

KOHL S CORPORATION
Form 10-Q
September 01, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 29, 2006

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: August 31, 2006
Common Stock, Par Value \$0.01 per Share, 327,396,933 shares outstanding.

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KOHL'S CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	July 29, 2006 (Unaudited)	January 28, 2006 (Audited)	July 30, 2005 (Unaudited)
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 162,807	\$ 126,839	\$ 110,319
Short-term investments	519,276	160,077	140,014
Accounts receivable, net		1,652,065	1,296,406
Merchandise inventories	2,408,149	2,237,568	2,197,331
Deferred income taxes	10,591	23,677	7,013
Other	156,947	65,826	82,319
Total current assets	3,257,770	4,266,052	3,833,402
Property and equipment, net	5,104,521	4,616,303	4,360,637
Favorable lease rights, net	226,108	212,380	218,577
Goodwill	9,338	9,338	9,338
Other assets	51,504	48,965	42,082
Total assets	\$ 8,649,241	\$ 9,153,038	\$ 8,464,036
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities:			
Accounts payable	\$ 1,012,174	\$ 829,971	\$ 966,572
Accrued liabilities	731,583	641,635	487,100
Income taxes payable	104,229	166,908	82,102
Current portion of long-term debt and capital leases	8,243	107,941	105,539
Total current liabilities	1,856,229	1,746,455	1,641,313
Long-term debt and capital leases	1,041,314	1,046,104	1,036,172
Deferred income taxes	213,994	217,801	224,255
Other long-term liabilities	219,199	185,340	167,494
Shareholders' equity:			
Common stock	3,466	3,450	3,443
Paid-in capital	1,645,393	1,583,035	1,550,546
Treasury stock	(1,100,809)		
Retained earnings	4,770,455	4,370,853	3,840,813
Total shareholders' equity	5,318,505	5,957,338	5,394,802
Total liabilities and shareholders' equity	\$ 8,649,241	\$ 9,153,038	\$ 8,464,036

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**KOHL S CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(In Thousands, Except per Share Data)**

	Three Months (13 Weeks) Ended		Six Months (26 Weeks) Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Net sales	\$ 3,291,431	\$ 2,888,078	\$ 6,476,155	\$ 5,630,916
Cost of merchandise sold	2,053,385	1,819,493	4,089,917	3,579,131
Gross margin	1,238,046	1,068,585	2,386,238	2,051,785
Operating expenses:				
Selling, general, and administrative	758,460	672,470	1,520,169	1,345,385
Depreciation and amortization	96,105	82,623	189,377	162,629
Preopening expenses	8,062	4,092	19,059	16,671
Operating income	375,419	309,400	657,633	527,100
Interest expense, net	6,011	16,303	20,206	33,465
Income before income taxes	369,408	293,097	637,427	493,635
Provision for income taxes	137,050	105,911	237,825	181,715
Net income	\$ 232,358	\$ 187,186	\$ 399,602	\$ 311,920
Net income per share:				
Basic				
Earnings per share	\$ 0.70	\$ 0.54	\$ 1.18	\$ 0.91
Average number of shares	333,394	344,066	339,270	343,796
Diluted				
Earnings per share	\$ 0.69	\$ 0.54	\$ 1.17	\$ 0.90
Average number of shares	335,694	346,772	341,586	346,586

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**KOHL S CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY****(Unaudited)****(In Thousands)**

	Common Stock		Paid-In	Treasury	Retained	
	Shares	Amount	Capital	Stock	Earnings	Total
Balance at January 28, 2006	345,088	\$ 3,450	\$ 1,583,035	\$	\$ 4,370,853	\$ 5,957,338
Exercise of stock options	1,515	16	27,390			27,406
Excess income tax benefit from exercise of stock options			13,548			13,548
Share-based compensation expense			21,420			21,420
Treasury stock purchases				(1,100,809)		(1,100,809)
Net income					399,602	399,602
Balance at July 29, 2006	346,603	\$ 3,466	\$ 1,645,393	\$ (1,100,809)	\$ 4,770,455	\$ 5,318,505

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months (26 Weeks) Ended	
	July 29, 2006	July 30, 2005
Operating activities		
Net income	\$ 399,602	\$ 311,920
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	189,645	162,995
Amortization of debt discount	108	108
Share-based compensation	21,086	21,040
Excess tax benefits from share-based compensation	(13,548)	(9,606)
Deferred income taxes	9,279	41,911
Changes in operating assets and liabilities:		
Accounts receivable, net	1,652,065	93,226
Merchandise inventories	(170,581)	(250,354)
Other current and long-term assets	(75,906)	(35,025)
Accounts payable	182,203	261,917
Accrued and other long-term liabilities	123,807	(72,684)
Income taxes	(49,131)	(85,474)
Net cash provided by operating activities	2,268,629	439,974
Investing activities		
Acquisition of property and equipment	(706,489)	(416,777)
Net purchases of short-term investments	(359,199)	(51,247)
Other	(2,522)	(3,770)
Net cash used in investing activities	(1,068,210)	(471,794)
Financing activities		
Excess tax benefits from share-based compensation	13,548	9,606
Payments of other long-term debt	(104,596)	(2,435)
Treasury stock purchases	(1,100,809)	
Proceeds from stock option exercises	27,406	18,251
Net cash (used in) provided by financing activities	(1,164,451)	25,422
Net increase (decrease) in cash and cash equivalents	35,968	(6,398)
Cash and cash equivalents at beginning of period	126,839	116,717
Cash and cash equivalents at end of period	\$ 162,807	\$ 110,319
Supplemental information:		
Interest paid	\$ 35,508	\$ 34,435
Income taxes paid	\$ 278,349	\$ 225,674

See accompanying Notes to Condensed Consolidated Financial Statements

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KOHL S CORPORATION

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.

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

2. New Accounting Pronouncements

In October 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period (FSP 13-1). FSP 13-1 requires that rental costs associated with ground or building operating leases that are incurred during the construction period be recognized as rental expense. FSP 13-1 was adopted by the Company January 29, 2006 on a prospective basis. The Company has historically capitalized rental costs incurred during a construction period and the adoption of this guidance is expected to negatively impact net income per diluted share by approximately \$0.03 in fiscal 2006.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Under FIN 48, a tax position is not recognized until it is more likely than not to be sustained upon examination. Measurement of the tax position is based on the largest