

KOHL S CORPORATION
Form 10-Q
June 08, 2007
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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 5, 2007

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 1-11084

KOHL S CORPORATION

(Exact name of the registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of
incorporation or organization)

39-1630919
(I.R.S. Employer
Identification No.)

N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin
(Address of principal executive offices)

53051
(Zip Code)

Registrant's telephone number, including area code (262) 703-7000

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by a 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: June 5, 2007 Common Stock, Par Value \$0.01 per Share, 322,625,936 shares outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****KOHL'S CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)**

	May 5, 2007 (Unaudited)	February 3, 2007 (Audited)	April 29, 2006 (Unaudited)
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 250,889	\$ 189,170	\$ 195,202
Short-term investments	252,741	431,230	1,401,136
Merchandise inventories	2,713,646	2,588,099	2,347,891
Deferred income taxes	11,590	40,190	
Other	169,555	152,351	185,228
Total current assets	3,398,421	3,401,040	4,129,457
Property and equipment, net	5,576,938	5,352,974	4,791,447
Favorable lease rights, net	216,420	219,286	209,225
Goodwill	9,338	9,338	9,338
Other assets	60,301	58,539	52,500
Total assets	\$ 9,261,418	\$ 9,041,177	\$ 9,191,967
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities:			
Accounts payable	\$ 1,022,304	\$ 934,376	\$ 868,691
Accrued liabilities	651,688	732,178	672,053
Income taxes payable	122,201	233,263	94,158
Deferred income taxes			3,210
Current portion of long-term debt and capital leases	9,921	18,841	8,440
Total current liabilities	1,806,114	1,918,658	1,646,552
Long-term debt and capital leases	1,040,915	1,040,057	1,043,952
Deferred income taxes	255,270	243,530	210,623
Other long-term liabilities	248,705	235,537	211,457
Shareholders' equity:			
Common stock	3,503	3,485	3,458
Paid-in capital	1,847,744	1,748,792	1,615,074
Treasury stock at cost	(1,629,320)	(1,628,416)	(77,247)
Retained earnings	5,688,487	5,479,534	4,538,098
Total shareholders' equity	5,910,414	5,603,395	6,079,383

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Total liabilities and shareholders equity	\$ 9,261,418	\$ 9,041,177	\$ 9,191,967
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See accompanying Notes to Condensed Consolidated Financial Statements

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KOHL S CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In Thousands, Except per Share Data)

	Three Months (13 Weeks) Ended	
	May 5, 2007	April 29, 2006
Net sales	\$ 3,572,040	\$ 3,196,337
Cost of merchandise sold	2,255,719	2,040,965
Gross margin	1,316,321	1,155,372
Operating expenses:		
Selling, general, and administrative	856,959	768,888
Depreciation and amortization	104,688	93,272
Preopening expenses	8,589	10,997
Operating income	346,085	282,215
Interest expense, net	10,147	14,195
Income before income taxes	335,938	268,020
Provision for income taxes	126,985	100,775
Net income	\$ 208,953	\$ 167,245
Net income per share:		
Basic		
Basic	\$ 0.65	\$ 0.48
Average number of shares	321,775	345,277
Diluted		
Diluted	\$ 0.64	\$ 0.48
Average number of shares	325,068	347,285

See accompanying Notes to Condensed Consolidated Financial Statements

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KOHL S CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited) (In Thousands)

	Common Stock		Paid-In	Treasury	Retained	Total
	Shares	Amount	Capital	Stock	Earnings	
Balance at February 3, 2007	348,502	\$ 3,485	\$ 1,748,792	\$ (1,628,416)	\$ 5,479,534	\$ 5,603,395
Exercise of stock options	1,810	18	82,537			82,555
Excess income tax benefit from exercise of stock options			6,856			6,856
Share-based compensation expense			9,559			9,559
Treasury stock purchases				(904)		(904)
Net income					208,953	208,953
Balance at May 5, 2007	350,312	\$ 3,503	\$ 1,847,744	\$ (1,629,320)	\$ 5,688,487	\$ 5,910,414

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**KOHL S CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In Thousands)**

	Three Months (13 Weeks) Ended	
	May 5, 2007	April 29, 2006
Operating activities		
Net income	\$ 208,953	\$ 167,245
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	104,821	93,407
Amortization of debt discount	53	36
Share-based compensation	9,100	9,918
Excess tax benefits from share-based compensation	(6,856)	(6,952)
Deferred income taxes	40,340	19,709
Changes in operating assets and liabilities:		
Accounts receivable, net		1,652,065
Merchandise inventories	(125,547)	(110,323)
Other current and long-term assets	(43,561)	(104,538)
Accounts payable	87,928	38,720
Accrued and other long-term liabilities	(67,406)	56,096
Income taxes	(104,206)	(65,798)
Net cash provided by operating activities	103,619	1,749,585
Investing activities		
Acquisition of property and equipment and favorable lease rights	(322,295)	(280,635)
Purchases of short-term investments	(1,856,719)	(3,588,105)
Sales of short-term investments	2,035,208	2,347,046
Proceeds from sale of property, plant and equipment	25,400	
Other	(411)	(2,576)
Net cash used in investing activities	(118,817)	(1,524,270)
Financing activities		
Excess tax benefits from share-based compensation	6,856	6,952
Payments of other long-term debt	(11,590)	(101,689)
Treasury stock purchases	(904)	(77,247)
Proceeds from stock option exercises	82,555	15,032
Net cash provided by (used in) financing activities	76,917	(156,952)
Net increase in cash and cash equivalents	61,719	68,363
Cash and cash equivalents at beginning of period	189,170	126,839
Cash and cash equivalents at end of period	\$ 250,889	\$ 195,202

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Supplemental information:

Interest paid, net of capitalized interest	\$ 13,305	\$ 18,768
Income taxes paid	\$ 190,848	\$ 147,481

See accompanying Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and footnotes thereto included in the Company's Form 10-K (Commission File No. 1-11084) filed with the Securities and Exchange Commission.

Due to the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

The Company operates as a single business unit.

Certain reclassifications have been made to prior year's financial information to conform to the current year presentation.

2. Net Sales

Revenue from the sale of the Company's merchandise at its stores is recognized at the time of sale, net of any returns. E-commerce sales are recorded upon the shipment of merchandise. Net sales do not include sales tax as the Company considers itself a pass-through conduit for collecting and remitting sales taxes. Revenue from gift card sales is recognized when the gift card is redeemed.

Gift card breakage revenue is based on historical redemption patterns and represents the balance of gift cards for which the Company believes the likelihood of redemption by a customer is remote.

3. Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes.

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The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The only periods subject to examination for the Company's federal return are the 2003 through 2006 tax years. The audits of the tax years 2001 an