

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended May 2, 2009

OR

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

For the transition period from _____ to _____

Commission file number 1-11084



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 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: May 30, 2009 Common Stock, Par Value \$0.01 per Share, 305,387,321 shares outstanding.

[Table of Contents](#)

**KOHL'S CORPORATION
INDEX**

PART I	FINANCIAL INFORMATION	
Item 1	Financial Statements:	
	Condensed Consolidated Balance Sheets at May 2, 2009, January 31, 2009 and May 3, 2008	3
	Condensed Consolidated Statements of Income for the Three Months Ended May 2, 2009 and May 3, 2008	4
	Condensed Consolidated Statement of Changes in Shareholders' Equity for the Three Months Ended May 2, 2009	5
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended May 2, 2009 and May 3, 2008	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3	Quantitative and Qualitative Disclosures about Market Risk	18
Item 4	Controls and Procedures	18
PART II	OTHER INFORMATION	
Item 1A	Risk Factors	19
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 4	Submission of Matters to a Vote of Security Holders	21
Item 6	Exhibits	21
	Signatures	22

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	May 2, 2009 (Unaudited)	January 31, 2009 (Audited)	May 3, 2008 (Unaudited)
<u>Assets</u>			
Current assets:			
Cash	\$ 239	\$ 167	\$ 239
Short-term investments	655	509	34
Merchandise inventories	2,804	2,799	2,817
Deferred income taxes	74	74	65
Other	127	151	141
Total current assets	3,899	3,700	3,296
Property and equipment, net	7,001	6,984	6,619
Long-term investments	326	332	395
Favorable lease rights, net	198	201	204
Goodwill	9	9	9
Other assets	105	108	107
Total assets	<u>\$ 11,538</u>	<u>\$ 11,334</u>	<u>\$ 10,630</u>
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities:			
Accounts payable	\$ 1,003	\$ 881	\$ 945
Accrued liabilities	752	812	703
Income taxes payable	82	105	77
Short-term debt	—	—	109
Current portion of capital leases	17	17	13
Total current liabilities	1,854	1,815	1,847
Long-term debt and capital leases	2,056	2,053	2,048
Deferred income taxes	323	320	270
Other long-term liabilities	420	407	371
Shareholders' equity:			
Common stock	4	4	4
Paid-in capital	1,981	1,971	1,919
Treasury stock, at cost, 46 shares at May 2, 2009 and January 31, 2009, 44 shares at May 3, 2008	(2,639)	(2,638)	(2,527)
Accumulated other comprehensive loss	(46)	(46)	(18)
Retained earnings	7,585	7,448	6,716
Total shareholders' equity	6,885	6,739	6,094
Total liabilities and shareholders' equity	<u>\$ 11,538</u>	<u>\$ 11,334</u>	<u>\$ 10,630</u>

See accompanying Notes to Condensed Consolidated Financial Statements

[Table of Contents](#)

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

	Three Months (13 Weeks) Ended	
	May 2, 2009	May 3, 2008
Net sales	<u>\$3,638</u>	<u>\$3,624</u>
Cost of merchandise sold (exclusive of depreciation shown separately below)	<u>2,270</u>	<u>2,289</u>
Gross margin	<u>1,368</u>	<u>1,335</u>
Operating expenses:		
Selling, general, and administrative	961	923
Depreciation and amortization	141	130
Preopening expenses	<u>15</u>	<u>11</u>
Operating income	<u>251</u>	<u>271</u>
Interest expense, net	<u>32</u>	<u>26</u>
Income before income taxes	<u>219</u>	<u>245</u>
Provision for income taxes	<u>82</u>	<u>92</u>
Net income	<u>\$ 137</u>	<u>\$ 153</u>
Net income per share:		
Basic:		
Basic	\$ 0.45	\$ 0.50
Average number of shares	305	309
Diluted:		
Diluted	\$ 0.45	\$ 0.49
Average number of shares	306	309

See accompanying Notes to Condensed Consolidated Financial Statements

KOHL'S CORPORATION
CONDENSED CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In Millions)

	<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>					
Balance at January 31, 2009	351	\$ 4	\$1,971	\$(2,638)	\$ (46)	\$ 7,448	\$6,739
Net income and comprehensive income	—	—	—	—	—	137	137
Share-based compensation	—	—	12	—	—	—	12
Exercise of stock options and other	1	—	—	—	—	—	—
Net income tax impact from exercise of stock options	—	—	(2)	—	—	—	(2)
Treasury stock purchases	—	—	—	(1)	—	—	(1)
Balance at May 2, 2009	<u>352</u>	<u>\$ 4</u>	<u>\$1,981</u>	<u>\$(2,639)</u>	<u>\$ (46)</u>	<u>\$ 7,585</u>	<u>\$6,885</u>

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months (13 Weeks) Ended	
	May 2, 2009	May 3, 2008
Operating activities		
Net income	\$ 137	\$ 153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt discount and deferred financing fees	141	130
Share-based compensation	11	8
Deferred income taxes	4	25
Other non-cash revenues and expenses	24	3
Changes in operating assets and liabilities:		
Merchandise inventories	(5)	39
Other current and long-term assets	22	(6)
Accounts payable	122	112
Accrued and other long-term liabilities	(32)	(62)
Income taxes	(25)	(49)
Net cash provided by operating activities	<u>399</u>	<u>353</u>
Investing activities		
Acquisition of property and equipment and favorable lease rights	(186)	(273)
Net purchases of short-term investments	(146)	(3)
Purchases of long-term investments	—	(53)
Sales of long-term investments	7	76
Other	2	2
Net cash used in investing activities	<u>(323)</u>	<u>(251)</u>
Financing activities		
Net borrowings under credit facilities	—	109
Capital lease payments	(4)	(3)
Treasury stock purchases	(1)	(151)
Proceeds from stock option exercises	1	1
Net cash used in financing activities	<u>(4)</u>	<u>(44)</u>
Net increase in cash	72	58
Cash at beginning of period	167	181
Cash at end of period	<u>\$ 239</u>	<u>\$ 239</u>
Supplemental information:		
Interest paid, net of capitalized interest	\$ 17	\$ 15
Income taxes paid	103	116

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 related footnotes included in our Form 10-K (Commission File No. 1-11084) filed with the Securities and Exchange Commission.

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 depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

We operate as a single business unit.

2. Debt

Long-term debt, which excludes draws on revolving credit facilities, consists of the following:

<u>Maturing</u>	<u>Weighted Average Effective Rate</u>	<u>May 2, 2009</u>	<u>January 31, 2009</u>	<u>May 3, 2008</u>
(Dollars in Millions)				
Non-callable and unsecured senior debt:				
2011	6.59%	\$ 400	\$ 400	\$ 400
2017	6.31%	650	650	650
2029	7.36%	200	200	200
2033	6.05%	300	300	300
2037	6.89%	350	350	350
Total senior debt	6.55%	1,900	1,900	1,900
Capital lease obligations		180	177	169
Unamortized debt discount		(7)	(7)	(8)
Less current portion		(17)	(17)	(13)
Long-term debt and capital leases		<u>\$2,056</u>	<u>\$ 2,053</u>	<u>\$2,048</u>

Based on quoted market prices (Level 1 per SFAS No. 157, "Fair Value Measurements"), the estimated fair value of our senior debt was approximately \$1.7 billion at May 2, 2009.

[Table of Contents](#)

3. Share-Based Compensation

We grant share-based compensation, including options to purchase shares of our common stock and nonvested stock, pursuant to various plans. Annual grants of stock options and nonvested stock are generally made to eligible employees in the first quarter of the fiscal year. Grants to newly-hired and promoted employees and other discretionary grants are made periodically throughout the remainder of the year.

The Black-Scholes option valuation model was used to estimate the fair value of each option award during the first quarter of the respective fiscal year based on the following assumptions:

	2009	2008
Volatility	42.8%	36.6%
Risk-free interest rate	1.7%	2.5%
Expected life in years	5.4	5.3
Dividend yield	0%	0%
Weighted-average fair value at grant date	\$16.98	\$15.89

The following table summarizes our stock option activity for the first quarters of 2009 and 2008:

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(Shares in Thousands)			
Balance at beginning of quarter	19,134	\$ 53.01	17,313	\$ 55.79
Granted	2,617	41.51	2,423	43.00
Forfeited/expired	(300)	56.70	(420)	58.43
Exercised	(26)	29.38	(20)	40.55
Balance at end of quarter	<u>21,425</u>	<u>\$ 51.58</u>	<u>19,296</u>	<u>\$ 54.14</u>

The following table summarizes our nonvested stock activity for the first quarters of 2009 and 2008:

	2009		2008	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
	(Shares in Thousands)			
Balance at beginning of quarter	276	\$ 54.39	150	\$ 69.98
Granted	657	41.63	61	42.89
Vested	(58)	60.73	(38)	68.37
Balance at end of quarter	<u>875</u>	<u>\$ 44.38</u>	<u>173</u>	<u>\$ 60.82</u>

[Table of Contents](#)

Total share-based compensation expense was \$11 million for the three months ended May 2, 2009 and \$8 million for the three months ended May 3, 2008.

Total unrecognized share-based compensation expense for all share-based payment plans was \$164 million at May 2, 2009, of which approximately \$50 million is expected to be recognized in the remainder of 2009, \$54 million in 2010, \$30 million in 2011, \$16 million in 2012, \$12 million in 2012 and \$2 million in 2013. Future compensation expense may be impacted by future grants, changes in forfeiture estimates and/or actual forfeitures which differ from estimated forfeitures.

4. Long-Term Investments

Our long-term investments consist of investments in auction rate securities (“ARS”), which are long-term debt instruments with interest rates reset through periodic short-term auctions. Our ARS portfolio consists entirely of highly-rated, insured student loan backed securities. Substantially all of the principal and interest is insured by the federal government and the remainder is insured by highly-rated insurance companies. As of May 2, 2009, \$189 million of our ARS (at fair value) were rated “AAA” by Moody’s, Standard & Poor’s and/or Fitch Ratings. The remaining ARS investments have ratings equivalent to the Standard & Poor’s “AA” and “A” ratings.

As a result of persistent failed auctions since February 2008 and the resulting uncertainty of when these investments could be successfully liquidated at par, we have recorded all of our ARS as Long-term Investments within the Condensed Consolidated Balance Sheets.

We intend to hold these ARS until their fair value once again equals their par value and believe we have the ability to do so based on other sources of liquidity. Therefore, impairment charges are considered temporary and have been included in Accumulated Other Comprehensive Loss within our Condensed Consolidated Balance Sheets.

The following table presents a rollforward of our ARS, all of which are measured at fair value on a recurring basis using unobservable inputs (Level 3 per SFAS No. 157, “Fair Value Measurements”):

(In millions)	
Balance as of January 31, 2009	\$332
Sales (at par)	(7)
Unrealized gain on sale	<u>1</u>
Balance as of May 2, 2009	<u>\$326</u>

5. Contingencies

We are 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 our consolidated financial statements.

[Table of Contents](#)

6. 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	
	May 2, 2009	May 3, 2008
	(In Millions)	
Numerator—net income	\$ 137	\$ 153
Denominator—weighted average shares:		
Basic	305	309
Impact of dilutive employee stock options and non-vested stock (a)	1	—
Diluted	<u>306</u>	<u>309</u>

(a) Excludes 19 million options for the three months ended May 2, 2009 and 17 million options for the three months ended May 3, 2008, as the impact of such options was antidilutive.

7. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. We adopted the required portions of this statement in fiscal 2008. The remaining portions of this statement, which are related to non-financial assets and liabilities, were adopted without material impact in the first quarter of 2009.

In April 2009, the FASB also issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” which requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. The fair value of our debt is reported in Note 2, Debt and the fair value of our long-term investments is reported in Note 4, Long-Term Investments. During the current quarter, we also adopted the provisions of FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” and FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments,” without material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” This standard permits entities to measure many financial instruments and certain other items at fair value. As of May 2, 2009, we have not, and do not expect to, elect the fair value option for any eligible financial asset or liability.

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

For purposes of the following discussion, all references to "the first quarter of 2009" or "2009" are for the 13-week fiscal period ended May 2, 2009 and all references to "the first quarter of 2008" or "2008" are for the 13-week fiscal period ended May 3, 2008.

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2008 Annual Report on 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 2008 Annual Report on Form 10-K (particularly in "Risk Factors").

Executive Summary

The recent economic slowdown has caused disruptions and significant volatility in financial markets, increased rates of default and bankruptcy, and declining consumer and business confidence, which has led to decreased levels of consumer spending, particularly on discretionary items. Our sales reflect these reductions in consumer spending. Partially offsetting these sales declines, however, are the positive results of our inventory management and cost control initiatives.

For the quarter, net sales increased 0.4% and comparable store sales decreased 4.2% compared to the prior year quarter. All regions and all lines of business reported lower comparable store sales.

Gross margin as a percent of net sales for the quarter increased 77 basis points compared to the prior year quarter to 37.6%. Strong inventory management as well as increased penetration of private and exclusive brands contributed to the margin strength. Ending inventory per store decreased 6.8% compared to the prior year quarter.

Selling, general and administrative expenses increased 4.1% compared to the prior year quarter. As expected, these expenses increased at a rate faster than sales, but at a rate slower than store growth.

Net income for the quarter was \$137 million, or \$0.45 per diluted share, compared to net income of \$153 million and diluted earnings per share of \$0.49 in the first quarter of last year.

We opened 8 stores in March and 11 stores in April of 2009. As of May 2, 2009, we operated 1,022 stores in 49 states compared to 957 stores in 47 states as of May 3, 2008. Selling square footage totaled 76.3 million square feet at May 2, 2009 and 71.8 million square feet at May 3, 2008. We currently expect to open 37 additional stores in the second half of fiscal 2009. We closed one underperforming store in Michigan during the first quarter of 2009. We will continue to evaluate individual store performance in the future, but do not currently expect additional store closings in 2009.

[Table of Contents](#)

We completed 20 remodels in March 2009. We plan to complete an additional 31 remodels during the remainder of the year, for a total of 51. This is an increase from 36 stores last year. We have been able to compress the remodel duration period from 16 weeks to nine weeks over the past two years in order to minimize costs and disruptions to our stores, benefiting our sales and customer experience. Remodels remain a critical part of our long-term strategy as we believe it is extremely important to maintain our existing store base, even in this difficult environment.

Results of Operations

Net Sales

	<u>2009</u>	<u>2008</u>	<u>Increase</u>	
			<u>\$</u>	<u>%</u>
			(Dollars in Millions)	
Net sales	\$3,638	\$3,624	\$14	0.4%

New stores contributed \$165 million in net sales over the prior year quarter. Comparable store sales for the quarter, which are sales from stores (including E-Commerce sales and relocated or expanded stores) open throughout the full current and prior fiscal year periods, declined \$151 million compared to the first quarter of last year. The 4.2% decrease in comparable store sales was the result of a 1.6% decrease in average transaction value and a 2.6% decrease in the number of transactions per store.

All regions and all lines of business reported lower comparable store sales for the quarter compared to the prior year quarter. The Southwest region reported the strongest comparable store sales, due partly to sales attributable to former Mervyn's customers. The Southeast region remains the most challenging.

Footwear reported the strongest comparable store sales for the quarter, with strong comparable store sales growth in children's and athletic shoes. In addition, Men's, Home, Accessories and Children's outperformed the company's average for the quarter. Men's was led by basics and casual sportswear. Children's was led by boys and infant/toddler. Home was led by bedding and small electrics and Accessories by sterling silver jewelry, handbags and fashion jewelry.

E-Commerce revenues were \$89 million for the quarter, compared to \$67 million for the first quarter of last year, an increase of 32.5%.

Gross Margin

	<u>2009</u>	<u>2008</u>	<u>Increase</u>	
			<u>\$</u>	<u>%</u>
			(Dollars in Millions)	
Gross margin	\$1,368	\$1,335	\$33	2.5%
Gross margin as a percent of net sales	37.6%	36.8%		

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 e-commerce sales; and terms cash

Table of Contents

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.

Gross margin as a percent of net sales was 37.6% for 2009, an increase of approximately 80 basis points compared to 36.8% for 2008. Strong inventory management as well as increased penetration of private and exclusive brands contributed to the margin strength. In addition to carrying a lower level of inventory per store, we continue to focus on receiving merchandise in season as needed through our cycle time reduction initiatives. This strategy reduces our seasonal merchandise clearance inventories. Sales of private and exclusive brands reached 44% of net sales for the quarter, an increase of approximately 200 basis points over the comparable prior year period. Additionally, our ongoing markdown and size optimization initiatives continue to develop and have favorable impacts on our gross margin percentage.

Operating Expenses

	<u>2009</u>	<u>2008</u>	<u>Increase</u>	
			<u>\$</u>	<u>%</u>
S,G&A	\$ 961	\$ 923	\$38	4.1%
S,G&A as a percent of net sales	26.4%	25.5%		

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; advertising 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 costs. Depreciation and amortization and preopening expenses are not included in SG&A. The classification of these expenses varies across the retail industry.

SG&A for 2009 increased \$38 million, or 4.1%, over 2008. The net increase in SG&A dollars reflects incremental costs at newly-opened stores, partially offset by decreases at comparable stores, reflecting our ongoing efforts to control costs in the current economic environment. As expected, SG&A increased more than sales, but less than new store growth of 6.8%.

Hourly store payroll costs as a percentage of net sales decreased, or "leveraged," as reduced inventory and clearance levels resulted in fewer hours spent on replenishment and inventory markdowns. We were able to shift some of these savings to provide additional customer assistance on the selling floor and at point-of-sale. This emphasis on customer service contributed to an 8.4% improvement in our customer service scores over 2008.

Distribution center costs, which are included in SG&A, totaled \$35 million for 2009 and \$38 million for 2008. The decrease reflects the benefits of investments in technology in our distribution centers that continue to generate operating efficiencies. Lower fuel costs also contributed to the decrease.

Table of Contents

The revenue-sharing agreement related to our Kohl's credit card accounts generated higher revenues in the current year period than the prior year period. Even though we continue to see an increase in the number of accounts which carry balances and are ultimately charged-off, these increases were more than offset by increases in finance charges and late charge fees.

Net advertising costs and information services costs decreased slightly in 2009 compared to 2008.

Partially offsetting these expense reductions were higher fixed occupancy and variable store costs due primarily to an increase in the number of stores and higher incentive expenses as a result of improved performance expectations for 2009.

	2009	2008	Increase	
			\$	%
			(Dollars in Millions)	
Depreciation and amortization	\$141	\$130	\$11	8.5%
Depreciation and amortization as a percent of net sales	3.9%	3.6%		

The increase in depreciation and amortization for the quarter is primarily attributable to the addition of new stores.

	2009	2008	Increase	
			\$	%
			(Dollars in Millions)	
Preopening expenses	\$15	\$11	\$4	36.4%
Number of stores opened	19	28		

Preopening expenses increased despite a decrease in the number of stores opened primarily due to an increase in the number of ground leased stores which will open in 2009. Under Generally Accepted Accounting Principles ("GAAP"), we are required to recognize rent expense when we take possession of the property, so we must recognize rental expense for ground leased properties several months prior to the actual opening of the store and, in most cases, before rental payments are due.

Operating Income

	2009	2008	Decrease	
			\$	%
			(Dollars in Millions)	
Operating income	\$251	\$271	\$(20)	(7.4)%
Operating income as a percent of net sales	6.9%	7.5%		

As a result of the above factors, operating income as a percent of net sales was 6.9% for 2009 compared to 7.5% for 2008.

[Table of Contents](#)

[Interest Expense, Net](#)

	2009	2008	Increase	
			\$	%
Interest expense, net	\$32	\$26	\$6	23.1%

The increase in net interest expense reflects lower interest income due to lower interest rates on our investments and reductions in capitalized interest due to lower capital expenditures.

[Provision for Income Taxes](#)

	2009	2008	Decrease	
			\$	%
Provision for income taxes	\$82	\$92	\$(10)	(10.9)%

Our effective tax rate was 37.5% for both 2009 and 2008.

[Seasonality & 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 last 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. In addition, quarterly results of operations depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

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 affected by such factors in the future.

[Financial Condition and Liquidity](#)

Our primary ongoing cash requirements are for capital expenditures in connection with our expansion and remodeling programs and seasonal and new store inventory purchases. Our primary source of funds for our business activities are cash flow from operations, short-term trade credit and our lines of credit.

	2009	2008	Increase (Decrease) in Cash	
			\$	%
Net cash provided by (used in):				
Operating activities	\$ 399	\$ 353	\$ 46	13.0%
Investing activities	(323)	(251)	(72)	(28.7)
Financing activities	(4)	(44)	40	(90.9)

[Table of Contents](#)

Operating Activities. Despite the decrease in net income, cash provided by operations in 2009 was \$399 million, 13% higher than the prior year. The most significant source of operating cash flow for 2009 was a \$122 million increase in accounts payable. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories.

Merchandise inventories per store were \$2.7 million at May 2, 2009, \$2.8 million at January 31, 2009 and \$2.9 million at May 3, 2008. The decreases in inventories per store reflect continued inventory management, including conservative sales and receipts planning, and lower clearance levels. Normal business seasonality also contributed to the decrease from January 31, 2009 to May 2, 2009.

Accounts payable at May 2, 2009 increased \$58 million from May 3, 2008 and increased \$122 million from January 31, 2009. Accounts payable as a percent of inventory was 35.8% at May 2, 2009, compared to 33.6% at May 3, 2008, reflecting the positive results of inventory management, cycle time reduction and vendor finance initiatives.

Investing Activities. The increase in net cash used in investing activities is primarily attributable to net investment activity which used \$139 million in 2009, compared to generating \$20 million in 2008, reflecting increased short-term investment purchases in 2009.

As of May 2, 2009, we had investments in auction rate securities (“ARS”) with a par value of \$400 million and an estimated fair value of \$326 million. To date, all ARS sales and calls have been at par and we have collected all interest payable on outstanding ARS when due and expect to continue to do so in the future. At this time, we have no reason to believe that any of the underlying issuers of our ARS or their insurers are presently at risk or that the underlying credit quality of the assets backing our ARS has been impacted by the reduced liquidity of these investments. While the auction failures, which began in February 2008, limit our ability to liquidate these investments, we believe that the ARS failures will have no significant impact on our ability to fund ongoing operations and growth initiatives.

Capital expenditures include costs for new store openings, store remodels, distribution center openings and other base capital needs. Capital expenditures totaled \$186 million for 2009, an \$87 million decrease from the comparable prior year period. This decrease is primarily due to a decrease in the number of new store openings from 28 in 2008 to 19 in 2009.

Financing Activities. Financing activities were not significant in 2009.

We have various facilities upon which we may draw funds, including a \$900 million senior unsecured revolving facility and two demand notes with aggregate availability of \$50 million. The \$900 million revolving facility expires in October 2011. The co-leads of this facility, The Bank of New York Mellon and Bank of America, have each committed \$100 million. The remaining 12 lenders have each committed between \$30 and \$130 million.

There were no draws on these facilities during 2009. In 2008, weighted-average borrowings under these facilities were \$48 million.

Table of Contents

We have no debt maturing until 2011. We expect to use funds from operations to repay both the \$300 million of long-term debt which is due in March 2011 and the \$100 million of long-term debt which is due in October 2011.

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

	May 2, 2009	January 31, 2009	May 3, 2008
Working capital (In Millions)	\$ 2,045	\$ 1,885	\$ 1,449
Current ratio	2.10:1	2.04:1	1.78:1
Debt/capitalization	23.1%	23.5%	26.3%

The increase in working capital and the current ratio as of May 2, 2009 compared to May 3, 2008 was primarily due to higher short-term investments. The decrease in the debt/capitalization ratio reflects lower debt levels and higher capitalization, primarily due to earnings.

Debt Covenant Compliance. As of May 2, 2009, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2009.

	(Dollars in Millions)
Total Debt per Balance Sheet	\$ 2,073
Other Debt	—
Subtotal	2,073
Rent x 8	3,707
A Included Indebtedness	\$ 5,780
Net Worth	\$ 6,885
Investments (accounted for under equity method)	—
Subtotal	6,885
Included Indebtedness	5,780
B Capitalization	\$12,665
Leverage Ratio (A/B)	0.46
Maximum permitted Leverage Ratio	0.70

Free Cash Flow. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities less capital expenditures. 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. We believe that free cash flow represents our ability to generate additional cash flow from our business operations.

Table of Contents

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

	<u>2009</u>	<u>2008</u>
	(In Millions)	
Net cash provided by operating activities	\$ 399	\$ 353
Acquisition of property and equipment and favorable lease rights	(186)	(273)
Free cash flow	<u>\$ 213</u>	<u>\$ 80</u>

Contractual Obligations

There have been no significant changes in the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended January 31, 2009.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of May 2, 2009. 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 Annual Report on Form 10-K for the year ended January 31, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risks described in our Annual Report on Form 10-K for the year ended January 31, 2009.

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 concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) and

[Table of Contents](#)

15d-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*

During the last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect such controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no significant changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended January 31, 2009.

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 Annual Report on Form 10-K filed with the SEC on March 20, 2009, 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 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.

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We did not sell any securities during the quarter ended May 2, 2009, which were not registered under the Securities Act.

As a result of the current economic environment, we have temporarily discontinued the \$2.5 billion share repurchase program our Board of Directors authorized in September 2007. We will continue to evaluate stock repurchases based on market conditions and our liquidity position, but do not currently anticipate any share repurchases in 2009. When share purchases are resumed, we expect to continue executing this share repurchase program primarily in open market transactions, subject to market conditions.

The following table contains information for 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 May 2, 2009:

<u>Period</u>	<u>Total Number of Shares Purchased During Period</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In millions)</u>
Feb. 1 – Feb. 28, 2009	—	—	—	\$ 1,866
Mar. 1 – Apr. 4, 2009	15,155	\$41.24	—	1,866
Apr. 5 – May 2, 2009	482	45.29	—	1,866
Total	<u>15,637</u>	<u>\$41.36</u>	<u>—</u>	<u>\$ 1,866</u>

[Table of Contents](#)

Item 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Shareholders on May 14, 2009. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation.

The results of the matters voted upon by our shareholders were as follows:

	Number of Shares		
	For	Against	Abstain
1. Election of directors:			
Peter Boneparth	266,406,209	3,433,536	114,892
Steven A. Burd	262,226,223	7,592,169	136,246
John F. Herma	257,063,343	12,755,080	136,215
Dale E. Jones	266,845,356	2,994,114	115,168
William S. Kellogg	261,559,012	8,261,770	133,856
Kevin Mansell	262,735,652	7,107,013	111,973
R. Lawrence Montgomery	261,202,614	8,639,629	112,395
Frank V. Sica	258,059,492	11,757,846	137,299
Peter M. Sommerhauser	252,263,576	17,553,747	137,315
Stephanie A. Streeter	266,891,810	2,949,787	113,040
Stephen E. Watson	266,841,957	2,996,567	116,114
2. Ratification of Ernst & Young LLP as our independent registered public accounting firm	263,911,609	5,956,387	86,641
3. Shareholder proposal regarding the amendment of the Company's Articles of Incorporation	118,534,986	135,839,545	563,838

Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Periodic Report by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Periodic Report by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: June 5, 2009

/s/ Kevin Mansell
President, Chief Executive Officer and Director

Date: June 5, 2009

/s/ Wesley S. McDonald
Wesley S. McDonald
Chief Financial 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

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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: June 5, 2009

/s/ Kevin Mansell

President, Chief Executive Officer and Director
(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

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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: June 5, 2009

/s/ Wesley S. McDonald

Wesley S. McDonald
Chief Financial 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. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended May 2, 2009 (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: June 5, 2009

/s/ Kevin Mansell

Kevin Mansell
President, Chief Executive Officer and Director

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

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 May 2, 2009 (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: June 5, 2009

/s/ Wesley S. McDonald

Wesley S. McDonald
Chief Financial Officer