

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 August 2, 2014

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**  
**KOHL'S CORPORATION**

(Exact name of 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 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 filer  Accelerated filer

Non-accelerated filer \* (Do not check if a smaller reporting company) Smaller reporting company

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 30, 2014 Common Stock, Par Value \$0.01 per Share, 204,668,449 shares outstanding.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**KOHL'S CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In Millions)

	August 2, 2014	February 1, 2014	August 3, 2013
	(Unaudited)	(Audited)	(Unaudited)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 746	\$ 971	\$ 592
Merchandise inventories	3,899	3,874	3,856
Deferred income taxes	132	142	150
Other	300	305	284
Total current assets	5,077	5,292	4,882
Property and equipment, net	8,686	8,745	8,891
Other assets	338	341	324
Total assets	<u>\$ 14,101</u>	<u>\$ 14,378</u>	<u>\$ 14,097</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 1,479	\$ 1,365	\$ 1,396
Accrued liabilities	1,057	1,138	1,065
Income taxes payable	43	94	75
Current portion of capital lease and financing obligations	105	139	147
Total current liabilities	2,684	2,736	2,683
Long-term debt	2,792	2,792	2,492
Capital lease and financing obligations	1,896	1,930	1,948
Deferred income taxes	358	382	381
Other long-term liabilities	562	560	540
Shareholders' equity:			
Common stock	4	4	4
Paid-in capital	2,638	2,598	2,516
Treasury stock, at cost	(8,459)	(8,052)	(7,531)
Accumulated other comprehensive loss	(30)	(34)	(39)
Retained earnings	11,656	11,462	11,103
Total shareholders' equity	5,809	5,978	6,053
Total liabilities and shareholders' equity	<u>\$ 14,101</u>	<u>\$ 14,378</u>	<u>\$ 14,097</u>

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Net sales	\$ 4,242	\$ 4,289	\$ 8,312	\$ 8,488
Cost of merchandise sold	2,588	2,613	5,162	5,284
Gross margin	1,654	1,676	3,150	3,204
Operating expenses:				
Selling, general and administrative	981	1,000	1,981	1,997
Depreciation and amortization	222	225	438	439
Operating income	451	451	731	768
Interest expense, net	85	84	170	167
Income before income taxes	366	367	561	601
Provision for income taxes	134	136	204	223
Net income	<u>\$ 232</u>	<u>\$ 231</u>	<u>\$ 357</u>	<u>\$ 378</u>
Net income per share:				
Basic	\$ 1.14	\$ 1.05	\$ 1.74	\$ 1.71
Diluted	\$ 1.13	\$ 1.04	\$ 1.73	\$ 1.70
Dividends declared and paid per share	\$ 0.39	\$ 0.35	\$ 0.78	\$ 0.70

See accompanying Notes to Consolidated Financial Statements

**KOHL'S CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(In Millions)

	Three Months Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Net income	\$ 232	\$ 231	\$ 357	\$ 378
Other comprehensive income, net of tax:				
Unrealized gains on investments	2	—	2	4
Reclassification adjustment for interest expense on interest rate derivative included in net income	1	1	2	2
Other comprehensive income	3	1	4	6
Comprehensive income	<u>\$ 235</u>	<u>\$ 232</u>	<u>\$ 361</u>	<u>\$ 384</u>

See accompanying Notes to Consolidated Financial Statements

**KOHL'S CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
**(In Millions, Except per Share Data)**

	<u>Common Stock</u>		<u>Paid-In Capital</u>	<u>Treasury Stock</u>		<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Amount</u>			
Balance at February 1, 2014	364	\$ 4	\$ 2,598	(153)	\$ (8,052)	\$ (34)	\$ 11,462	\$ 5,978
Comprehensive income	—	—	—	—	—	4	357	361
Stock options and awards	1	—	40	(1)	(17)	—	—	23
Dividends paid (\$0.78 per common share)	—	—	—	—	2	—	(163)	(161)
Treasury stock purchases	—	—	—	(7)	(392)	—	—	(392)
Balance at August 2, 2014	<u>365</u>	<u>\$ 4</u>	<u>\$ 2,638</u>	<u>(161)</u>	<u>\$ (8,459)</u>	<u>\$ (30)</u>	<u>\$ 11,656</u>	<u>\$ 5,809</u>

See accompanying Notes to Consolidated Financial Statements

**KOHL'S CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In Millions)

	Six Months Ended	
	August 2, 2014	August 3, 2013
<b>Operating activities</b>		
Net income	\$ 357	\$ 378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	438	439
Share-based compensation	24	27
Excess tax benefits from share-based compensation	(2)	(2)
Deferred income taxes	(17)	(12)
Other non-cash revenues and expenses	11	18
Changes in operating assets and liabilities:		
Merchandise inventories	(20)	(103)
Other current and long-term assets	3	22
Accounts payable	114	89
Accrued and other long-term liabilities	(103)	(20)
Income taxes	(75)	(74)
Net cash provided by operating activities	<u>730</u>	<u>762</u>
<b>Investing activities</b>		
Acquisition of property and equipment	(374)	(284)
Other	6	14
Net cash used in investing activities	<u>(368)</u>	<u>(270)</u>
<b>Financing activities</b>		
Treasury stock purchases	(392)	(266)
Shares withheld for taxes on vested restricted shares	(16)	(13)
Dividends paid	(160)	(153)
Proceeds from financing obligations	3	—
Capital lease and financing obligation payments	(61)	(52)
Proceeds from stock option exercises	37	46
Excess tax benefits from share-based compensation	2	2
Deferred financing costs	—	(1)
Net cash used in financing activities	<u>(587)</u>	<u>(437)</u>
Net increase (decrease) in cash and cash equivalents	(225)	55
Cash and cash equivalents at beginning of period	971	537
Cash and cash equivalents at end of period	<u>\$ 746</u>	<u>\$ 592</u>
<b>Supplemental information:</b>		
Interest paid, net of capitalized interest	\$ 171	\$ 162
Income taxes paid	295	308
<b>Non-Cash Investing and Financing Activities</b>		
Property and equipment acquired through additional liabilities	\$ 22	\$ 100

See accompanying Notes to Consolidated Financial Statements

**KOHL'S CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 related footnotes included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (Commission File No. 1-11084) as filed with the Securities and Exchange Commission on March 21, 2014.

Due to the seasonality of our 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 may be impacted by the timing and amount of sales and costs associated with the opening of new stores.

We operate as a single business unit.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the new pronouncement in the first quarter of fiscal 2017 using one of two retrospective application methods. We are evaluating the application method and the impact of this new statement on our financial statements.

**2. Debt**

Long-term debt consists of the following unsecured senior debt:

<u>Maturity</u>	<u>Effective Rate</u>	<u>Coupon Rate</u>	<u>Outstanding</u>	
			<u>August 2, 2014 and February 1, 2014</u>	<u>August 3, 2013</u>
(Dollars in Millions)				
2017	6.31%	6.25%	\$ 650	\$ 650
2021	4.81%	4.00%	650	650
2023	3.25%	3.25%	350	350
2023	4.78%	4.75%	300	—
2029	7.36%	7.25%	200	200
2033	6.05%	6.00%	300	300
2037	6.89%	6.88%	350	350
	<u>5.54%</u>		<u>2,800</u>	<u>2,500</u>
Unamortized debt discount			(8)	(8)
Long-term debt			<u>\$ 2,792</u>	<u>\$ 2,492</u>

**3. Fair Value Measurements**

ASC No. 820, "Fair Value Measurements and Disclosures," requires fair value measurements be classified and disclosed in one of the following pricing categories:

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

**KOHL'S CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table summarizes our financial instruments:

Pricing Category	August 2, 2014		February 1, 2014		August 3, 2013		
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	
(In Millions)							
Cash and cash equivalents	Level 1	\$ 746	\$ 746	\$ 971	\$ 971	\$ 592	\$ 592
Auction rate securities	Level 3	82	68	82	64	83	58
Debt	Level 1	2,792	3,102	2,792	2,988	2,492	2,663

Our investments in auction rate securities (“ARS”) are included in other long-term assets in our balance sheet. There have been no changes to the valuation methodology since February 1, 2014. On July 30, 2014, \$20 million of auction rate securities were called at par and were subsequently settled on August 13, 2014.

#### 4. Stock-Based Compensation

The following table summarizes stock-based compensation grants:

	Six Months Ended	
	August 2, 2014	August 3, 2013
(In Thousands)		
Stock options granted	186	489
Restricted shares and units granted, excluding shares earned in lieu of cash dividends	795	859
Total stock-based compensation grants	981	1,348
Weighted average fair value at grant date:		
Stock options	\$ 12.23	\$ 10.37
Restricted shares and units	\$ 56.37	\$ 47.91

#### 5. Contingencies

We are subject to certain legal proceedings and claims arising out of the conduct of our business. In the opinion of management, the outcome of these proceedings and litigation will not have a material adverse impact on our consolidated financial statements.

#### 6. Net Income Per Share

The following table summarizes our basic and diluted net income per share calculations:

	Three Months Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
(In Millions)				
Numerator—Net income	\$ 232	\$ 231	\$ 357	\$ 378
Denominator—Weighted average shares:				
Basic	204	220	205	221
Impact of dilutive employee stock-based awards	1	2	1	1
Diluted	205	222	206	222
Antidilutive shares	5	9	8	12



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

For purposes of the following discussion, all references to "the quarter" and "the second quarter" are for the 13-week fiscal periods ended August 2, 2014 and August 3, 2013 and all references to "year to date" are for the 26-week fiscal periods ended August 2, 2014 and August 3, 2013.

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2013 Annual Report on Form 10-K (our "2013 Form 10-K"). The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed elsewhere in this report and in our 2013 Form 10-K (particularly in "Risk Factors").

**Executive Summary**

As of August 2, 2014, we operated 1,160 family-focused, value-oriented department stores and a website (www.Kohls.com) that sell moderately priced exclusive and national brand apparel, footwear, accessories, beauty and home products. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.

The following table summarizes our results.

	Quarter	Year to Date
	(Dollars and shares in Millions)	
Net sales	\$ 4,242	\$ 8,312
Change in:		
Net sales	(1.1)%	(2.1)%
Comparable sales	(1.3)%	(2.3)%
Gross margin as a percent of net sales	39.0 %	37.9 %
Selling, general and administrative expenses	\$ 981	\$ 1,981
Net income	\$ 232	\$ 357
Net earnings per diluted share	\$ 1.13	\$ 1.73
Shares repurchased	4.3	7.4
Treasury stock purchases	\$ 225	\$ 392

For additional details about our financial results, see Results of Operations and Financial Condition and Liquidity.

Our main business objective is to profitably increase sales. In order to increase sales, we believe that we need to increase transactions per store, which is our primary sales driver. In the first quarter of 2014, we introduced a multi-year vision that we believe will increase transactions per store and sales. This vision, which we refer to as "the Greatness Agenda," is built on five pillars - amazing product, incredible savings, easy experience, personalized connections and winning teams.

*Amazing product* provides a renewed focus on providing the right merchandise mix, being locally relevant, and tailoring products to every customer across every channel. Our new beauty offerings are an example of the new product that customers can find in many of our stores and on-line. We continue to test different beauty department formats. Stores with the new beauty department continue to outperform other stores - both in the beauty department and across the store. We continue to see sales increases of approximately 2 percent in higher sales volume stores with the new beauty department versus a control group of stores without renovated beauty departments. We expect to have renovated beauty departments in approximately 500 stores by the end of the third quarter of fiscal 2014 and approximately 900 stores by the end of fiscal 2015.

We continue to offer new products to our customers as we believe this creates excitement for our customers and increases customer traffic to our stores and website. In the first quarter, we launched our first Jumping Beans collection featuring Disney characters. The collection has performed better than expected and we plan to roll out new elements around more of the Disney portfolio throughout the rest of the year. In June 2014, we launched the Fitbit brand as part of extending our active and wellness business. In the third quarter, we expect to launch both the IZOD brand in Men's and the Juicy Couture brand in Women's and to introduce a partnership with Elie Tahari as the next phase of our DesigNation strategy. We also expect to

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further expand our active and wellness product offerings and introduce Gaiam yoga products in our stores in the third quarter. The Gaiam product line is currently available to our on-line customers. Finally, we expect to launch the Puma brand in the first half of fiscal 2015.

National brands are a key component of the Greatness Agenda and one of the many areas we continue to concentrate on in order to drive traffic and sales increases in both our stores and on-line. In the second quarter of 2014, National brand comparable sales were higher than Private and Exclusive brand comparable sales for the fourth consecutive quarter and increased for the first time since the fourth quarter of 2012. Year to date, National brand penetration has increased approximately 90 basis points.

The goal of *incredible savings* is to help every customer get more from every dollar. In addition to the value offered in our Kohl's Cash and Kohl's-branded credit card, we are designing a rewards system to offer additional savings and to increase customer loyalty, especially for customers who do not have a Kohl's charge card. The program allows enrolled customers to earn various rewards or discounts based upon the volume of their purchases. The loyalty program is currently available in more than 30% of our stores. Initial results have been very positive. We expanded the loyalty program to our Milwaukee market and relaunched the modified program in our Seattle market in the second quarter. Stores participating in the loyalty program are reporting comparable sales which are 150 basis points higher than a control group of stores without the loyalty program. We expect the program to be available in all stores by the end of the third quarter.

We are also making significant investments to create an *easy experience* for our customers wherever or however they choose to engage with us. Whether they are shopping in one of our stores, from their mobile devices or from their laptops, we are creating a consistent experience to ensure that our customers can connect with us wherever and however they wish. We will be focusing on improving the experience on tablets and smart phones as we progress throughout the remainder of 2014. We expect to launch buy on-line and pick up in store at approximately 100 stores in the second half of fiscal 2014.

*Personalized connections* is about building lasting relationships with our customers. To build personalized connections during the shopping experience, we are focused on localizing and tailoring what we sell and how we communicate our product to ensure that our product and offers are personally relevant to each and every customer. At the same time, personalized connections is about contributing to causes such as children's health and education or the environment, so our customers see us as sensitive to the issues that are important to them.

The final pillar is *winning teams*, which is focused on building teams of engaged, talented, empowered and results-oriented management and associates.

We remain committed to meeting the changing shopping needs of our customer, to strengthening our omni-channel experience and to investing in our future in a strategic and profitable manner. We are pleased with the progress we have made in these areas, but believe that we have additional opportunities to improve.

## **Results of Operations**

### *Net sales.*

Net sales decreased \$47 million, or 1.1% to \$4.2 billion for the second quarter of 2014. Year to date, net sales decreased \$176 million or 2.1% to \$8.3 billion. Comparable sales decreased 1.3% for the second quarter and decreased 2.3% year to date. Comparable sales include sales for stores (including relocated or remodeled stores) which were open during both the current and prior year periods. We also include E-Commerce sales in our comparable sales. E-Commerce includes sales which originated on-line and are shipped from our E-Commerce fulfillment centers, shipped from our stores, or shipped directly from third-party vendors to our customers. Merchandise returns reduce sales at the location of the return. As a result, store sales are reduced by merchandise purchased on-line, but returned to a store.

The following table summarizes changes in net sales for the quarter and year to date:

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	Quarter		Year	
	\$	%	\$	%
(Dollars In Millions)				
Net Sales - 2013	\$ 4,289		\$ 8,488	
Comparable sales:				
Stores	(114)	(2.9)%	(296)	(3.8)%
E-Commerce	58	19.2	99	15.6
Total	(56)	(1.3)	(197)	(2.3)
New stores and other revenues	9	—	21	—
Total decrease in net sales	(47)	(1.1)%	(176)	(2.1)%
Net Sales - 2014	\$ 4,242		\$ 8,312	

Monthly sales improved throughout the quarter, with July reporting a 2% comparable sales increase. We replatformed our E-Commerce website in the second and third quarters of 2013, which temporarily decelerated growth. The increase in E-Commerce sales in the quarter was partially driven by the anniversary of the website replatform, as we returned to historical growth trends more similar to those experienced before the replatform.

Drivers of the changes in comparable sales were as follows:

	Quarter	Year to Date
Selling price per unit	3.0 %	2.8 %
Units per transaction	(1.1)	(1.3)
Average transaction value	1.9	1.5
Number of transactions	(3.2)	(3.8)
Comparable sales	(1.3)%	(2.3)%

The increases in selling price per unit were primarily due to increases in National brand merchandise penetration and decreases in clearance merchandise penetration. Units per transaction decreased as customers purchased fewer items in response to the higher prices. Increases in the number of E-Commerce transactions were more than offset by decreases in our stores in both periods. Year to date transactions in our stores were negatively impacted by unusually cold weather during the first and beginning of the second quarters, which reduced customer visits.

The Mid-Atlantic and Northeast regions outperformed the store average for the quarter. Pent up demand caused by unusually colder weather in the first quarter contributed to the performance. The Southeast and West regions also outperformed the store average for the quarter. The South Central and Midwest regions underperformed the store average for the quarter. Year to date, the West region reported the lowest decrease in comparable sales. The South Central region reported the largest sales decrease in the first half of 2014.

For the quarter, Home was the best performing line of business. Children's also reported higher sales and was driven by the infant and toddler business, which includes new non-apparel on-line offerings. Footwear sales were slightly lower than last year, but outperformed the Company. Athletic shoes was the strongest category. The Men's and Accessories businesses were consistent with the Company average. Notable Men's categories included active and young men's. Accessories was led by the beauty department. Women's was slightly below the Company average. Juniors outperformed the Company average and was the strongest Women's category.

Year to date, Children's and Footwear reported the lowest comparable sales decreases. Men's performed consistent with the Company average. In the Home business, electronics and luggage reported the highest sales increases, and infants and toddlers reported the highest sales increases in Children's. Women's, Home and Accessories all were slightly below the Company average. Notable sales increases were reported in bath and beauty Accessories, athletic Footwear, young men's, and Women's athletic/fitness.

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*Gross margin.*

	Quarter				Year to Date			
	2014	2013	Decrease		2014	2013	Increase/ (Decrease)	
			\$	%			\$	%
(Dollars in Millions)								
Gross margin	\$1,654	\$1,676	\$(22)	(1.3)%	\$3,150	\$3,204	\$(54)	(1.7)%
As a percent of net sales	39.0%	39.1%		(0.1)%	37.9%	37.7%		0.2%

Gross margin includes the total cost of products sold, including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from our vendors to our distribution centers; shipping and handling expenses of on-line sales; and terms cash discount. Our gross margin may not be comparable with that of other retailers because we include distribution center costs in selling, general and administrative expenses while other retailers may include these expenses in cost of merchandise sold.

For the quarter, gross margin as a percentage of sales decreased 6 basis points from 2013. The decrease for the quarter can be attributed to a higher mix of lower margin sales. Year to date, gross margin as a percentage of sales increased 16 basis points over 2013, primarily due to a lower volume of clearance merchandise sold.

*Selling, general and administrative expenses.*

	Quarter				Year to Date			
	2014	2013	Decrease		2014	2013	Increase/ (Decrease)	
			\$	%			\$	%
(Dollars in Millions)								
Selling, general and administrative expenses	\$ 981	\$ 1,000	\$(19)	(2)%	\$ 1,981	\$ 1,997	\$(16)	(1)%
As a percent of net sales	23.1%	23.3%		(0.2)%	23.8%	23.5%		0.3 %

Selling, general and administrative expenses ("SG&A") include compensation and benefit costs (including stores, headquarters, buying and merchandising, and distribution centers); occupancy and operating costs of our retail, distribution and corporate facilities; freight expenses associated with moving merchandise from our distribution centers to our retail stores and among distribution and retail facilities; marketing expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; net revenues from our Kohl's credit card operations; and other administrative revenues and expenses. We do not include depreciation and amortization in SG&A. The classification of these expenses varies across the retail industry.

The following table summarizes the changes in SG&A by expense type:

	Quarter		Year to Date	
	(In Millions)			
Net revenues from credit card operations	\$	(13)	\$	(16)
Store expenses		(8)		(5)
Marketing costs, excluding credit card operations		4		(1)
Corporate expenses		(5)		1
Distribution costs		3		5
Decrease in SG&A	\$	(19)	\$	(16)

Many of our expenses, including store payroll and distribution costs, are variable in nature. These costs generally increase as sales increase and decrease as sales decrease. We measure both the change in these variable expenses and the expense as a percent of sales. If the expense as a percent of sales decreased from the prior year, the expense "leveraged" and indicates that the expense was well-managed or effectively generated additional sales. If the expense as a percent of sales increased over the prior year, the expense "deleveraged" and indicates that sales growth was less than expense growth. SG&A as a percent of sales decreased, or "leveraged," by approximately 20 basis points for the quarter and increased, or "deleveraged," by approximately 30 basis points year-to-date.

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The increases in net revenues from credit card operations are the result of higher finance charge revenues and late fees due to growth in the portfolio. Partially offsetting these increases were higher bad debt expenses and operational costs. Store expenses reflect lower store payroll and lower operating expenses such as utilities, repairs and maintenance, cleaning, and insurance. Marketing costs increased in the quarter due to a shift in spending from the first quarter as we continued efforts to drive traffic and decreased slightly year to date. Corporate costs also decreased for the quarter and increased slightly year to date. Store distribution costs decreased, but were offset by higher E-Commerce fulfillment costs in both periods.

On May 14, 2014, we extended our current private-label credit card agreement with Capital One for an additional five years, through March 31, 2023. The extension allows us to focus on long-term growth strategies for the credit card portfolio and is not expected to significantly impact the overall profitability of the portfolio.

*Other Expenses.*

	Quarter				Year to Date			
	2014	2013	Increase/ (Decrease)		2014	2013	Increase/ (Decrease)	
			\$	%			\$	%
(Dollars in Millions)								
Depreciation and amortization	\$ 222	\$ 225	\$ (3)	(1)%	\$ 438	\$ 439	\$ (1)	—%
Interest expense, net	85	84	1	1%	170	167	3	2%
Provision for income taxes	134	136	(2)	(1)%	204	223	(19)	(9)%
Effective tax rate	36.6%	37.1%			36.4%	37.1%		

The decrease in depreciation and amortization is the result of a maturing store fleet. The increase in interest expense is primarily due to higher outstanding long-term debt. Year to date, the decrease in the provision for income taxes is due to lower income before taxes, primarily driven by lower sales in the year, and a lower effective tax rate. The decreases in the effective tax rates were primarily due to favorable state audit settlements in the first and second quarters of 2014.

**Seasonality and Inflation**

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the second half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% of annual sales typically occur during the back-to-school season and 30% during the holiday season. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Revenues and expenses associated with the opening of new stores may also effect our quarterly results.

Although we expect that our operations will be influenced by general economic conditions, including rising food, fuel and energy prices, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be impacted by such factors in the future.

**Financial Condition and Liquidity**

Our primary ongoing cash requirements are for capital expenditures for new stores, remodels and IT spending and for seasonal and new store inventory purchases. Share repurchases and dividend payments to shareholders are currently other significant usages of cash. These payments are discretionary and can be discontinued at any time should we require cash for other uses. Our primary source of funds is cash flow provided by operations. Short-term trade credit, in the form of extended payment terms for inventory purchases, often represents a significant source of financing for merchandise inventories. We also have a line of credit available under our revolving credit facility which could be used to meet cash needs. Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.

	2014	2013	Decrease in Cash	
			\$	%
(Dollars in Millions)				
<b>Net cash provided by (used in):</b>				
Operating activities	\$ 730	\$ 762	\$ (32)	(4)%
Investing activities	(368)	(270)	(98)	(36)%
Financing activities	(587)	(437)	(150)	(34)%

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*Operating Activities.* Operating activities generated \$730 million of cash in the first half of 2014, compared to \$762 million in the first half of 2013.

Merchandise inventory increased \$43 million over August 3, 2013 to \$3.9 billion at August 2, 2014. Inventory per store increased 1 percent over 2013, but units were 3 percent lower. Accounts payable as a percent of inventory was 37.9% at August 2, 2014, compared to 36.2% at August 3, 2013. The increase was primarily due to timing of inventory receipts, as some receipts were accelerated into the second quarter of 2014 in anticipation of a purchase order system upgrade. Additionally, clearance units were down approximately 20% from second quarter 2013.

*Investing Activities.* The increase in net cash used in investing activities reflects a \$90 million increase in capital spending primarily due to the purchase and build out of a call center in Texas, increased IT spending, and remodel spending, which occurred earlier this year than last year.

*Financing Activities.* Financing activities used cash of \$587 million in the first half of 2014 and \$437 million in the first half of 2013.

We paid cash for treasury stock purchases of \$392 million in 2014 and \$266 million in 2013. Share repurchases are discretionary in nature. The timing and amount of repurchases is based upon available cash balances, our stock price and other factors.

We paid cash dividends of \$160 million (\$0.78 per share) in 2014 and \$153 million (\$0.70 per share) in 2013. On August 12, 2014, our board of directors declared a quarterly cash dividend of \$0.39 per common share. The dividend is payable on September 24, 2014 to shareholders of record at the close of business on September 10, 2014.

*Free Cash Flow.* We generated free cash flow of \$298 million in 2014 compared to \$426 million in 2013. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligation payments (which generally represent landlord reimbursements of construction costs) less capital expenditures and capital lease and financing obligations. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations.

The following table reconciles net cash provided by operating activities (a GAAP measure) to free cash flow (a non-GAAP measure).

	2014	2013	Increase/(Decrease) in Free Cash Flow
	(In Millions)		
Net cash provided by operating activities	\$ 730	\$ 762	\$ (32)
Acquisition of property & equipment	(374)	(284)	(90)
Capital lease & financing obligation payments	(61)	(52)	(9)
Proceeds from financing obligations	3	—	3
Free cash flow	<u>\$ 298</u>	<u>\$ 426</u>	<u>\$ (128)</u>

*Key financial ratios.* Key financial ratios that provide certain measures of our liquidity are as follows:

	August 2, 2014	August 3, 2013
Working capital (In Millions)	\$ 2,393	\$ 2,199
Current ratio	1.89	1.82
Debt/capitalization	45.2%	43.1%

The increases in working capital and the current ratio are primarily due to higher cash and inventory balances. The increase in the debt/capitalization ratio reflects the issuance of \$300 million of debt in September 2013 and lower capitalization, primarily due to share repurchases.

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*Debt Covenant Compliance.* As of August 2, 2014, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2014.

	<b>(Dollars in Millions)</b>
<b>Included Indebtedness</b>	
Total debt	\$ 4,801
Permitted exclusions	(8)
Subtotal	4,793
Rent x 8	2,176
Included Indebtedness	<u>\$ 6,969</u>
<b>Rolling 12-month Adjusted Debt Compliance EBITDAR</b>	
Net income	\$ 867
Rent expense	272
Depreciation and amortization	889
Net interest	342
Provision for income taxes	496
EBITDAR	2,866
Stock based compensation	52
Other non-cash revenues and expenses	16
Rolling 12-month Adjusted Debt Compliance EBITDAR	<u>\$ 2,934</u>
Debt Ratio (a)	2.38
Maximum permitted Debt Ratio	3.75

(a) Included Indebtedness divided by Adjusted Debt Compliance EBITDAR

**Contractual Obligations**

There have been no significant changes in the contractual obligations disclosed in our 2013 Form 10-K.

**Off-Balance Sheet Arrangements**

We have not provided any financial guarantees as of August 2, 2014. We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of our Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in our 2013 Form 10-K.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in the market risks described in our 2013 Form 10-K.

**Item 4. Controls and Procedures**

*(a) Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (the "Evaluation") at a reasonable assurance level as of the last day of the period covered by this report.

Based upon the Evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rule

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13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions, regardless of how remote.

*(b) Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended August 2, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There have been no significant changes in our risk factors from those described in our 2013 Form 10-K.

#### *Forward-looking Statements*

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events we expect or anticipate will occur in the future. Words such as "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based on our management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors, described in Item 1A of our 2013 Form 10-K, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and we undertake no obligation to update them. An investment in our common stock or other securities carries certain risks. Investors should carefully consider the risks as stated in our 2013 Form 10-K and other risks which may be disclosed from time to time in our filings with the SEC before investing in our securities.

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

We did not sell any securities during the quarter ended August 2, 2014 which were not registered under the Securities Act.

The following table contains information for shares repurchased and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the three fiscal months ended August 2, 2014:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
				(In Millions)
May 4 – May 31, 2014	1,132,300	\$ 53.60	1,104,398	\$ 2,096
June 1 – July 5, 2014	1,434,857	53.09	1,430,217	2,020
July 6 – August 2, 2014	1,746,678	52.10	1,728,267	1,930
Total	4,313,835	\$ 52.82	4,262,882	\$ 1,930



**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Bylaws of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 15, 2014.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

Pursuant to the requirements of the Securities 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: September 5, 2014

/s/ Wesley S. McDonald  
Wesley S. McDonald  
On behalf of the Registrant and as Senior Executive Vice  
President and Chief Financial Officer  
(Principal Financial and Chief Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin Mansell, 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 a 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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 (or persons performing the equivalent functions):
  - 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: September 5, 2014

/s/ Kevin Mansell

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Kevin Mansell  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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 a 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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 (or persons performing the equivalent functions):
  - 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: September 5, 2014

/s/ Wesley S. McDonald

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Wesley S. McDonald  
Senior Executive Vice President and Chief Financial Officer  
(Principal Financial and Chief Accounting Officer)

**CERTIFICATION OF PERIODIC REPORT  
BY CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin Mansell, 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. This Quarterly Report on Form 10-Q of the Company for the quarterly period ended August 2, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 5, 2014

/s/ Kevin Mansell

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Kevin Mansell  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT  
BY CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wes 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. This Quarterly Report on Form 10-Q of the Company for the quarterly period ended August 2, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 5, 2014

/s/ Wesley S. McDonald

Wesley S. McDonald

Senior Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Chief Accounting Officer)