

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 1, 2003

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

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 an accelerated filer (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: December 1, 2003 Common Stock, Par Value \$0.01 per Share, 340,010,941 shares outstanding.

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KOHL'S CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	November 1, 2003	February 1, 2003	November 2, 2002
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 108,532	\$ 90,085	\$ 92,501
Short-term investments	—	475,991	—
Accounts receivable, net	1,048,711	990,810	975,512
Merchandise inventories	2,424,802	1,626,996	2,078,374
Deferred income taxes	39,307	56,693	46,513
Other	85,188	43,519	48,868
Total current assets	3,706,540	3,284,094	3,241,768
Property and equipment, net	3,137,052	2,739,290	2,568,519
Favorable lease rights, net	183,809	180,420	178,990
Goodwill	9,338	9,338	9,338
Other assets	103,480	102,361	94,397
Total assets	\$7,140,219	\$6,315,503	\$6,093,012
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,118,091	\$ 694,748	\$ 865,431
Accrued liabilities	316,019	315,630	267,819
Income taxes payable	63,016	142,150	46,533
Short-term debt	313,000	—	358,500
Current portion of long-term debt and capital leases	12,611	355,464	11,116
Total current liabilities	1,822,737	1,507,992	1,549,399
Long-term debt	996,412	1,006,353	1,049,498
Capital leases	83,225	52,431	53,942
Deferred income taxes	228,418	171,951	151,674
Other long-term liabilities	71,161	64,859	61,523
Total liabilities	3,201,953	2,803,586	2,866,036
Shareholders' equity:			
Common stock	3,399	3,373	3,371
Paid-in capital	1,164,272	1,082,277	1,076,289
Retained earnings	2,770,595	2,426,267	2,147,316
Total shareholders' equity	3,938,266	3,511,917	3,226,976
Total liabilities and shareholders' equity	\$7,140,219	\$6,315,503	\$6,093,012

See accompanying Notes to Condensed Consolidated Financial Statements

KOHL'S CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In Thousands, Except per Share Data)

	Three Months (13 Weeks) Ended		Nine Months (39 Weeks) Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Net sales	\$ 2,393,950	\$ 2,143,390	\$ 6,720,153	\$ 5,935,808
Cost of merchandise sold	1,578,608	1,399,097	4,426,743	3,847,691
Gross margin	815,342	744,293	2,293,410	2,088,117
Operating expenses:				
Selling, general, and administrative	523,962	455,217	1,471,910	1,290,742
Depreciation and amortization	59,916	49,065	172,342	140,460
Preopening expenses	20,901	11,737	38,875	31,615
Operating income	210,563	228,274	610,283	625,300
Interest expense, net	15,755	13,769	56,729	39,397
Income before income taxes	194,808	214,505	553,554	585,903
Provision for income taxes	73,638	81,084	209,226	221,473
Net income	\$ 121,170	\$ 133,421	\$ 344,328	\$ 364,430
Net income per share:				
Basic	\$ 0.36	\$ 0.40	\$ 1.02	\$ 1.08
Diluted	\$ 0.35	\$ 0.39	\$ 1.00	\$ 1.06

See accompanying Notes to Condensed Consolidated Financial Statements

KOHL'S CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In Thousands, Except Share Amounts)

	Common Stock		Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance at February 1, 2003	337,322,102	\$3,373	\$1,082,277	\$2,426,267	\$3,511,917
Exercise of stock options	2,627,334	26	41,635	—	41,661
Income tax benefit from exercise of stock options	—	—	40,360	—	40,360
Net income	—	—	—	344,328	344,328
Balance at November 1, 2003	339,949,436	\$3,399	\$1,164,272	\$2,770,595	\$3,938,266

See accompanying Notes to Condensed Consolidated Financial Statements

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KOHL'S CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Nine Months (39 Weeks) Ended	
	November 1, 2003	November 2, 2002
Operating activities		
Net income	\$ 344,328	\$ 364,430
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	179,175	141,144
Amortization of debt discount	3,521	7,000
Deferred income taxes	73,853	43,225
Changes in operating assets and liabilities:		
Accounts receivable	(57,901)	(139,566)
Merchandise inventories	(797,806)	(880,067)
Other current assets	(41,669)	(7,468)
Accounts payable	423,343	386,561
Accrued and other long-term liabilities	6,691	22,823
Income taxes	(38,774)	(35,402)
Net cash provided by (used in) operating activities	94,761	(97,320)
Investing activities		
Acquisition of property and equipment and favorable lease rights, net	(530,197)	(494,810)
Net sales of short-term investments	475,991	229,377
Other	(18,032)	(21,982)
Net cash used in investing activities	(72,238)	(287,415)
Financing activities		
Proceeds from short-term debt	225,000	225,000
Net borrowings under revolving credit facility	88,000	133,500
Payments of convertible and other long-term debt, net	(358,552)	(15,026)
Payments of financing fees on debt	(185)	(950)
Proceeds from stock option exercises	41,661	27,990
Net cash (used in) provided by financing activities	(4,076)	370,514
Net increase (decrease) in cash and cash equivalents	18,447	(14,221)
Cash and cash equivalents at beginning of period	90,085	106,722
Cash and cash equivalents at end of period	\$ 108,532	\$ 92,501
Supplemental Information:		
Interest paid, net of capitalized interest	\$ 51,553	\$ 35,362
Income taxes paid	\$ 174,205	\$ 213,330

See accompanying Notes to Condensed Consolidated Financial Statements

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.

2. Reclassifications

Certain reclassifications have been made to the prior periods' financial statements to conform to the fiscal 2003 presentation.

3. New Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires expanded and more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

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The Company has not adopted a method under SFAS No. 148 to expense stock options but rather continues to apply the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for those plans. No stock-based employee compensation expense is reflected in net income for the first, second or third quarters of fiscal 2003 or 2002 as all options granted under those plans had an exercise price equal to the market value of the underlying common stock at the date of grant. The following table illustrates the pro forma effect on net income and earnings per share assuming the fair value recognition provisions of SFAS No. 123 would have been adopted for options granted since fiscal 1995.

	Three Months Ended		Nine Months Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
	(In Thousands, Except per Share Data)			
Net income as reported	\$ 121,170	\$ 133,421	\$ 344,328	\$ 364,430
Less total stock-based employee compensation expense determined under fair value method for all awards, net of tax	7,990	8,973	25,926	27,370
Pro forma net income	113,180	124,448	318,402	337,060
Impact of interest on convertible debt, net of tax	—	1,435	—	—
Pro forma diluted net income	\$ 113,180	\$ 125,883	\$ 318,402	\$ 337,060
Net income per share:				
Basic-as reported	\$ 0.36	\$ 0.40	\$ 1.02	\$ 1.08
Basic-pro forma	\$ 0.33	\$ 0.37	\$ 0.94	\$ 1.01
Diluted-as reported	\$ 0.35	\$ 0.39	\$ 1.00	\$ 1.06
Diluted-pro forma	\$ 0.33	\$ 0.36	\$ 0.93	\$ 0.99

The Black-Scholes option pricing model was used to estimate the weighted-average fair values of options granted. For the three months ended November 1, 2003 and November 2, 2002, the weighted-average fair values of options granted were \$23.69 and \$25.23, respectively. The fair values of options granted for the nine months ended November 1, 2003 and November 2, 2002, were \$20.22 and \$26.89, respectively. The model uses the following assumptions for all periods: risk free interest rate of 3.5%-4.0%; dividend yield of 0%; volatility factors of the Company's common stock of 32%; and a 6 – 8 year expected life of the option.

The SFAS No. 123 expense reflected above only includes options granted since fiscal 1995 and, therefore, may not be representative of future expense.

The Emerging Issues Task Force released Issue No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor," in November 2002, applicable to fiscal years beginning after December 15, 2002. The Company records vendor allowances and discounts in the income statement when the purpose for which those monies were designated is fulfilled. As such, the release did not have any effect on its results of operations or financial position.

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4. Merchandise Inventories

The Company uses the last-in, first-out (LIFO) method of accounting for merchandise inventories. The Company did not record LIFO expense for the three and nine months ended November 1, 2003. The Company recorded LIFO expense of \$2.6 million for the three months ended November 2, 2002 and \$7.1 million for the nine months ended November 2, 2002.

Inventories would have been \$5.0 million higher at November 1, 2003, and February 1, 2003, and \$14.2 million higher at November 2, 2002, if they had been valued using the first-in, first-out (FIFO) method.

5. Debt

On June 13, 2003, the holders of approximately 99.5% of the Company's outstanding Liquid Yield Option Subordinated Notes (LYONs) due 2020 exercised their options to redeem their notes, in accordance with the terms of the LYONs. The remaining LYONs were called by the Company on August 1, 2003. The Company elected to redeem these notes for cash. The total amount payable by the Company for the LYONs redeemed was \$346.6 million, which was paid with available funds. In conjunction with the redemption, the Company wrote off the remaining deferred financing costs related to the LYONs during the second quarter of 2003. The write-off of \$6.1 million is included in interest expense for the nine months ended November 1, 2003.

6. Contingencies

The Company is involved in various legal matters arising in the normal course of business. In the opinion of management, the outcome of such proceedings and litigation will not have a material adverse impact on the Company's financial position or results of operations.

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7. Net Income Per Share

The calculations of the numerator and denominator for basic and diluted net income per share are summarized as follows:

	Three Months Ended		Nine Months Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
	(In Thousands)			
Numerator for dilutive earnings per share-net income	\$ 121,170	\$ 133,421	\$ 344,328	\$ 364,430
Interest expense related to convertible notes, net of tax	— (c)	1,435	— (b)	— (b)
Numerator for dilutive earnings per share	\$ 121,170	\$ 134,856	\$ 344,328	\$ 364,430
Denominator for basic earnings per share – weighted average shares	339,751	336,923	338,920	336,509
Impact of dilutive employee stock options ^(a)	4,696	5,897	4,486	6,303
Shares issued upon assumed conversion of convertible notes	— (c)	3,946	— (b)	— (b)
Denominator for dilutive earnings per share	344,447	346,766	343,406	342,812

- (a) For the three months ended November 1, 2003 and November 2, 2002, 4,387,407 and 4,349,578 options, respectively, were not included in the earnings per share calculation as the impact of such options was antidilutive. For the nine months ended November 1, 2003 and November 2, 2002, 4,775,255 and 358,850 options, respectively, were not included in the earnings per share calculation as the impact of such options was antidilutive.
- (b) The convertible debt securities are not included in the computation of diluted earnings per share for the nine months ended November 1, 2003 and November 2, 2002 as their impact is antidilutive.
- (c) The convertible debt securities are no longer included in the above calculation as they were redeemed prior to the beginning of the third quarter.

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

Results of Operations

Expansion Update

At November 1, 2003, the Company operated 542 stores compared with 457 stores at the same time last year. Total square feet of selling space increased 20.0% from 34.5 million at November 2, 2002 to 41.4 million at November 1, 2003. The Company successfully opened 50 new stores during the quarter. The Company entered the Phoenix, AZ market with ten stores; the Little Rock, AR market with three stores; the Las Vegas, NV market with three stores; the Birmingham, AL market with two stores; the Tucson, AZ market with two stores; and the Flagstaff, AZ market with one store. In addition, the Company added 11 stores in the Midwest region, five stores in the Mid-Atlantic region, five stores in the Northeast region, four stores in the Southeast region, two stores in the South Central region, and two stores in the Southwest region. The Company opened a total of 85 new stores in fiscal 2003.

The Company plans to open approximately 95 new stores in fiscal 2004, including 47 stores in the first quarter. The Company will open approximately 21 stores in March and 26 stores in April. New market entries will include seven stores in Sacramento, CA; five stores in San Diego, CA; three stores in Fresno, CA; three stores in Memphis, TN; two stores in Bakersfield, CA; two stores in Syracuse, NY and two stores in Burlington, VT. The remaining new stores will be opened in existing markets, including seven stores in the West region, four stores in the Northeast region, four stores in the Midwest region, four stores in the Southeast region, two stores in the Southeast region and two stores in the Mid-Atlantic region. The Company expects to open the balance of the 95 stores in the third quarter of fiscal 2004.

Net Sales

Net sales increased \$250.6 million or 11.7% to \$2,394.0 million for the three months ended November 1, 2003, from \$2,143.4 million for the three months ended November 2, 2002. Net sales increased \$277.4 million due to the opening of 85 new stores in 2003 and the inclusion of 37 new stores opened during the third quarter of fiscal 2002. The offsetting \$26.8 million decrease is attributable to a decline in comparable store sales of 1.3%.

Net sales increased \$784.4 million or 13.2% to \$6,720.2 million for the nine months ended November 1, 2003, from \$5,935.8 million for the nine months ended November 2, 2002. Net sales increased \$840.3 million due to the opening of 85 new stores in 2003 and the inclusion of 75 new stores opened in 2002. The offsetting \$55.9 million decrease is attributable to a decline in comparable store sales of 1.0%.

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Gross Margin

Gross margin increased \$71.0 million to \$815.3 million for the three months ended November 1, 2003, from \$744.3 million for the three months ended November 2, 2002. Gross margin increased \$84.5 million due to the opening of 85 new stores in fiscal 2003 and to the inclusion of 37 new stores opened in the third quarter of fiscal 2002. Comparable store gross margin decreased \$13.5 million. The Company's gross margin as a percent of net sales was 34.1% for the three months ended November 1, 2003, and 34.7% for the three months ended November 2, 2002. The decrease in gross margin rate for the three months ended November 1, 2003 was primarily due to higher markdowns taken on women's apparel in order to be appropriately positioned for the holiday season.

Gross margin increased \$205.3 million to \$2,293.4 million for the nine months ended November 1, 2003, from \$2,088.1 million for the nine months ended November 2, 2002. Gross margin increased \$257.3 million due to the opening of 85 new stores in fiscal 2003 and to the inclusion of a full year of operating results for the 75 stores opened in fiscal 2002. Comparable store gross margin decreased \$52.0 million. The Company's gross margin as a percent of net sales was 34.1% for the nine months ended November 1, 2003, and 35.2% for the nine months ended November 2, 2002. The decrease in the gross margin rate for the nine months ended November 1, 2003, was due to aggressively marking down and selling seasonal merchandise to ensure the Company was properly set for the back to school and holiday seasons.

Operating Expenses

Selling, general and administrative (S,G&A) expenses include all direct store expenses such as payroll, occupancy and store supplies and all costs associated with the Company's distribution centers, advertising and corporate functions, but exclude depreciation and amortization and preopening expenses.

S,G&A expenses increased \$68.8 million or 15.1% to \$524.0 million for the three months ended November 1, 2003, from \$455.2 million for the three months ended November 2, 2002. The S,G&A expenses increased to 21.9% of net sales for the three months ended November 1, 2003, from 21.2% of net sales for the three months ended November 2, 2002, an increase of 65 basis points. Store operating expenses as a percent of sales increased by 112 basis points. Expenses as a percent of sales related to distribution center costs declined by 16 basis points, credit costs declined by 11 basis points and other corporate expenses declined by 20 basis points.

S,G&A expenses increased \$181.2 million or 14.0% to \$1,471.9 million for the nine months ended November 1, 2003, from \$1,290.7 million for the nine months ended November 2, 2002. The S,G&A expenses increased to 21.9% of net sales for the nine months ended November 1, 2003, from 21.7% of net sales for the nine months ended November 2, 2002, an increase of 16 basis points. Store operating expenses as a percent of sales increased by 76 basis points

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and advertising costs increased by 11 basis points. Expenses as a percent of sales related to distribution center costs declined by 23 basis points, credit costs declined by 19 basis points, and other corporate expenses declined by 29 basis points, primarily due to a reduction in the incentive compensation plan accrual. As earnings did not increase over last year for the nine months ended November 1, 2003, no bonus was accrued for under the plan.

Depreciation and amortization for the three months ended November 1, 2003, was \$59.9 million compared to \$49.1 million for the three months ended November 2, 2002. Depreciation and amortization for the nine months ended November 1, 2003, was \$172.3 million compared to \$140.5 million for the nine months ended November 2, 2002. The increase is primarily attributable to the addition of new stores and the remodeling and expansion of existing stores.

Preopening expenses are expensed as incurred and relate to the costs associated with new store openings including advertising, hiring and training costs for new employees, and processing and transporting initial merchandise. Preopening expense for the three months ended November 1, 2003, was \$20.9 million compared to \$11.7 million for the three months ended November 2, 2002. Preopening expense for the nine months ended November 1, 2003, was \$38.9 million compared to \$31.6 million for the nine months ended November 2, 2002. The increase is primarily due to an increase in the number of new stores opened during the year and the timing of related expenses.

Operating Income

As a result of the above factors, operating income for the three months ended November 1, 2003, was \$210.6 million or 8.8% of net sales compared to \$228.3 million or 10.7% of net sales for the three months ended November 2, 2002. Operating income for the nine months ended November 1, 2003, was \$610.3 million or 9.1% of net sales compared to \$625.3 million or 10.5% of net sales for the nine months ended November 2, 2002.

Net Interest Expense

Net interest expense for the three months ended November 1, 2003, was \$15.8 million compared to \$13.8 million for the three months ended November 2, 2002. The increase is primarily attributable to the \$300 million aggregate principal amount of non-callable 6% unsecured senior debentures issued in November 2002, partially offset by the redemption of the 2.75% LYONs during the second quarter of 2003.

Net interest expense for the nine months ended November 1, 2003, was \$56.7 million compared to \$39.4 million for the nine months ended November 2, 2002. Of the increase, \$6.1 million is attributed to the write-off of deferred financing fees related to the redemption of the LYONs in the second quarter of 2003. The remaining increase is primarily attributable to the \$300 million aggregate principal amount of non-callable 6% unsecured senior debentures issued in November 2002.

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partially offset by the redemption of the 2.75% LYONs during the second quarter of 2003.

Net Income

Net income for the three months ended November 1, 2003, was \$121.2 million compared to \$133.4 million for the three months ended November 2, 2002. Earnings were \$0.35 per diluted share for the three months ended November 1, 2003, compared to \$0.39 per diluted share for the three months ended November 2, 2002. Net income for the nine months ended November 1, 2003, was \$344.3 million compared to \$364.4 million for the nine months ended November 2, 2002. Earnings were \$1.00 per diluted share for the nine months ended November 1, 2003, compared to \$1.06 per diluted share for the nine months ended November 2, 2002.

Seasonality & Inflation

The Company's business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the last half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% and 30% of sales typically occur during the back-to-school and holiday seasons, respectively. Because of 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 revenues and costs associated with the opening of new stores.

The Company does not believe that inflation has had a material effect on its results during the periods presented. However, there can be no assurance that the Company's business will not be affected by such factors in the future.

Financial Condition and Liquidity

Cash Flows

The Company's primary ongoing cash requirements are for seasonal and new store inventory purchases, the growth in proprietary credit card accounts receivable and capital expenditures in connection with expansion and remodeling programs. The Company's primary sources of funds for its business activities are cash flow from operations and short-term trade credit. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories. The Company's working capital and inventory levels typically build throughout the fall, peaking during the holiday selling season. Seasonal cash needs are met by financing secured by its proprietary accounts receivable and lines of credit available under its revolving credit facilities. In addition, the Company periodically accesses the capital markets, as needed, to finance its growth. The Company believes it

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has sufficient lines of credit and expects to generate adequate cash flows from operating activities to sustain current levels of operations.

Proprietary credit card sales increased to \$2,432.7 million or 36.2% of net sales for the nine months ended November 1, 2003, from \$2,064.8 million or 34.8% of net sales for the nine months ended November 2, 2002. The following table summarizes information related to the Company's proprietary credit card receivables:

	November 1, 2003	February 1, 2003	November 2, 2002
		(In Thousands)	
Gross accounts receivable	\$ 1,070,784	\$ 1,011,690	\$ 996,107
Allowance for doubtful accounts ^(a)	\$ 22,073	\$ 20,880	\$ 20,595
Allowance as a % of gross accounts receivable	2.1%	2.1%	2.1%
Accounts receivable turnover (rolling 4 quarters) ^(b)	3.5x	3.5x	3.4x

^(a) Delinquent accounts are written off automatically after the passage of 180 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. Bad debts written off, net of recoveries and other allowances, for the nine months ended November 1, 2003 were 3.3% of average gross accounts receivable compared to 3.5% of average gross accounts receivable for the nine months ended November 2, 2002.

^(b) Turnover is computed using a rolling four quarters of credit card sales divided by average quarterly gross accounts receivable.

The Company's merchandise inventories increased \$346.4 million over the November 2, 2002, balance which is consistent with total selling square footage growth. Merchandise inventories increased \$797.8 million over the February 1, 2003, balance due to the seasonality of the Company's business and increase in total selling square footage. Accounts payable increased \$252.7 million from November 2, 2002, and increased \$423.3 million from February 1, 2003. Fluctuations in the level of accounts payable are primarily attributable to changes in inventory levels, the timing of inventory receipts and invoice dating arrangements with vendors.

Capital expenditures for the nine months ended November 1, 2003, were \$530.2 million compared to the \$494.8 million for the same period a year ago. The increase in expenditures is primarily attributable to the timing and number of new store openings.

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The Company has entered into future capital lease commitments for land and buildings that total approximately \$13.7 million at November 1, 2003.

The Company also has outstanding letters of credit and stand-by letters of credit that total approximately \$38.8 million, at November 1, 2003. If certain conditions were met under these arrangements, the Company would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, the Company does not expect to make any significant payments. Therefore, they have been excluded from the preceding table.

Critical Accounting Policies and Estimates

Allowance for Doubtful Accounts

The Company evaluates the collectibility of accounts receivable based on a combination of factors, namely aging and historical trends. Delinquent accounts are written off automatically after the passage of 180 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. For all other accounts, the Company recognizes reserves for bad debts based on the length of time the accounts are past due and the anticipated future write-offs based on historical experience.

Retail Inventory Method and Inventory Valuation

The Company values its inventory at the lower of cost or market with cost determined on the last-in, first-out (LIFO) basis using the retail inventory method (RIM). Under RIM, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value inventories. RIM is an averaging method that has been widely used in the retail industry due to its practicality. The use of the retail inventory method will result in inventories being valued at the lower of cost or market as markdowns are currently taken as a reduction of the retail value of inventories.

Based on a review of historical clearance markdowns, current business trends and discontinued merchandise categories, an adjustment to inventory is recorded to reflect additional markdowns which are estimated to be necessary to liquidate existing clearance inventories and reduce inventories to market value. Management believes that the Company's inventory valuation approximates the net realizable value of clearance inventory and results in carrying inventory at the lower of cost or market.

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Vendor Allowances

The Company records vendor allowances and discounts in the income statement when the purpose for which those monies were designated is fulfilled. Allowances provided by vendors generally relate to profitability of inventory recently sold and, accordingly, are reflected as reductions to cost of merchandise sold as negotiated. Vendor allowances received for advertising or fixture programs reduce the Company's expense or expenditure for the related advertising or fixture program.

Reserve Estimates

The Company uses a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability and employee-related health care benefits, a portion of which is paid by its associates. The Company determines the estimates for the liabilities associated with these risks by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from the current assumptions and historical trends. Under its workers' compensation and general liability insurance policies, the Company retains the initial risk of \$500,000 and \$250,000, respectively, per occurrence.

Capital versus Operating Leases

The Company evaluates all lease agreements in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases," to determine whether a lease is operating or capital. The Company reviews the fair market value as well as the useful life of the related assets. Both of these assumptions are subject to estimation.

The senior management of the Company has discussed the development and selection of the above critical accounting estimates with the audit committee of the Company's board of directors.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary exposure to market risk consists of changes in interest rates or borrowings. At November 1, 2003, the Company's fixed rate long-term debt, excluding capital leases, was \$1,006.5 million.

Fixed rate long-term debt is utilized as a primary source of capital. When these debt instruments mature, the Company may refinance such debt at then existing market interest rates, which may be more or less than interest rates on the maturing debt. If interest rates on the existing fixed rate debt outstanding at November 1, 2003, changed by 100 basis points, the Company's annual interest expense would change by \$10.1 million.

During fiscal 2003, average borrowings under the Company's variable rate revolving credit facilities and its short-term financing of its proprietary accounts receivable were \$49.8 million. If interest rates on the average fiscal 2003 variable rate debt changed by 100 basis points, the Company's interest expense would change by \$498,000, assuming comparable borrowing levels.

Item 4. Controls and Procedures

As of November 1, 2003, the Company carried out an evaluation, under the supervision, and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings in a timely manner.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Forward Looking Statements

Items 2 and 3 of this Form 10-Q contains "forward looking statements," subject to protections under federal law. The Company intends words such as "believes", "anticipates", "plans", "may", "will", "should", "expects", and similar expressions to identify forward-looking statements. In addition, statements covering the Company's future sales or financial performance and the Company's plans, objectives, expectations or intentions are forward-looking statements, such as statements regarding the Company's liquidity, planned capital expenditures, future store openings and adequacy of capital resources and reserves. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated by

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the forward looking statements. These risks and uncertainties include but are not limited to those described in Exhibit 99.1 to the Company's annual report on Form 10-K filed with the SEC on March 21, 2003, which is expressly incorporated herein by reference, and such other factors as may periodically be described in the Company's filings with the SEC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- 12.1 Statement regarding calculation of ratio of earnings to fixed charges.
- 31.1 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Periodic Report by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Periodic Report by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

The Company furnished two reports on Form 8-K in the third fiscal quarter:

- (i) on August 14, 2003, the Company furnished a report dated August 14, 2003, under Item 12, providing a press release announcing its fiscal 2003 second quarter financial results; and
- (ii) pursuant to its decision to file reports on Form 8-K following all future announcements of monthly sales results, on October 9, 2003, the Company furnished a report dated October 9, 2003, under Item 9, providing a press release announcing its fiscal September 2003 sales results.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kohl's Corporation
(Registrant)

Date: December 3, 2003

/s/ R. LAWRENCE MONTGOMERY

R. Lawrence Montgomery
Chief Executive Officer and Director

Date: December 3, 2003

/s/ WESLEY S. MCDONALD

Wesley S. McDonald
Chief Financial Officer

Exhibit 12.1

**Kohl's Corporation
Ratio of Earnings to Fixed Charges
(\$000s)**

	39 Weeks Ended		Fiscal Year ⁽¹⁾				
	November 1, 2003	November 2, 2002	2002	2001	2000	1999	1998
Earnings							
Income before income taxes	\$ 553,554	\$ 585,903	\$ 1,034,374	\$ 799,864	\$ 605,114	\$ 421,112	\$ 316,749
Fixed charges	146,378	115,941	161,091	142,244	116,753	82,835	63,135
Less interest capitalized during period	(7,119)	(7,373)	(9,820)	(6,929)	(3,478)	(4,405)	(1,878)
	<u>\$ 692,813</u>	<u>\$ 694,471</u>	<u>\$ 1,185,645</u>	<u>\$ 935,179</u>	<u>\$ 718,389</u>	<u>\$ 499,542</u>	<u>\$ 378,006</u>
Fixed Charges							
Interest (expensed or capitalized)	\$ 59,052	\$ 48,144	\$ 68,298	\$ 63,506	\$ 52,305	\$ 33,813	\$ 24,550
Portion of rent expense representative of interest	80,493	67,113	91,822	77,964	63,943	48,769	38,385
Amortization of deferred financing fees	6,833	684	971	774	505	253	200
	<u>\$ 146,378</u>	<u>\$ 115,941</u>	<u>\$ 161,091</u>	<u>\$ 142,244</u>	<u>\$ 116,753</u>	<u>\$ 82,835</u>	<u>\$ 63,135</u>
Ratio of earnings to fixed charges	<u>4.73</u>	<u>5.99</u>	<u>7.36</u>	<u>6.57</u>	<u>6.15</u>	<u>6.03</u>	<u>5.99</u>

⁽¹⁾ Fiscal 2002, 2001, 1999 and 1998 were 52 week years and fiscal 2000 was a 53 week year.

CERTIFICATIONS

I, Wesley S. McDonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kohl's Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 3, 2003

/s/ WESLEY S. MCDONALD

Wesley S. McDonald
Chief Financial Officer

I, R. Lawrence Montgomery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kohl's Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

-
- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 3, 2003

/s/ R. LAWRENCE MONTGOMERY

R. Lawrence Montgomery
Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION OF PERIODIC REPORT

I, Wesley S. McDonald, Chief Financial Officer of Kohl's Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the undersigned's knowledge, on the date of this Certification:

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended November 1, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 3, 2003

/s/ WESLEY S. MCDONALD

Wesley S. McDonald
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, R. Lawrence Montgomery, Chief Executive Officer of Kohl's Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the undersigned's knowledge, on the date of this Certification:

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended November 1, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 3, 2003

/s/ R. LAWRENCE MONTGOMERY

R. Lawrence Montgomery
Chief Executive Officer and Director