

TJX COMPANIES INC /DE/
Form 10-Q
May 23, 2008

Table of Contents

**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 April 26, 2008**

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 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 filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller
reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES ☐ NO ☒

The number of shares of registrant's common stock outstanding as of April 26, 2008: 424,701,061

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 6. Exhibits

SIGNATURE

Ex-31.1 Section 302 Certification of CEO

Ex-31.2 Section 302 Certification of CFO

Ex-32.1 Section 906 Certification of CEO

Ex-32.2 Section 906 Certification of CFO

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS

	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
Net sales	\$ 4,364,125	\$ 4,108,081
Cost of sales, including buying and occupancy costs	3,315,735	3,117,215
Selling, general and administrative expenses	757,106	709,277
Provision for Computer Intrusion related costs		20,004
Interest expense (income), net	1,674	(2,076)
Income before provision for income taxes	289,610	263,661
Provision for income taxes	95,761	101,553
Net income	\$ 193,849	\$ 162,108
Earnings per share:		
Net income:		
Basic earnings per share:	\$ 0.46	\$ 0.36
Weighted average common shares basic	425,620	453,565
Diluted earnings per share:	\$ 0.43	\$ 0.34
Weighted average common shares diluted	450,401	479,026
Cash dividends declared per share	\$ 0.11	\$ 0.09

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

Table of Contents

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

	April 26, 2008 (unaudited)	January 26, 2008	April 28, 2007 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 698,115	\$ 732,612	\$ 781,210
Accounts receivable, net	172,772	143,289	155,233
Merchandise inventories	2,899,795	2,737,378	2,829,303
Prepaid expenses and other current assets	180,644	215,550	255,912
Current deferred income taxes, net	100,913	163,465	35,804
Total current assets	4,052,239	3,992,294	4,057,462
Property at cost:			
Land and buildings	277,892	277,988	271,837
Leasehold costs and improvements	1,809,610	1,785,429	1,665,820
Furniture, fixtures and equipment	2,722,720	2,675,009	2,438,659
Total property at cost	4,810,222	4,738,426	4,376,316
Less accumulated depreciation and amortization	2,605,188	2,520,973	2,343,691
Net property at cost	2,205,034	2,217,453	2,032,625
Property under capital lease, net of accumulated amortization of \$15,448; \$14,890 and \$13,215, respectively	17,124	17,682	19,357
Other assets	190,862	190,981	195,385
Goodwill and tradename, net of amortization	181,443	181,524	182,886
TOTAL ASSETS	\$ 6,646,702	\$ 6,599,934	\$ 6,487,715
LIABILITIES			
Current liabilities:			
Obligation under capital lease due within one year	\$ 2,048	\$ 2,008	\$ 1,891
Accounts payable	1,678,302	1,516,754	1,561,987
Accrued expenses and other liabilities	1,114,921	1,213,987	916,508
Federal, foreign and state income taxes payable	27,471	28,244	32,764
Total current liabilities	2,822,742	2,760,993	2,513,150
Other long-term liabilities	754,552	811,333	724,625
Non-current deferred income taxes, net	78,919	42,903	8,054
Obligation under capital lease, less portion due within one year	19,847	20,374	21,895
Long-term debt, exclusive of current installments	832,595	833,086	799,984

Commitments and contingencies

SHAREHOLDERS' EQUITY

Common stock, authorized 1,200,000,000 shares, par value \$1,
issued and outstanding 424,701,061; 427,949,533 and

454,870,400, respectively	424,701	427,950	454,870
Additional paid-in capital			32,607
Accumulated other comprehensive (loss)	(30,999)	(28,685)	(30,278)
Retained earnings	1,744,345	1,731,980	1,962,808
Total shareholders' equity	2,138,047	2,131,245	2,420,007
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,646,702	\$ 6,599,934	\$ 6,487,715

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

Table of Contents

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

	Thirteen Weeks Ended April 26, 2008	April 28, 2007
Cash flows from operating activities:		
Net income	\$ 193,849	\$ 162,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99,676	90,526
Property disposals	2,250	2,647
Deferred income tax provision (benefit)	32,056	(9,443)
Amortization of stock compensation expense	12,161	14,395
Excess tax benefits from stock compensation expense	(9,506)	(2,575)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(29,578)	(38,711)
(Increase) in merchandise inventories	(163,558)	(229,458)
(Increase) decrease in prepaid expenses and other current assets	27,886	(86,174)
Increase in accounts payable	162,355	178,472
(Decrease) in accrued expenses and other liabilities	(69,507)	(68,213)
Other	5,375	3,337
Net cash provided by operating activities	263,459	16,911
Cash flows from investing activities:		
Property additions	(110,762)	(95,142)
Proceeds from repayments on note receivable	197	183
Net cash (used in) investing activities	(110,565)	(94,959)
Cash flows from financing activities:		
Payments on capital lease obligation	(487)	(450)
Cash payments for repurchase of common stock	(227,383)	
Proceeds from sale and issuance of common stock	71,681	18,968
Excess tax benefits from stock compensation expense	9,506	2,575
Cash dividends paid	(38,470)	(31,769)
Net cash (used in) financing activities	(185,153)	(10,676)
Effect of exchange rates on cash	(2,238)	13,265
Net (decrease) in cash and cash equivalents	(34,497)	(75,459)

Cash and cash equivalents at beginning of year	732,612	856,669
Cash and cash equivalents at end of period	\$ 698,115	\$ 781,210

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

4

Table of Contents

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

	Common Stock Par Value		Additional Paid-In	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	\$1	Capital			
Balance, January 26, 2008	427,950	\$ 427,950	\$	\$ (28,685)	\$ 1,731,980	\$ 2,131,245
Comprehensive income:						
Net income					193,849	193,849
(Loss) due to foreign currency translation adjustments				(342)		(342)
(Loss) on net investment hedge contracts				(1,376)		(1,376)
(Loss) on cash flow hedge contract				(256)		(256)
Recognition of prior service cost				(406)		(406)
Amount of OCI reclassified to net income				66		66
Total comprehensive income						191,535
Cash dividends declared on common stock					(46,715)	(46,715)
Restricted stock awards granted	107	107	(107)			
Amortization of stock compensation expense			12,161			12,161
Issuance of common stock under stock incentive plan and related tax effect	3,750	3,750	74,440			78,190
Common stock repurchased	(7,106)	(7,106)	(85,508)		(134,769)	(227,383)
Stock options repurchased by TJX			(986)			(986)
Balance, April 26, 2008	424,701	\$ 424,701	\$	\$ (30,999)	\$ 1,744,345	\$ 2,138,047

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

Table of Contents

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 26, 2008.
3. TJX suffered an unauthorized intrusion or intrusions (collectively, the "Computer Intrusion") into portions of its computer system, which was discovered during the fourth quarter of fiscal 2007 and in which TJX believes customer data were stolen.

TJX faces potential liabilities and costs as a result of claims, litigation and investigations with respect to the Computer Intrusion. TJX was not able to reasonably estimate the losses it would incur as a result of the Computer Intrusion until the second quarter of fiscal 2008. Prior to establishing a reserve for the estimated losses, TJX expensed costs as incurred. During the three months ended April 28, 2007, TJX incurred pre-tax costs related to the Computer Intrusion of \$20.0 million, which reduced last year's first quarter net income by \$12 million, or \$0.03 per share.

In the last nine months of fiscal 2008, TJX expensed an additional \$177.0 million of costs relating to the Computer Intrusion. This included costs incurred during the second quarter of fiscal 2008 of \$17.8 million and a reserve of \$159.2 million for potential losses related to the Computer Intrusion. As of April 26, 2008, the reserve balance was \$107.9 million, reflecting amounts paid for settlements (primarily the Visa settlement), legal and other fees and expenses. The reserve reflects TJX's current estimation of remaining probable losses in accordance with generally accepted accounting principles with respect to the Computer Intrusion and includes the current estimation of total potential cash liabilities from pending litigation, proceedings, investigations and other claims, as well as legal and other costs and expenses arising from the Computer Intrusion. In addition, TJX expects to record non-cash costs with respect to the customer class actions settlement, when incurred, which are not expected to be material to the financial statements. 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 and for other changes in the estimates.

During the first quarter of fiscal 2009, TJX entered into a settlement agreement with MasterCard International, Inc. to resolve potential claims and other disputes among TJX, MasterCard and worldwide MasterCard issuers which made claims with respect to the Computer Intrusion. Subsequent to the end of the first quarter, financial institutions representing 99.5% of the MasterCard accounts worldwide with respect to which claims relative to the Computer Intrusion were made with MasterCard accepted the alternative recovery offers made to them under the agreement, and the agreement was consummated. The cost of this settlement of \$24 million was reflected in the charge TJX recorded when the reserve was established and the payment of this settlement will reduce the reserve balance in the second quarter of fiscal 2009.

4.

Total stock-based compensation expense was \$12.2 million for the quarter ended April 26, 2008 and \$14.4 million for the quarter ended April 28, 2007. These amounts include stock option expense as well as restricted stock amortization. There were options to purchase 3.8 million shares of common stock exercised during the quarter ended April 26, 2008. There were options to purchase 31.1 million shares of common stock outstanding as of April 26, 2008.

Table of Contents

5. TJX's cash payments for interest and income taxes are as follows:

In thousands	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
Cash paid for:		
Interest on debt	\$ 3,661	\$ 4,103
Income taxes	\$66,420	\$55,494

6. 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 as well as leases of former TJX businesses. The balance in the reserve and the activity for the thirteen weeks ended April 26, 2008 and April 28, 2007 are presented below.

In thousands	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
Balance at beginning of fiscal year:	\$ 46,076	\$ 57,677
Additions to the reserve charged to net income:		
Interest accretion	455	455
Cash charges against the reserve:		
Lease related obligations	(2,210)	(3,494)
Termination benefits and all other		(1,549)
Balance at end of period:	\$ 44,321	\$ 53,089

TJX may also be contingently liable on up to 15 leases of BJ's Wholesale Club, a former TJX business, for which BJ's Wholesale Club is primarily liable. The reserve for discontinued operations does not reflect these leases because we believe that the likelihood of any future liability to TJX with respect to these leases is remote due to the current financial condition of BJ's Wholesale Club.

7. TJX's comprehensive income for the thirteen weeks ended April 26, 2008 and April 28, 2007 is presented below:

In thousands	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
Net income	\$ 193,849	\$ 162,108
Other comprehensive income (loss):		
(Loss) gain due to foreign currency translation adjustments	(342)	12,238
(Loss) on net investment hedge contracts	(1,376)	(8,274)
(Loss) gain on cash flow hedge contracts	(256)	104
Recognition of prior service cost	(406)	
Amount reclassified from other comprehensive income to net income	66	(357)

Comprehensive income	\$ 191,535	\$ 165,819
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7

Table of Contents

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

In thousands, except per share data	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
<i>Basic earnings per share</i>		
Net income	\$ 193,849	\$ 162,108
Weighted average common shares outstanding for basic EPS	425,620	453,565
Basic earnings per share	\$ 0.46	\$ 0.36
<i>Diluted earnings per share</i>		
Net income	\$ 193,849	\$ 162,108
Add back: Interest expense on zero coupon convertible subordinated notes, net of income taxes	1,195	1,171
Net income used for diluted EPS calculation	\$ 195,044	\$ 163,279
Shares for basic and diluted earnings per share calculations:		
Weighted average common shares outstanding for basic EPS	425,620	453,565
Assumed conversion / exercise of:		
Zero coupon convertible subordinated notes	16,905	16,905
Stock options and awards	7,876	8,556
Weighted average common shares outstanding for diluted EPS	450,401	479,026
Diluted earnings per share	\$ 0.43	\$ 0.34

Weighted average common shares for diluted earnings per share excludes 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. No such options were excluded for the thirteen weeks ended April 26, 2008, and options to purchase 64,000 shares were excluded for the thirteen weeks ended April 28, 2007.

TJX's \$517.5 million zero coupon convertible subordinated notes (which are due in February 2021) are convertible into 16.9 million shares of TJX common stock under certain conditions, including if the closing sale price of TJX common stock reaches specified trigger prices. The holders of these convertible notes may convert them into common stock during the second quarter of fiscal 2009, because TJX's stock price closed above the trigger price for conversion on at least 20 business days during the period from March 13, 2008 through April 25, 2008 (last 30 business days of the quarter). The conversion test will have to be met again for a similar period during the second quarter for the notes to be convertible during the third quarter. These notes have not previously met the criteria to be convertible.

9. During the quarter ended April 26, 2008, TJX repurchased and retired 7.0 million shares of its common stock at a cost of \$225.0 million. TJX reflects stock repurchases in its financial statements on a settlement basis. TJX had cash expenditures under its repurchase programs of \$227.4 million for the quarter ended April 26, 2008, funded by

cash generated from operations. There were no stock repurchases that settled in the quarter ended April 28, 2007. Under the \$1 billion stock repurchase program authorized in January, 2007 TJX repurchased 24.8 million shares of common stock at a cost of \$739.1 million as of April 26, 2008. All shares repurchased under our stock repurchase programs have been retired. In February 2008, the Board of Directors approved a new \$1 billion stock repurchase program which was in addition to the \$260.9 million remaining at April 26, 2008 under the existing \$1 billion plan authorized in January 2007.

Table of Contents

10. TJX evaluates the performance of its segments based on segment profit or loss, which TJX defines as pre-tax income before general corporate expense and interest. Segment profit or loss as defined by TJX may not be comparable to similarly titled measures used by other entities. In addition, this measure of performance should not be considered an alternative to net income or cash flows from operating activities as an indicator of TJX's performance or as a measure of liquidity. The Provision for Computer Intrusion related costs is not allocated to the segments. These charges are not directly attributable to any of the segments and are not considered when assessing performance of the segment or allocating resources to the segment. Presented below is financial information on TJX's business segments:

In thousands	Thirteen Weeks Ended	
	April 26, 2008	April 28, 2007
Net sales:		
Marmaxx	\$ 2,802,290	\$ 2,729,495
Winners and HomeSense	488,384	394,646
T.K. Maxx	495,194	442,619
HomeGoods	363,429	333,156
A.J. Wright	154,258	144,157
Bob's Stores	60,570	64,008
	\$ 4,364,125	\$ 4,108,081
Segment profit (loss):		
Marmaxx	\$ 278,499	\$ 272,606
Winners and HomeSense	40,897	26,801
T.K. Maxx	1,463	4,616
HomeGoods	8,894	10,209
A.J. Wright	(885)	(3,033)
Bob's Stores	(6,942)	(6,569)
	321,926	304,630
General corporate expenses	30,642	23,041
Provision for Computer Intrusion related costs		20,004
Interest expense (income), net	1,674	(2,076)
Income before provision for income taxes	\$ 289,610	\$ 263,661