of fiscal 2017.

The Company is also involved in various legal proceedings arising in the normal course of business. In the opinion of management, any ultimate liability arising out of these proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

8. INCOME TAXES

The Company computes income taxes using the liability method. This method requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between the financial statement and income tax basis of assets and liabilities. The Company's deferred tax assets and liabilities are comprised largely of differences relating to depreciation, rent expense, inventory and various accruals and reserves.

The Company’s effective tax rate for the Second Quarter 2017 and Year-To-Date 2017 was a benefit of 388.0% and 11.8%, respectively, compared to a provision of 35.5% and 34.2% during the Second Quarter 2016 and Year-To-Date 2016, respectively. The decrease in the effective tax rate was primarily the result of tax benefits of $12.3 million and $15.8 million for excess stock compensation benefits recorded in the Second Quarter 2017 and Year-To-Date 2017, respectively, as well as the release of a $4.0 million reserve for an uncertain tax position that was resolved during the first quarter of fiscal 2017. Additionally, the effective tax rate for both periods was lower than the U.S. federal statutory income tax rate of 35% due to the mix of income generated in foreign jurisdictions subject to lower tax rates versus the U.S.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in provision for income taxes. The total amount of unrecognized tax benefits as of July 29, 2017, January 28, 2017 and July 30, 2016 were $3.2 million, $7.3 million and $10.1 million, respectively, and is included within non-current liabilities. The Company recognized less than $0.1 million in each of the Second Quarter 2017 and the Second Quarter 2016, respectively, of additional interest expense related to its unrecognized tax benefits. During each of Year-To-Date 2017 and Year-To-Date 2016 the Company recognized less than $0.1 million of additional interest expense. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in provision for income taxes.

The Company is subject to tax in the United States and foreign jurisdictions, including Canada and Hong Kong. The Company, joined by its domestic subsidiaries, files a consolidated income tax return for federal income tax purposes. The Company, with certain exceptions, is no longer subject to income tax examinations by U.S. federal, state and local or foreign tax authorities for tax years 2012 and prior.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations; however, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

9. DERIVATIVE INSTRUMENTS

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates attributable to inventory purchases denominated in a foreign currency. Specifically, our Canadian subsidiary’s functional currency is the Canadian dollar, but purchases inventory from suppliers in U.S. dollars. In order to mitigate the variability of cash flows associated with certain of these forecasted inventory purchases, we enter into foreign exchange forward contracts. These contracts typically mature within 12 months. We do not use forward contracts to engage in currency speculation and we do not enter into derivative financial instruments for trading purposes.

The Company accounts for all of its derivatives and hedging activity under FASB ASC 815--Derivatives and Hedging.

Under the Company’s risk management policy and in accordance with guidance under the topic, in order to qualify for hedge accounting treatment, a derivative must be considered highly effective at offsetting changes in either the hedged item’s cash flows or fair value. Additionally, the hedge relationship must be documented to include the risk management objective and strategy, the hedging instrument, the hedged item, the risk exposure, and how hedge effectiveness will be assessed prospectively and retrospectively. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company would discontinue hedge accounting under a foreign exchange forward contract prospectively (i) if management determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is terminated, (iii) if the forecasted transaction being hedged by the derivative is no longer probable of occurring, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate.

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All derivative instruments are presented at gross fair value on the consolidated balance sheets within either prepaid expenses and other current assets or accrued expenses and other current liabilities. As of July 29, 2017, the Company had foreign exchange forward contracts with an aggregate notional amount of $26.8 million and the fair value of the derivative instruments was an asset of $1.2 million. As these foreign exchange forward contracts are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and our counterparties' credit risks, they are classified within Level 2 of the valuation hierarchy. Cash settlements related to these forward contracts are recorded in cash flows from operating activities within the consolidated statements of cash flows.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings within cost of sales (exclusive of depreciation and amortization) in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in earnings within selling, general and administrative expenses, consistent with where the Company records realized and unrealized foreign currency gains and losses on transactions in foreign denominated currencies. There were no losses related to hedge ineffectiveness during Year-To-Date 2017. Assuming July 29, 2017 exchange rates remain constant, $0.9 million of gains, net of tax, related to hedges of these transactions are expected to be reclassified from OCI into earnings over the next 12 months. Changes in fair value associated with derivatives that are not designated and qualified as cash flow hedges are recognized as earnings within selling, general and administrative expenses.

The Company enters into foreign exchange forward contracts with major banks and has risk exposure in the event of nonperformance by either party. However, based on our assessment, the Company believes that obligations under the contracts will be fully satisfied. Accordingly, there was no requirement to post collateral or other security to support the contracts as of July 29, 2017.

10. SEGMENT INFORMATION

In accordance with FASB ASC 280---Segment Reporting, the Company reports segment data based on geography: The Children's Place U.S. and The Children's Place International. Each segment includes an e-commerce business located at www.childrensplace.com. Included in The Children's Place U.S. segment are the Company's U.S. and Puerto Rico-based stores and revenue from the Company's U.S.-based wholesale business. Included in The Children's Place International segment are the Company's Canadian-based stores, revenue from the Company's Canadian wholesale business and revenue from international franchisees. The Company measures its segment profitability based on operating income, defined as income before interest and taxes. Net sales and direct costs are recorded by each segment. Certain inventory procurement functions such as production and design as well as corporate overhead, including executive management, finance, real estate, human resources, legal, and information technology services are managed by The Children's Place U.S. segment. Expenses related to these functions, including depreciation and amortization, are allocated to The Children's Place International segment based primarily on net sales. The assets related to these functions are not allocated. The Company periodically reviews these allocations and adjusts them based upon changes in business circumstances. Net sales to external customers are derived from merchandise sales and the Company has no major customers that account for more than 10% of its net sales. As of July 29, 2017, The Children's Place U.S. operated 897 stores and The Children's Place International operated 129 stores. As of July 30, 2016, The Children's Place U.S. operated 932 stores and The Children's Place International operated 132 stores.

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The following tables provide segment level financial information:

Thirteen Weeks Ended July 29, 2017	Twenty-six Weeks Ended