

TJX COMPANIES INC /DE/
Form 10-Q
June 02, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(mark one)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended May 2, 2009**

Or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission file number 1-4908

The TJX Companies, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or
organization)

04-2207613

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

770 Cochituate Road Framingham, Massachusetts

(Address of principal executive offices)

01701

(Zip Code)

(508) 390-1000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated ☐ 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 Act). YES ☐ NO ☒

The number of shares of registrant's common stock outstanding as of May 2, 2009: 413,533,634

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SIGNATURE

EX-31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

EX-31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

EX-32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EX-32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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THE TJX COMPANIES, INC.
STATEMENTS OF INCOME
(UNAUDITED)

AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 2, 2009 | April 26, 2008 |
| Net sales | \$ 4,354,224 | \$ 4,303,555 |
| Cost of sales, including buying and occupancy costs | 3,273,346 | 3,276,943 |
| Selling, general and administrative expenses | 735,057 | 728,386 |
| Interest expense, net | 6,601 | 1,674 |
| Income from continuing operations before provision for income taxes | 339,220 | 296,552 |
| Provision for income taxes | 130,006 | 98,552 |
| Income from continuing operations | 209,214 | 198,000 |
| (Loss) from discontinued operations, net of income taxes | | (4,151) |
| Net income | \$ 209,214 | \$ 193,849 |
| Basic earnings per share: | | |
| Income from continuing operations | \$ 0.51 | \$ 0.47 |
| (Loss) from discontinued operations, net of income taxes | \$ | \$ (0.01) |
| Net income | \$ 0.51 | \$ 0.46 |
| Weighted average common shares basic | 412,544 | 425,620 |
| Diluted earnings per share: | | |
| Income from continuing operations | \$ 0.49 | \$ 0.44 |
| (Loss) from discontinued operations, net of income taxes | \$ | \$ (0.01) |
| Net income | \$ 0.49 | \$ 0.43 |
| Weighted average common shares diluted | 431,920 | 450,401 |
| Cash dividends declared per share | \$ 0.12 | \$ 0.11 |

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

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THE TJX COMPANIES, INC.
BALANCE SHEETS
IN THOUSANDS, EXCEPT SHARE DATA

| | May 2, 2009 (unaudited) | January 31, 2009 | April 26, 2008 (unaudited) |
|--|-------------------------------|-------------------------|----------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,012,495 | \$ 453,527 | \$ 698,115 |
| Short-term investments | 56,747 | | |
| Accounts receivable, net | 150,406 | 143,500 | 172,772 |
| Merchandise inventories | 2,817,711 | 2,619,336 | 2,899,795 |
| Prepaid expenses and other current assets | 231,067 | 274,091 | 180,644 |
| Current deferred income taxes, net | 138,487 | 135,675 | 100,913 |
| Total current assets | 4,406,913 | 3,626,129 | 4,052,239 |
| Property at cost: | | | |
| Land and buildings | 277,087 | 280,278 | 277,892 |
| Leasehold costs and improvements | 1,767,692 | 1,728,362 | 1,809,610 |
| Furniture, fixtures and equipment | 2,833,906 | 2,784,316 | 2,722,720 |
| Total property at cost | 4,878,685 | 4,792,956 | 4,810,222 |
| Less accumulated depreciation and amortization | 2,725,948 | 2,607,200 | 2,605,188 |
| Net property at cost | 2,152,737 | 2,185,756 | 2,205,034 |
| Property under capital lease, net of accumulated amortization of \$17,682; \$17,124 and \$15,448, respectively | 14,890 | 15,448 | 17,124 |
| Other assets | 184,734 | 171,381 | 190,862 |
| Goodwill and tradename, net of amortization | 179,593 | 179,528 | 181,443 |
| TOTAL ASSETS | \$ 6,938,867 | \$ 6,178,242 | \$ 6,646,702 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Current installments of long-term debt | \$ 742,227 | \$ 392,852 | \$ |
| Obligation under capital lease due within one year | 2,218 | 2,175 | 2,048 |
| Accounts payable | 1,551,403 | 1,276,098 | 1,678,302 |
| Accrued expenses and other liabilities | 982,156 | 1,096,766 | 1,114,921 |
| Federal, foreign and state income taxes payable | 50,250 | | 27,471 |
| Total current liabilities | 3,328,254 | 2,767,891 | 2,822,742 |
| Other long-term liabilities | 734,262 | 765,004 | 754,552 |
| Non-current deferred income taxes, net | 148,946 | 127,008 | 78,919 |

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| | | | |
|--|---------|---------|---------|
| Obligation under capital lease, less portion due within one year | 17,628 | 18,199 | 19,847 |
| Long-term debt, exclusive of current installments | 374,303 | 365,583 | 832,595 |
| Commitments and contingencies | | | |

SHAREHOLDERS' EQUITY

Common stock, authorized 1,200,000,000 shares, par value \$1,
issued and outstanding 413,533,634; 412,821,592 and

| | | | |
|--|-----------|-----------|-----------|
| 424,701,061, respectively | 413,534 | 412,822 | 424,701 |
| Additional paid-in capital | 11,668 | | |
| Accumulated other comprehensive (loss) | (188,834) | (217,781) | (30,999) |
| Retained earnings | 2,099,106 | 1,939,516 | 1,744,345 |

| | | | |
|----------------------------|-----------|-----------|-----------|
| Total shareholders' equity | 2,335,474 | 2,134,557 | 2,138,047 |
|----------------------------|-----------|-----------|-----------|

| | | | |
|--|--------------|--------------|--------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 6,938,867 | \$ 6,178,242 | \$ 6,646,702 |
|--|--------------|--------------|--------------|

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

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

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 2, 2009 | April 26, 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 209,214 | \$ 193,849 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 104,147 | 99,676 |
| Loss on property disposals and impairment charges | 326 | 2,250 |
| Deferred income tax provision | 18,301 | 32,056 |
| Amortization of stock compensation expense | 12,404 | 12,161 |
| Excess tax benefits from stock compensation expense | (166) | (9,506) |
| Changes in assets and liabilities: | | |
| (Increase) in accounts receivable | (6,077) | (29,578) |
| (Increase) in merchandise inventories | (183,812) | (163,558) |
| Decrease in prepaid expenses and other current assets | 37,828 | 27,886 |
| Increase in accounts payable | 267,451 | 162,355 |
| (Decrease) in accrued expenses and other liabilities | (100,765) | (69,507) |
| Other | 2,180 | 5,375 |
| Net cash provided by operating activities | 361,031 | 263,459 |
| Cash flows from investing activities: | | |
| Property additions | (66,449) | (110,762) |
| Purchase of short-term investments | (56,747) | |
| Proceeds from repayments on note receivable | 212 | 197 |
| Net cash (used in) investing activities | (122,984) | (110,565) |
| Cash flows from financing activities: | | |
| Proceeds from borrowing of long-term debt | 374,295 | |
| Cash payments for debt issuance expenses | (3,234) | |
| Payments on capital lease obligation | (528) | (487) |
| Cash payments for repurchase of common stock | (32,424) | (227,383) |
| Proceeds from sale and issuance of common stock | 10,245 | 71,681 |
| Excess tax benefits from stock compensation expense | 166 | 9,506 |
| Cash dividends paid | (45,408) | (38,470) |
| Net cash provided by (used in) financing activities | 303,112 | (185,153) |
| Effect of exchange rate changes on cash | 17,809 | (2,238) |

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| | | |
|---|--------------|------------|
| Net increase (decrease) in cash and cash equivalents | 558,968 | (34,497) |
| Cash and cash equivalents at beginning of fiscal year | 453,527 | 732,612 |
| Cash and cash equivalents at end of period | \$ 1,012,495 | \$ 698,115 |

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

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

| | Common Stock | | Additional | Accumulated | | |
|--|--------------|------------|------------|---------------|--------------|--------------|
| | Par Value | | Paid-In | Other | Retained | |
| | Shares | \$1 | Capital | Comprehensive | Earnings | Total |
| | | | | Income | | |
| | | | | (Loss) | | |
| Balance, January 31, 2009 | 412,822 | \$ 412,822 | \$ | \$ (217,781) | \$ 1,939,516 | \$ 2,134,557 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 209,214 | 209,214 |
| Gain due to foreign currency translation adjustments | | | | 28,477 | | 28,477 |
| Recognition of prior service cost and deferred gains (losses) | | | | 1,682 | | 1,682 |
| Recognition of unfunded post retirement liabilities | | | | (1,212) | | (1,212) |
| Total comprehensive income | | | | | | 238,161 |
| Cash dividends declared on common stock | | | | | (49,624) | (49,624) |
| Restricted stock awards granted | 444 | 444 | (444) | | | |
| Amortization of stock compensation expense | | | 12,404 | | | 12,404 |
| Issuance of common stock upon conversion of convertible debt | 1,018 | 1,018 | 23,572 | | | 24,590 |
| Issuance of common stock under stock incentive plan and related tax effect | 432 | 432 | 7,378 | | | 7,810 |
| Common stock repurchased | (1,182) | (1,182) | (31,242) | | | (32,424) |
| Balance, May 2, 2009 | 413,534 | \$ 413,534 | \$ 11,668 | \$ (188,834) | \$ 2,099,106 | \$ 2,335,474 |

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

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THE TJX COMPANIES, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. The results for the first three months are not necessarily indicative of results for the full fiscal year, because TJX's business, in common with the businesses of retailers generally, is subject to seasonal influences, with higher levels of sales and income generally realized in the second half of the year.
2. The consolidated interim financial statements are unaudited and, in the opinion of management, reflect all normal recurring adjustments, the use of retail statistics, and accruals and deferrals among periods required to match costs properly with the related revenue or activity, considered necessary by TJX for a fair presentation of its financial statements for the periods reported, all in accordance with generally accepted accounting principles consistently applied. The consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements, including the related notes, contained in TJX's Annual Report on Form 10-K for the fiscal year ended January 31, 2009 (fiscal 2009).
3. In fiscal 2009, TJX sold Bob's Stores and recorded as a component of discontinued operations a loss on disposal (including expenses relating to the sale) of \$19.0 million, net of tax benefits of \$13.0 million. TJX remains contingently liable on eight of the Bob's Stores leases.

TJX also reclassified the operating results of Bob's Stores for all periods prior to the sale as a component of discontinued operations. The following table presents the net sales, segment profit (loss) and after-tax income (loss) from operations reclassified to discontinued operations for the thirteen weeks ended April 26, 2008 (in thousands):

| | |
|-----------------------|------------|
| Net sales | \$ 60,570 |
| Segment income (loss) | \$ (6,942) |
| Net income (loss) | \$ (4,151) |

4. TJX has incurred losses as a result of an unauthorized intrusion or intrusions (the intrusion or intrusions, collectively, the Computer Intrusion) into portions of its computer system, which was discovered late in fiscal 2007 and in which TJX believes customer data were stolen. In the second quarter of fiscal 2008, TJX established a pre-tax reserve of \$178.1 million to reflect its estimation of probable losses in accordance with generally accepted accounting principles with respect to the Computer Intrusion and recorded a pre-tax charge in that amount. TJX reduced the Provision for Computer Intrusion related costs by \$30.5 million in fiscal 2009 and \$18.9 million in fiscal 2008 as a result of negotiations, settlements, insurance proceeds and adjustments in estimated losses. The reserve of \$39.5 million at May 2, 2009 is the current estimate of total potential cash liabilities from pending litigation, proceedings, investigations and other claims, as well as legal, ongoing monitoring, reporting and other costs and expenses, arising from the Computer Intrusion. As an estimate, the reserve is subject to uncertainty, and actual costs may vary from the current estimate and such variations may be material. TJX may decrease or increase the amount of the reserve to adjust for developments in the course and resolution of litigation, claims and investigations and related expenses, insurance proceeds and changes in estimates.
5. Total stock-based compensation expense was \$12.4 million for the quarter ended May 2, 2009 and \$12.2 million for the quarter ended April 26, 2008. These amounts include stock option expense as well as restricted stock amortization. There were options to purchase 527,132 shares of common stock exercised during the first quarter of fiscal 2010. There were options to purchase 30.9 million shares of common stock outstanding as of May 2, 2009.

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6. TJX generally considers highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Investments with maturities greater than three months but less than a year at the date of purchase are included in short-term investments. TJX's investments are primarily high-grade commercial paper, government and corporate bonds, institutional money market funds and time deposits with major banks.
7. TJX has a reserve for future obligations of discontinued operations that relates primarily to real estate leases associated with 34 discontinued A.J. Wright stores that were closed in the fourth quarter of fiscal 2007 and leases of other TJX businesses. As a result of the sale of Bob's Stores, TJX reserved approximately \$3 million for two Bob's Stores locations which the buyer of Bob's Stores can put back to TJX and which TJX considers probable. The balance in the reserve and the activity for respective periods are presented below:

| In thousands | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 2, 2009 | April 26, 2008 |
| Balance at beginning of year | \$ 40,564 | \$ 46,076 |
| Additions to the reserve charged to net income: | | |
| Interest accretion | 440 | 455 |
| Cash charges against the reserve: | | |
| Lease-related obligations | (1,320) | (2,210) |
| Termination benefits and all other | (35) | |
| Balance at end of period | \$ 39,649 | \$ 44,321 |

TJX may also be contingently liable on up to 15 leases of BJ's Wholesale Club, a former TJX business, and on 8 additional Bob's Stores leases. The reserve for discontinued operations does not reflect these leases because TJX does not believe that the likelihood of future liability to TJX is probable.

8. TJX's comprehensive income information is presented below:

| In thousands | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 2, 2009 | April 26, 2008 |
| Net income | \$ 209,214 | \$ 193,849 |
| Other comprehensive income (loss): | | |
| Gain (loss) due to foreign currency translation adjustments, net of related tax effects | 28,477 | (342) |
| (Loss) on net investment hedge contracts, net of related tax effects | | (1,376) |
| (Loss) on cash flow hedge contract, net of related tax effects | | (256) |
| Recognition of unfunded post retirement liabilities | (1,212) | |
| Recognition of prior service cost and deferred gains (losses) | 1,682 | (406) |
| Amount of cash flow hedge reclassified from other comprehensive income to net income | | 66 |
| Total comprehensive income | \$ 238,161 | \$ 191,535 |

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9. The computation of TJX's basic and diluted earnings per share (EPS) is as follows:

| In thousands, except per share data | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 2, 2009 | April 26, 2008 |
| <i>Basic earnings per share</i> | | |
| Income from continuing operations | \$ 209,214 | \$ 198,000 |
| Weighted average common shares outstanding for basic EPS | 412,544 | 425,620 |
| Basic earnings per share – continuing operations | \$ 0.51 | \$ 0.47 |
| <i>Diluted earnings per share</i> | | |
| Income from continuing operations | \$ 209,214 | \$ 198,000 |
| Add back: Interest expense on zero coupon convertible subordinated notes, net of income taxes | 1,072 | 1,195 |
| Income from continuing operations used for diluted EPS calculation | \$ 210,286 | \$ 199,195 |
| Shares for basic and diluted earnings per share calculations: | | |
| Weighted average common shares outstanding for basic EPS | 412,544 | 425,620 |
| Assumed conversion / exercise/vesting of: | | |
| Stock options and awards | 4,224 | 7,876 |
| Zero coupon convertible subordinated notes | 15,152 | 16,905 |
| Weighted average common shares outstanding for diluted EPS | 431,920 | 450,401 |
| Diluted earnings per share – continuing operations | \$ 0.49 | \$ 0.44 |

FASB Staff Position (FSP) 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities", was applicable for TJX during the first quarter of fiscal 2010. The adoption of this FSP had no impact on TJX's financial statements.

Weighted average common shares for diluted earnings per share exclude the incremental effect related to any outstanding stock options, the exercise price of which is in excess of the related fiscal period's average price of TJX's common stock. Such options are excluded because they would have an antidilutive effect. There were 14.3 million options excluded for the thirteen weeks ended May 2, 2009. No such options were excluded for the thirteen weeks ended April 26, 2008.

TJX's zero coupon convertible subordinated notes were convertible into 15.2 million shares of TJX common stock during most of the quarter ended May 2, 2009. In April 2009, TJX called for the redemption of the zero coupon convertible subordinated notes. There were 31,170 notes with a carrying value of \$24.6 million converted during the first quarter of fiscal 2010, resulting in the issuance of 1.0 million shares of common stock. Subsequent to the fiscal 2010 first quarter, virtually all of the remaining notes were converted into an additional 14.1 million shares of TJX common stock.

10. During the quarter ended May 2, 2009, TJX repurchased and retired 1.6 million shares of its common stock at a cost of \$42.9 million. TJX reflects stock repurchases in its financial statements on a "settlement" basis. TJX had

cash expenditures under its repurchase programs of \$32.4 million for the three months ended May 2, 2009, and \$227.4 million for the same period last year, primarily funded by cash generated from operations. Under the \$1 billion stock repurchase program authorized in February 2008, TJX repurchased 10.5 million shares of common stock at a cost of \$298.0 million through the first quarter of fiscal 2010 and \$702.0 million remained available at May 2, 2009. All shares repurchased under the stock repurchase programs have been retired.

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11. TJX enters into financial instruments to manage its cost of borrowing and to manage its exposure to changes in fuel costs and foreign currency exchange rates.

Interest Rate Contracts: At May 2, 2009, TJX had interest rate swap agreements outstanding with a notional amount of \$100 million. The agreements entitle TJX to receive biannual payments of interest at a fixed rate of 7.45% and pay a floating rate of interest indexed to the six-month LIBOR rate with no exchange of the underlying notional amounts. The interest rate swap agreements converted a portion of TJX's long-term debt from a fixed-rate obligation to a floating-rate obligation. TJX designated the interest rate swaps as a fair value hedge of the related long-term debt.

Diesel Fuel Contracts: During fiscal 2009, TJX entered into agreements to hedge approximately 30% of its notional diesel fuel requirements for fiscal 2010, based on the diesel fuel consumed by independent freight carriers transporting the Company's inventory. These carriers charge TJX a mileage surcharge for diesel fuel price increases as incurred by the freight carrier. The hedge agreements were designed to mitigate the volatility of diesel fuel pricing (and the resulting per mile surcharges payable by TJX) by setting a fixed price per gallon for the year. TJX elected not to apply hedge accounting rules to these contracts. All of the diesel fuel hedge agreements expire in February 2010.

Foreign Currency Contracts: TJX enters into forward foreign currency exchange contracts to obtain economic hedges on firm U.S. dollar and Euro denominated merchandise purchase commitments made by its foreign subsidiaries, T.K. Maxx (United Kingdom, Ireland and Germany) and Winners (Canada). These commitments are typically six months or less in duration. The contracts outstanding at May 2, 2009 covered certain commitments for the second and third quarters of fiscal 2010. TJX elected not to apply hedge accounting rules to these contracts.

TJX also enters into derivative contracts, generally designated as fair value hedges, to hedge intercompany debt and intercompany interest payable. The changes in fair value of these contracts are recorded in selling, general and administrative expenses and are offset by marking the underlying item to fair value in the same period. Upon settlement, the realized gains and losses on these contracts are offset by the realized gains and losses of the underlying item which is reflected in selling, general and administrative expenses. The net impact on the income statement of hedging activity related to these intercompany payables was immaterial.

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Following is a summary of TJX's derivative financial instruments and related fair values outstanding at May 2, 2009:

| In thousands | Pay | Receive | Blended Contract Rate | Balance Sheet Location | Asset (Liability) US\$ US\$ | Net Fair Value in US\$ at May 2, 2009 |
|--|-------------|---------|-----------------------------|---------------------------|--------------------------------|---|
| <u>Derivative designated as hedging instrument under SFAS 133</u> | | | | | | |
| Fair value hedges | | | | | | |
| Interest rate swap fixed to floating on notional of \$50,000 | LIBOR+4.17% | 4.45% | N/A | (Accrued Exp.) | 341 | 341 |
| | | | | Prepaid Expense | 481 | 481 |