

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

**FORM 10-K/A**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended January 29, 2011

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 No. 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**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class  
Common Stock, \$.01 Par Value

Name of each exchange on which registered  
New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No .

At July 31, 2010, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was approximately \$14.7 billion (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date). At March 9, 2011, the Registrant had outstanding an aggregate of 290,417,880 shares of its Common Stock.

**Documents Incorporated by Reference:**



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### EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends the Annual Report on Form 10-K of Kohl’s Corporation (the “Company”) for the fiscal year ended January 29, 2011 as originally filed with the Securities and Exchange Commission (the “SEC”) on March 18, 2011 (the “Original Filing”). This Form 10-K/A amends the Original Filing to correct the Company’s accounting for certain leased assets as more fully described in Note 2 to the Consolidated Financial Statements contained in this Amendment No. 1. For ease of reference, this Amendment No. 1 amends and restates the Original Filing in its entirety. Revisions to the Original Filing have been made to the following sections:

- Item 6 – Selected Consolidated Financial Data
- Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Item 8 – Financial Statements and Supplementary Data
- Item 9A – Controls and Procedures
- Exhibit 12.1 – Ratio of Earnings to Fixed Charges
- Exhibit 23.1 – Consent of Ernst & Young LLP

In addition, the Company’s principal executive officer and principal financial officer have provided new certifications in connection with this Amendment No. 1 (Exhibits 31.1, 31.2, 32.1 and 32.2).

Except as described above, no other amendments have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosure contained herein to reflect events that have occurred since the date of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Company’s other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

**PART I****Item 1. Business**

Kohl's Corporation (the "Company" or "Kohl's") was organized in 1988 and is a Wisconsin corporation. We operate family-oriented department stores that sell moderately priced apparel, footwear and accessories for women, men and children; soft home products such as sheets and pillows; and housewares. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our stores feature quality private and exclusive brands which are found "Only at Kohl's" as well as national brands. Our apparel and home fashions appeal to classic, modern classic and contemporary customers. As of January 29, 2011, we operated 1,089 stores in 49 states.

Our merchandise mix over the last three years is reflected in the table below:

|             |       |
|-------------|-------|
| Women's     | 32%   |
| Men's       | 19    |
| Home        | 18    |
| Children's  | 12-13 |
| Accessories | 10    |
| Footwear    | 8-9   |

In addition, Kohl's offers on-line shopping on our website at [www.Kohls.com](http://www.Kohls.com). Originally designed as an added service for customers who prefer to shop using the internet, the website has grown to include a selection of items and categories beyond what is available in stores, with a primary focus on extended sizes, product line extensions, and web-exclusive product lines. The website is designed to provide a convenient, easy-to-navigate, on-line shopping environment that complements our in-store focus.

An important aspect of our pricing strategy and overall profitability is a culture focused on maintaining a low-cost structure. Critical elements of this low-cost structure are our unique store format, lean staffing levels, sophisticated management information systems and operating efficiencies which are the result of centralized buying, advertising and distribution.

Our fiscal year ends on the Saturday closest to January 31. Unless otherwise noted, references to years in this report relate to fiscal years, rather than to calendar years. Fiscal year 2010 ("2010") ended on January 29, 2011. Fiscal year 2009 ("2009") ended on January 30, 2010. Fiscal year 2008 ("2008") ended on January 31, 2009. Fiscal 2010, 2009, and 2008 were 52-week years.

**Primary Initiatives**

We have two key committees which focus on opportunities to drive our overall profitability. The mission of the Regional Assortment Committee is to accelerate sales growth by varying merchandise assortment, marketing and store presentation by region to reflect the lifestyle preferences and climate needs of our customers. The mission of the In-Store Experience Committee is to consistently deliver an improved store experience that generates loyalty and grows market share.

The following initiatives have been designed to achieve the goals of these committees:

- Our **merchandise content initiatives** are focused on increasing market share by expanding Kohl's appeal to a broader range of customers and by creating value and differentiation with private and exclusive brands which are available "Only at Kohl's." New brand launches and announcements in 2010—all of which are exclusive to Kohl's—included:
  - Jennifer Lopez and Marc Anthony, the first celebrity couple to simultaneously design collections for one retailer, are expected to launch their new brands in Kohl's stores nationwide and [Kohls.com](http://Kohls.com) beginning Fall 2011. Both brands are expected to initially launch in women's and men's apparel and accessories and may expand into home. The Jennifer Lopez collection is expected to include sportswear, dresses, handbags, jewelry, shoes and sleepwear. Marc Anthony is expected to include sportswear, dress shirts, neckwear, accessories, suit separates, sportcoats and shoes.
  - ELLE Décor, which currently includes contemporary home and home decor products, including decorative pillows, frames, candles and accent items, launched in approximately 350 stores and [Kohls.com](http://Kohls.com) in September 2010.
  - Aldo Group, International will design and produce exclusive footwear products expected to be sold at Kohl's and [Kohls.com](http://Kohls.com) under select private and exclusive brands beginning in Spring 2011.
  - Several new accessories lines:
    - FLIRT! Cosmetics teamed with Heather Morris, actress, dancer, singer and star of the hit television show, *Glee*, as their new Celebrity Style Ambassador in support of the brand's Spring 2011 product collection. The campaign is expected to launch in Spring 2011.

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- The ELLE BIJOUX jewelry and ELLE-branded line of cosmetics is expected to launch in Spring 2012.
- Simply Vera Vera Wang cosmetics are expected to launch in Spring 2012.

In December 2010, we also announced the early renewal of our long-term license agreement to be the exclusive provider and marketer in the United States of all Simply Vera Vera Wang merchandise. First licensed in 2006, the Simply Vera Vera Wang contemporary lifestyle collection also includes all apparel, intimates and sleepwear, handbags, leather accessories, jewelry, footwear, bedding and bath.

The success of our recently-launched brands, as well as our other exclusive and private brands, continue to drive increased penetration of our exclusive and private labels. Exclusive and private brand sales as a percentage of total sales increased approximately 290 basis points to 48% for 2010.

- Our **marketing initiatives** are designed to differentiate Kohl's in the marketplace while maximizing the return on our marketing investment. Our 2010 marketing efforts used "The More You Know, The More You Kohl's" platform to focus on the value of shopping at Kohl's. Our marketing emphasized the power of Kohl's savings tools that allow our customer to save more money – like compelling sale events, savings for Kohl's Charge cardholders, sale events with no exclusions, and unique "Only at Kohl's" events such as Kohl's Cash and Power Hours. Our marketing also emphasized our flexible, no questions asked, return policy.

We used all media types to communicate our marketing message including print advertising, direct mail, e-mail, digital and social media, Kohls.com, television, radio, in-store and – new for the holiday 2010 season – mobile access to Kohls.com.

- Our **inventory management initiatives** are designed to ensure that we have the right inventory, in the right stores, at the right time. Size optimization is focused on ensuring that each of our individual stores has inventory in the correct style, color and size. Markdown optimization is focused on pricing clearance items at the appropriate price for each location's inventory and sales history. Increasing our speed-to-market through our concept-to-customer strategy is also an important inventory management initiative.
- The objective of our **in-store shopping experience initiatives** are to satisfy the changing needs and expectations of our customers. Practical, easy shopping is about convenience. At Kohl's, convenience includes a neighborhood location close to home, convenient parking, easily accessible entry, knowledgeable and friendly associates, wide aisles, a functional store layout, shopping carts/strollers and fast, centralized checkouts. Though our stores have fewer departments than traditional, full-line department stores, the physical layout of the store and our focus on strong in-stock positions in style, color and size is aimed at providing a convenient shopping experience for an increasingly time-starved customer.

Remodels are also an important part of our in-store shopping experience initiatives as we believe it is extremely important to maintain our existing store base. We completed 85 store remodels in 2010—an increase from the 51 stores which were remodeled in 2009 — and currently plan to remodel approximately 100 stores in 2011. We have effectively compressed the remodel duration period which minimizes costs and disruption to our stores and benefits our sales and customer experience. We expect a typical remodel in 2011 will take seven weeks; a reduction of approximately 50 percent since 2007.

As a result of our in-store experience and other initiatives, we continue to see improvement in our customer service scorecard results. Customer service scores are derived from direct customer surveys conducted by an independent research firm.

For discussion of our financial results, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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### Expansion

Our expansion strategy has been, and will continue to be, designed to achieve profitable growth. At the time of our initial public offering in 1992, we had 79 stores in the Midwest. As of year-end 2010, we operated 1,089 stores. We have stores in 49 states and in every large and intermediate sized market in the United States.

|   | 2009  | Additions | 2010  | Estimated |       |
|---|-------|-----------|-------|-----------|-------|
|   |       |           |       | Additions | 2011  |
| Number of stores                            | 1,058 | 31        | 1,089 | 40        | 1,129 |
| Gross square footage (in millions)          | 93    | 3         | 96    | 3         | 99    |
| Retail selling square footage (in millions) | 78    | 2         | 80    | 2         | 82    |

We expect approximately two-thirds of our new stores in 2011 to be what we consider “small” stores (approximately 64,000 square feet of retail space). Though our expansion rate has slowed in recent years, we will continue to focus our future expansion efforts on opportunistic acquisitions as well as fill-in stores in our better performing markets.

The Kohl’s concept has proven to be transferable to markets across the country. New market entries are supported by extensive advertising and promotions which are designed to introduce new customers to the Kohl’s concept of brands, value and convenience. Additionally, we have been successful in acquiring, refurbishing and operating locations previously operated by other retailers. Approximately one-fourth of our current stores are take-over locations, which facilitated our initial entry into several markets. Once a new market is established, we add additional stores to further strengthen market share and enhance profitability.

We remain focused on providing the solid infrastructure needed to ensure consistent, low-cost execution. We proactively invest in distribution capacity and regional management to facilitate growth in new and existing markets. Our central merchandising organization tailors merchandise assortments to reflect regional climates and preferences. Management information systems support our low-cost culture by enhancing productivity and providing the information needed to make key merchandising decisions.

We believe the transferability of the Kohl’s retailing strategy, our experience in acquiring and converting pre-existing stores and in building new stores, combined with our substantial investment in management information systems, centralized distribution and headquarters functions provide a solid foundation for further expansion.

### Distribution

We receive substantially all of our merchandise at nine retail distribution centers. A small amount of our merchandise is delivered directly to the stores by vendors or their distributors. The retail distribution centers, which are strategically located through the United States, ship merchandise to each store by contract carrier several times a week. We also operate fulfillment centers in Monroe, Ohio and San Bernardino, California that service our E-Commerce business.

See Item 2, “Properties,” for additional information about our distribution centers.

### Employees

As of January 29, 2011, we employed approximately 136,000 associates, including approximately 29,000 full-time and 107,000 part-time associates. The number of associates varies during the year, peaking during the back-to-school and holiday seasons. None of our associates are represented by a collective bargaining unit. We believe our relations with our associates are very good.

### Competition

The retail industry is highly competitive. Management considers style, quality and price to be the most significant competitive factors in the industry. Merchandise mix, service and convenience are also key competitive factors. Our primary competitors are traditional department stores, upscale mass merchandisers and specialty stores. Our specific competitors vary from market to market.

### Merchandise Vendors

We purchase merchandise from numerous domestic and foreign suppliers. We have Terms of Engagement requirements which set forth the basic minimum requirements all business partners must meet in order to do business with Kohl’s. Our Terms of Engagement include provisions regarding laws and regulations, employment practices, ethical standards, environmental and legal requirements, communication, monitoring/compliance, record keeping, subcontracting and corrective action. Our expectation is that all business partners will comply with these Terms of Engagement and quickly remediate any deficiencies, if noted, in order to maintain our business relationship.

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None of our vendors accounted for more than 5% of our net purchases during 2010. We have no significant long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We believe we have good working relationships with our suppliers.

### **Seasonality**

Our business, like that of most retailers, is subject to seasonal influences. The majority of our sales and income are typically realized during the second half of each fiscal year. The back-to-school season extends from August through September and represents approximately 15% of our annual sales. Approximately 30% of our sales occur during the holiday season in the months of November and December. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the fiscal year. In addition, quarterly results of operations depend upon the timing and amount of revenues and costs associated with the opening of new stores.

### **Trademarks and Service Marks**

The name “Kohl’s” is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary has over 130 additional registered trademarks, trade names and service marks, most of which are used in our private label program.

### **Available Information**

Our internet website is [www.Kohls.com](http://www.Kohls.com). Through the “Investor Relations” portion of this website, we make available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports as soon as reasonably practicable after such material has been filed with, or furnished to, the Securities and Exchange Commission (“SEC”).

The following have also been posted on our website, under the caption “Investor Relations-Corporate Governance:”

- Committee charters of our Board of Directors’ Audit Committee, Compensation Committee and Governance & Nominating Committee
- Report to Shareholders on Social Responsibility
- Corporate Governance Guidelines
- Code of Ethics

Any amendment to or waiver from the provisions of the Code of Ethics that is applicable to our Chief Executive Officer, Chief Financial Officer or other key finance associates will be disclosed on the “Corporate Governance” portion of the website.

Information contained on our website is not part of this Annual Report on Form 10-K/A. Paper copies of any of the materials listed above will be provided without charge to any shareholder submitting a written request to our Investor Relations Department at N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin 53051 or via e-mail to [Investor.Relations@Kohls.com](mailto:Investor.Relations@Kohls.com).

## **Item 1A. Risk Factors**

### *Forward Looking Statements*

Items 1, 3, 5, 7 and 7A of this Form 10-K/A contain “forward-looking statements,” made within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believes,” “anticipates,” “plans,” “may,” “intends,” “will,” “should,” “expects” and similar expressions are intended to identify forward-looking statements. In addition, statements covering our future sales or financial performance and our plans, performance and other objectives, expectations or intentions are forward-looking statements, such as statements regarding our liquidity, debt service requirements, planned capital expenditures, future store openings and adequacy of capital resources and reserves. There are a number of important factors that could cause our results to differ materially from those indicated by the forward-looking statements, including among others, those risk factors described below. Forward-looking statements relate to the date made, and we undertake no obligations to update them.

*Declines in general economic conditions, consumer spending levels and other conditions could lead to reduced consumer demand for our merchandise and cause reductions in our sales and/or gross margin.*

Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers’ disposable income, credit availability and debt levels.

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Recent economic conditions have 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. A continued or incremental slowdown in the U.S. economy and the uncertain economic outlook could continue to adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. As all of our stores are located in the United States, we are especially susceptible to deteriorations in the U.S. economy.

Consumer confidence is also affected by the domestic and international political situation. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the United States, could lead to a decrease in spending by consumers.

*Actions by our competitors could adversely affect our operating results.*

The retail business is highly competitive. We compete for customers, associates, locations, merchandise, services and other important aspects of our business with many other local, regional and national retailers. Those competitors, some of which have a greater market presence than Kohl's, include traditional store-based retailers, internet and catalog businesses and other forms of retail commerce. Unanticipated changes in the pricing and other practices of those competitors may adversely affect our performance.

*Product safety concerns could adversely affect our sales and operating results.*

If our merchandise offerings do not meet applicable safety standards or our customers' expectations regarding safety, we could experience lost sales, experience increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns, could have a negative impact on our sales.

*If we do not offer merchandise our customers want and fail to successfully manage our inventory levels, our sales and/or gross margin may be adversely impacted.*

Our business is dependent on our ability to anticipate fluctuations in consumer demand for a wide variety of merchandise. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions could create inventory imbalances and adversely affect our performance and long-term relationships with our customers. Additionally, failure to accurately predict changing consumer tastes may result in excess inventory, which could result in additional markdowns and adversely affect our operating results.

*Ineffective marketing could adversely affect our sales and profitability.*

In 2010, advertising costs, net of related vendor allowances, were \$869 million. We believe that differentiating Kohl's in the marketplace is critical to our success. We design our marketing programs to increase awareness of our brands, which we expect will create and maintain customer loyalty, increase the number of customers that shop our stores and increase our sales. If our marketing programs are not successful, our sales and profitability could be adversely affected.

*We may be unable to raise additional capital, if needed, or to raise capital on favorable terms.*

In recent years, the general economic and capital market conditions in the United States and other parts of the world have deteriorated significantly and have adversely affected access to capital and increased the cost of capital. If our existing cash, cash generated from operations and funds available on our lines of credit are insufficient to fund our future activities, including capital expenditures, or repay debt when it becomes due, we may need to raise additional funds through public or private equity or debt financing. If unfavorable capital market conditions exist if and when we were to seek additional financing, we may not be able to raise sufficient capital on favorable terms and on a timely basis (if at all). Failure to obtain capital on acceptable terms, or at all, when required by our business circumstances could have a material adverse effect on us including an inability to fund new growth and other capital expenditures.

In 2010, we entered into a derivative product to manage our exposure to interest rates on debt that we expect to issue in late 2011. Disruptions or turmoil in the financial markets could lead to losses on this derivative position resulting from counterparty failures.

*Inefficient or ineffective allocation of capital could adversely affect our operating results and/or shareholder value.*

Our goal is to invest capital to maximize our overall long-term returns. This includes spending on inventory, capital projects and expenses, managing debt levels, and periodically returning value to our shareholders through share repurchases and dividends. To a large degree, capital efficiency reflects how well we manage our other key risks. The actions taken to address other specific risks may affect how well we manage the more general risk of capital efficiency. If we do not properly allocate our capital to maximize returns, we may fail to produce optimal financial results and we may experience a reduction in shareholder value.



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*Changes in our credit card operations could adversely affect our sales and/or profitability.*

Our credit card operations facilitate sales in our stores and generate additional revenue from fees related to extending credit. The proprietary Kohl's credit card accounts have been sold to an unrelated third-party, but we share in the net revenues of the program according to a fixed percentage. Net revenues are settled monthly and include finance charge and late fee revenues, less write-offs of uncollectible accounts and other expenses.

In August 2010, we entered into a Private Label Credit Card Program Agreement with Capital One, National Association ("Capital One"), which will be effective upon transition of the outstanding receivables from our former partner to Capital One. We currently expect this transition to occur in the first fiscal quarter of 2011. Kohl's and Capital One will share in the net risk-adjusted revenue of the portfolio, which is defined as the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. Changes in funding costs related to interest rate fluctuations will be shared similar to the revenue. Though management currently believes that increases in funding costs will be largely offset by increases in finance charge revenue, increases in funding costs could adversely impact the profitability of this program.

Changes in credit card use, payment patterns and default rates may also result from a variety of economic, legal, social and other factors that we cannot control or predict with certainty. Changes that adversely impact our ability to extend credit and collect payments could negatively affect our results.

*Weather conditions could adversely affect our sales and/or profitability by affecting consumer shopping patterns.*

Because a significant portion of our business is apparel and subject to weather conditions in our markets, our operating results may be adversely affected by severe or unexpected weather conditions. Frequent or unusually heavy snow, ice or rain storms or extended periods of unseasonable temperatures in our markets could adversely affect our performance by affecting consumer shopping patterns or diminishing demand for seasonal merchandise.

*Our business is seasonal, which could adversely affect the market price of our common stock.*

Our business is subject to seasonal influences, with a major portion of sales and income historically realized during the second half of the fiscal year, which includes the back-to-school and holiday seasons. This seasonality causes our operating results to vary considerably from quarter to quarter and could materially adversely affect the market price of our common stock.

*We may be unable to source merchandise in a timely and cost-effective manner, which could adversely affect our sales and operating results.*

Approximately 23% of the merchandise we sell is sourced through a third party purchasing agent. The remaining merchandise is sourced from a wide variety of domestic and international vendors. All of our vendors must comply with applicable laws and our required Terms of Engagement. Our ability to find qualified vendors and access products in a timely and efficient manner is a significant challenge which is typically even more difficult with respect to goods sourced outside the United States. Political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, and the ability to access suitable merchandise on acceptable terms are beyond our control and could adversely impact our performance.

If any of our vendors were to become subject to bankruptcy, receivership or similar proceedings, we may be unable to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as current terms, which could adversely affect our sales and operating results.

*Increases in the price of merchandise, raw materials, fuel and labor or their reduced availability could increase our cost of goods and negatively impact our financial results.*

We are beginning to experience inflation in our merchandise, raw materials, fuel and labor costs. The cost of cotton, which is a key raw material in many of our products, has had the most dramatic increases. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, acreage devoted to cotton crops and crop yields, weather, supply conditions, transportation costs, energy prices, work stoppages, government regulation and government policy, economic climates, market speculation and other unpredictable factors. Fluctuations in the price and availability of fuel, labor and raw materials, such as cotton, have not materially affected our cost of goods in recent years, but an inability to mitigate these cost increases, unless sufficiently offset with our pricing actions, might cause a decrease in our profitability; while any related pricing actions might cause a decline in our sales volume. Additionally, any decrease in the availability of raw materials could impair our ability to meet our production or purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel and labor may also have an adverse impact on our cash and working capital needs as well as those of our suppliers.

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*An inability to attract and retain quality employees could result in higher payroll costs and adversely affect our operating results.*

Our performance is dependent on attracting and retaining a large and growing number of quality associates. Many of those associates are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact our ability to attract and retain quality associates could adversely affect our performance.

*An inability to open new stores could adversely affect our financial performance.*

Our plan to continue to increase the number of our stores will depend in part upon the availability of existing retail stores or store sites on acceptable terms. Increases in real estate, construction and development costs could limit our growth opportunities and affect our return on investment. There can be no assurance that such stores or sites will be available for purchase or lease, or that they will be available on acceptable terms. If we are unable to grow our retail business, our financial performance could be adversely affected.

*Regulatory and litigation developments could adversely affect our business operations and financial performance.*

Various aspects of our operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. We continually monitor the state and federal employment law environment for developments that may adversely impact us. Failure to detect changes and comply with such laws and regulations may result in an erosion of our reputation, disruption of business and/or loss of employee morale. Additionally, we are regularly involved in various litigation matters that arise in the ordinary course of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance.

*Damage to the reputation of the Kohl's brand or our private and exclusive brands could adversely affect our sales.*

We believe the Kohl's brand name and many of our private and exclusive brand names are powerful sales and marketing tools and we devote significant resources to promoting and protecting them. We develop and promote private and exclusive brands that have generated national recognition. In some cases, the brands or the marketing of such brands are tied to or affiliated with well-known individuals. Damage to the reputations (whether or not justified) of our brand names or any affiliated individuals, could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in sales, earnings, and shareholder value.

*Disruptions in our information systems could adversely affect our sales and profitability.*

The efficient operation of our business is dependent on our information systems. In particular, we rely on our information systems to effectively manage sales, distribution, merchandise planning and allocation functions. We also generate sales through the operations of our Kohls.com website. The failure of our information systems to perform as designed could disrupt our business and harm sales and profitability.

*Unauthorized disclosure of sensitive or confidential customer information could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business.*

As part of our normal course of business, we collect, process and retain sensitive and confidential customer information. Despite the security measures we have in place, our facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business.

*New legal requirements could adversely affect our operating results.*

Our sales and results of operations may be adversely affected by new legal requirements, including health care reform and proposed climate change and other environmental legislation and regulations.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the U.S. This legislation expands health care coverage to many uninsured individuals and expands coverage to those already insured. The changes required by this legislation could cause us to incur additional health care and other costs, but we do not expect any material short-term impact on our financial results as a result of the legislation and are currently assessing the extent of any long-term impact.

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The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”) mandated fundamental changes in 2010 to many of our current business credit card practices, including marketing, underwriting, pricing and billing (specifically restrictions on late and other penalty fees). While we have made numerous changes designed to lessen the impact of the changes required by the CARD Act, there is no assurance that we will be successful. If we are not able to lessen the impact of the changes required by the CARD Act, the changes could adversely impact the profitability of our credit operations and make it more difficult to extend credit to our customers and collect payments which would have a material adverse effect on our results of operations.

The costs and other effects of other new legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent such requirements increase prices of goods and services because of increased compliance costs or reduced availability of raw materials.

### **Item 1B. Unresolved Staff Comments**

Not applicable.

### **Item 2. Properties**

#### **Stores**

As of January 29, 2011, we operated 1,089 stores in 49 states. Our typical, or “prototype,” store has 88,000 gross square feet of retail space and serves trade areas of 150,000 to 200,000 people. Most “small” stores are 64,000 to 68,000 square feet and serve trade areas of 100,000 to 150,000 people. Our “urban” stores, currently located in the New York and Chicago markets, serve very densely populated areas of up to 500,000 people and average approximately 125,000 gross square feet of retail space.

Our typical lease has an initial term of 20-25 years and four to eight renewal options for consecutive five-year extension terms. Substantially all of our leases provide for a minimum annual rent that is fixed or adjusts to set levels during the lease term, including renewals. Approximately one-fourth of the leases provide for additional rent based on a percentage of sales over designated levels.

The following tables summarize key information about our stores.

|                             | Number of Stores |           |            | Retail Square Footage  |
|-----------------------------|------------------|-----------|------------|------------------------|
|                             | 2009             | Additions | 2010       | 2010<br>(In thousands) |
| <b>Mid-Atlantic Region:</b> |                  |           |            |                        |
| Delaware                    | 5                | —         | 5          | 399                    |
| Maryland                    | 17               | 4         | 21         | 1,547                  |
| Pennsylvania                | 43               | 3         | 46         | 3,336                  |
| Virginia                    | 26               | 1         | 27         | 1,972                  |
| West Virginia               | 7                | —         | 7          | 500                    |
| Total Mid-Atlantic          | <u>98</u>        | <u>8</u>  | <u>106</u> | <u>7,754</u>           |
| <b>Midwest Region:</b>      |                  |           |            |                        |
| Illinois                    | 61               | 1         | 62         | 4,733                  |
| Indiana                     | 37               | —         | 37         | 2,704                  |
| Iowa                        | 14               | —         | 14         | 950                    |
| Michigan                    | 45               | —         | 45         | 3,347                  |
| Minnesota                   | 25               | 1         | 26         | 1,976                  |
| Nebraska                    | 7                | —         | 7          | 479                    |
| North Dakota                | 3                | —         | 3          | 217                    |
| Ohio                        | 56               | 1         | 57         | 4,239                  |
| South Dakota                | 2                | —         | 2          | 169                    |
| Wisconsin                   | 39               | —         | 39         | 2,841                  |
| Total Midwest               | <u>289</u>       | <u>3</u>  | <u>292</u> | <u>21,655</u>          |

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|                              | Number of Stores |           |              | Retail Square Footage  |
|------------------------------|------------------|-----------|--------------|------------------------|
|                              | 2009             | Additions | 2010         | 2010<br>(In thousands) |
| <b>Northeast Region:</b>     |                  |           |              |                        |
| Connecticut                  | 18               | —         | 18           | 1,339                  |
| Maine                        | 5                | —         | 5            | 388                    |
| Massachusetts                | 21               | —         | 21           | 1,682                  |
| New Hampshire                | 9                | —         | 9            | 640                    |
| New Jersey                   | 38               | —         | 38           | 2,901                  |
| New York                     | 45               | 3         | 48           | 3,697                  |
| Rhode Island                 | 3                | —         | 3            | 227                    |
| Vermont                      | 1                | —         | 1            | 77                     |
| Total Northeast              | 140              | 3         | 143          | 10,951                 |
| <b>South Central Region:</b> |                  |           |              |                        |
| Arkansas                     | 8                | —         | 8            | 572                    |
| Kansas                       | 10               | 1         | 11           | 765                    |
| Louisiana                    | 5                | 1         | 6            | 421                    |
| Missouri                     | 23               | 1         | 24           | 1,770                  |
| Oklahoma                     | 9                | —         | 9            | 668                    |
| Texas                        | 80               | —         | 80           | 5,889                  |
| Total South Central          | 135              | 3         | 138          | 10,085                 |
| <b>Southeast Region:</b>     |                  |           |              |                        |
| Alabama                      | 10               | 2         | 12           | 830                    |
| Florida                      | 48               | 1         | 49           | 3,635                  |
| Georgia                      | 33               | —         | 33           | 2,443                  |
| Kentucky                     | 15               | 1         | 16           | 1,127                  |
| Mississippi                  | 4                | 1         | 5            | 378                    |
| North Carolina               | 27               | —         | 27           | 1,978                  |
| South Carolina               | 12               | —         | 12           | 880                    |
| Tennessee                    | 19               | —         | 19           | 1,345                  |
| Total Southeast              | 168              | 5         | 173          | 12,616                 |
| <b>West Region:</b>          |                  |           |              |                        |
| Alaska                       | 1                | —         | 1            | 73                     |
| Arizona                      | 26               | —         | 26           | 1,953                  |
| California                   | 121              | 5         | 126          | 9,108                  |
| Colorado                     | 23               | 1         | 24           | 1,835                  |
| Idaho                        | 4                | —         | 4            | 269                    |
| Montana                      | 1                | —         | 1            | 72                     |
| Nevada                       | 11               | 1         | 12           | 851                    |
| New Mexico                   | 4                | 1         | 5            | 326                    |
| Oregon                       | 9                | 1         | 10           | 649                    |
| Utah                         | 12               | —         | 12           | 874                    |
| Washington                   | 15               | —         | 15           | 1,016                  |
| Wyoming                      | 1                | —         | 1            | 52                     |
| Total West                   | 228              | 9         | 237          | 17,078                 |
| <b>Total Kohl's</b>          | <b>1,058</b>     | <b>31</b> | <b>1,089</b> | <b>80,139</b>          |

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|                      | Number of Stores by Greater Metropolitan Area |           |              |
|----------------------|---|-----------|--------------|
|                      | 2009  | Additions | 2010         |
| New York City        | 63  | 2         | 65           |
| Los Angeles          | 53  | 1         | 54           |
| Chicago              | 50  | —         | 50           |
| Philadelphia         | 33  | —         | 33           |
| Atlanta              | 27  | —         | 27           |
| Dallas/Fort Worth    | 25  | —         | 25           |
| Boston               | 24  | —         | 24           |
| Detroit              | 24  | —         | 24           |
| San Francisco        | 24  | —         | 24           |
| Washington DC        | 23  | 1         | 24           |
| Minneapolis/St. Paul | 22  | 1         | 23           |
| Milwaukee            | 22  | —         | 22           |
| Phoenix              | 22  | —         | 22           |
| Cleveland/Akron      | 18  | 1         | 19           |
| Houston              | 19  | —         | 19           |
| Denver               | 18  | —         | 18           |
| Sacramento           | 17  | 1         | 18           |
| Indianapolis         | 17  | —         | 17           |
| Columbus             | 15  | —         | 15           |
| Orlando              | 15  | —         | 15           |
| St. Louis            | 14  | 1         | 15           |
| Hartford/New Haven   | 13  | —         | 13           |
| Cincinnati           | 12  | —         | 12           |
| Kansas City          | 10  | 2         | 12           |
| Salt Lake City       | 12  | —         | 12           |
| Baltimore            | 8   | 3         | 11           |
| Miami                | 11  | —         | 11           |
| Pittsburgh           | 10  | 1         | 11           |
| Charlotte            | 10  | —         | 10           |
| Raleigh/Durham       | 10  | —         | 10           |
| San Diego            | 10  | —         | 10           |
| Seattle/Tacoma       | 10  | —         | 10           |
| Other                | 397   | 17        | 414          |
|                      | <u>1,058</u>                                  | <u>31</u> | <u>1,089</u> |

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|           | Number of Stores<br>by Store Type |           |              |
|-----------|-----------------------------------|-----------|--------------|
|           | 2009                              | Additions | 2010         |
| Prototype | 962                               | 16        | 978          |
| Small     | 92                                | 14        | 106          |
| Urban     | 4                                 | 1         | 5            |
|           | <u>1,058</u>                      | <u>31</u> | <u>1,089</u> |

|         | Number of Stores<br>by Ownership |           |              |
|---------|----------------------------------|-----------|--------------|
|         | 2009                             | Additions | 2010         |
| Owned   | 372                              | 10        | 382          |
| Leased* | 686                              | 21        | 707          |
|         | <u>1,058</u>                     | <u>31</u> | <u>1,089</u> |

\* Leased includes locations where we lease the land and/or building

|                            | Number of Stores<br>by Location |           |              |
|----------------------------|---------------------------------|-----------|--------------|
|                            | 2009                            | Additions | 2010         |
| Strip centers              | 746                             | 5         | 751          |
| Community & regional malls | 73                              | 5         | 78           |
| Free standing              | 239                             | 21        | 260          |
|                            | <u>1,058</u>                    | <u>31</u> | <u>1,089</u> |

|             | Number of Stores<br>by Building Type |           |              |
|-------------|--------------------------------------|-----------|--------------|
|             | 2009                                 | Additions | 2010         |
| One-story   | 971                                  | 29        | 1,000        |
| Multi-story | 87                                   | 2         | 89           |
|             | <u>1,058</u>                         | <u>31</u> | <u>1,089</u> |

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### Distribution Centers

The following table summarizes key information about each of our distribution centers.

| <u>Location</u>            | <u>Year Opened</u> | <u>Square Footage</u> | <u>States Served</u>  | <u>Approximate Store Capacity</u> |
|----------------------------|--------------------|-----------------------|---|-----------------------------------|
| <b>Retail:</b>             |                    |                       |   |                                   |
| Findlay, Ohio              | 1994               | 780,000               | Ohio, Michigan, Indiana   | 130                               |
| Winchester, Virginia       | 1997               | 420,000               | Pennsylvania, Virginia, Maryland, Delaware, West Virginia   | 115                               |
| Blue Springs, Missouri     | 1999               | 540,000               | Minnesota, Colorado, Missouri, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota, Wyoming | 110                               |
| Corsicana, Texas           | 2001               | 540,000               | Texas, Oklahoma, Arkansas, Mississippi, Louisiana   | 115                               |
| Mamakating, New York       | 2002               | 605,000               | New York, New Jersey, Massachusetts, Connecticut, New Hampshire, Rhode Island, Maine, Vermont       | 140                               |
| San Bernardino, California | 2002               | 575,000               | California, Arizona, Nevada, Utah, New Mexico   | 110                               |
| Macon, Georgia             | 2005               | 560,000               | Alabama, Tennessee, Georgia, South Carolina, Florida, Kentucky, North Carolina                      | 150                               |
| Patterson, California      | 2006               | 360,000               | Alaska, California, Oregon, Washington, Idaho   | 100                               |
| Ottawa, Illinois           | 2008               | 328,000               | Indiana, Illinois, Michigan, Wisconsin  | 160                               |
| <b>E-Commerce:</b>         |                    |                       |   |                                   |
| Monroe, Ohio               | 2001               | 940,000               | —   | —                                 |
| San Bernardino, California | 2010               | 970,000               | —   | —                                 |

We own all of the distribution centers except Corsicana, Texas, which is leased.

### Corporate Facilities

We own our corporate headquarters and several small office buildings used by various corporate departments, including our credit operations, in Menomonee Falls, Wisconsin. Our product development business has leased office space in New York City. We also lease a credit card servicing facility in Texas.

### Item 3. Legal Proceedings

We are not currently a party to any material legal proceedings, but are subject to certain legal proceedings and claims from time to time that are incidental to our ordinary course of business.

### Item 4. Reserved

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***(a) Market information*

Our Common Stock has been traded on the New York Stock Exchange since May 19, 1992, under the symbol "KSS." The prices in the table set forth below indicate the high and low sales prices of our Common Stock per the New York Stock Exchange Composite Price History for each quarter in 2010 and 2009.

|                    | Price Range |          |
|--------------------|-------------|----------|
|                    | High        | Low      |
| <b>Fiscal 2010</b> |             |          |
| Fourth Quarter     | \$ 58.00    | \$ 49.00 |
| Third Quarter      | \$ 54.22    | \$ 44.07 |
| Second Quarter     | \$ 57.35    | \$ 45.29 |
| First Quarter      | \$ 58.99    | \$ 48.40 |
| <b>Fiscal 2009</b> |             |          |
| Fourth Quarter     | \$ 58.07    | \$ 49.87 |
| Third Quarter      | \$ 60.89    | \$ 48.43 |
| Second Quarter     | \$ 50.39    | \$ 40.64 |
| First Quarter      | \$ 46.50    | \$ 32.50 |

We have filed with the Securities and Exchange Commission ("SEC"), as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K/A, the Sarbanes-Oxley Act Section 302 certifications. In 2010, Kevin Mansell, our Chief Executive Officer, submitted a certification with the New York Stock Exchange ("NYSE") in accordance with Section 303A.12 of the NYSE Listed Company Manual stating that, as of the date of the certification, he was not aware of any violation by us of the NYSE's corporate governance listing standards.

*(b) Holders*

At March 9, 2011, there were approximately 4,700 record holders of our Common Stock.

*(c) Dividends*

On February 23, 2011, our Board of Directors declared our first dividend. The \$0.25 per share quarterly cash dividend will be paid on March 30, 2011 to shareholders of record as of March 9, 2011.

*(d) Securities Authorized For Issuance Under Equity Compensation Plans*

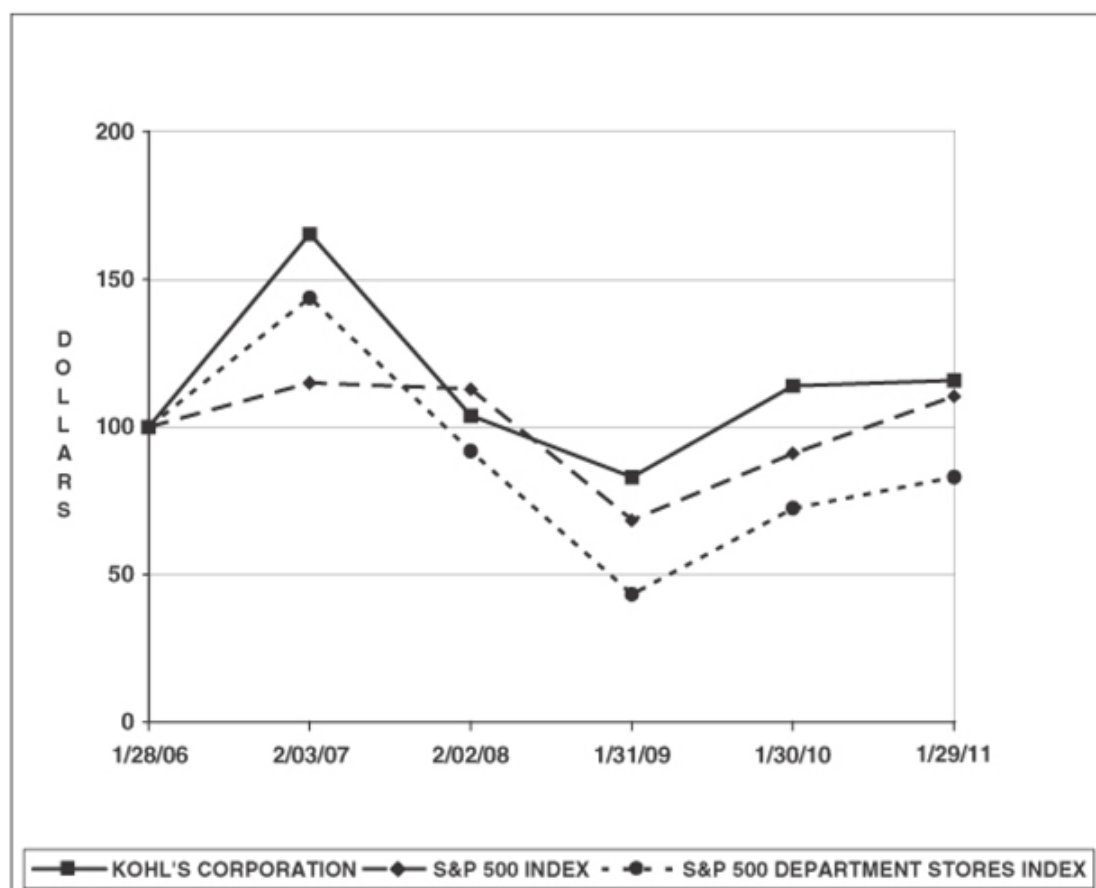
See the information provided in the "Equity Compensation Plan Information" section of the Proxy Statement for our May 12, 2011 Annual Meeting of Shareholders, which information is incorporated herein by reference.



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(e) Performance Graph

The graph below compares our cumulative five-year stockholder return to that of the Standard & Poor's 500 Index and the S&P 500 Department Stores Index. The S&P 500 Department Stores Index was calculated by Capital IQ, a Standard & Poor's business and includes Kohl's; JCPenney Company, Inc.; Dillard's, Inc.; Macy's, Inc.; Nordstrom Inc.; and Sears Holding Corporation. The graph assumes investment of \$100 on January 28, 2006 and reinvestment of dividends. The calculations exclude trading commissions and taxes.



|  | 2005     | 2006     | 2007     | 2008    | 2009     | 2010     |
|--|----------|----------|----------|---------|----------|----------|
| <b>Kohl's Corporation</b>                  | \$100.00 | \$165.50 | \$103.91 | \$83.05 | \$113.96 | \$115.84 |
| <b>S&amp;P 500 Index</b>                   | 100.00   | 114.99   | 112.92   | 68.47   | 91.16    | 110.53   |
| <b>S&amp;P 500 Department Stores Index</b> | 100.00   | 143.82   | 91.83    | 43.38   | 72.51    | 83.17    |

(f) Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

We did not sell any equity securities during 2010 which were not registered under the Securities Act.

(g) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 17, 2010, we entered into an accelerated share repurchase transaction with Morgan Stanley & Co. Incorporated ("Morgan Stanley") to repurchase \$1.0 billion of Kohl's common stock on an accelerated basis. This accelerated share repurchase was part of the \$2.5 billion share repurchase program authorized by our Board of Directors in September 2007. On November 18, 2010, we paid \$1.0 billion to Morgan Stanley from cash on hand. We received 17.9 million shares of Kohl's common stock during the fiscal year ended January 29, 2011. The final 900,000 shares due under the transaction were received in March 2011.

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In February 2011, our Board of Directors increased the remaining share repurchase authorization under our existing share repurchase program by \$2.6 billion, from \$900 million to \$3.5 billion. Purchases under the repurchase program may be made in the open market, through block trades and other negotiated transactions. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions and to complete the program by the end of Fiscal 2013. There is no fixed termination date for the repurchase program, and the program may be suspended, discontinued or accelerated at any time.

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 January 29, 2011:

| <u>Period</u>                | <u>Total<br/>Number<br/>of Shares<br/>Purchased<br/>During<br/>Period</u> | <u>Average<br/>Price<br/>Paid Per<br/>Share</u> | <u>Total Number<br/>of Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</u> | <u>Approximate<br/>Dollar Value of<br/>Shares that May<br/>Yet Be Purchased<br/>Under the Plans<br/>or Programs</u><br>(In millions) |
|------------------------------|---|---|---|--|
| Oct. 31 – Nov. 27, 2010      | 12,564,961  | \$53.10   | 12,563,942  | \$ 866   |
| Nov. 28, 2010 – Jan. 1, 2011 | 3,849,395   | 53.10   | 3,849,088   | 866  |
| Jan. 2 – Jan. 29, 2011       | 1,513,978   | 53.10   | 1,513,978   | 866  |
| Total                        | <u>17,928,334</u>   | <u>\$53.10</u>                                  | <u>17,927,008</u>   | <u>\$ 3,500(1)</u>   |

(1) Includes additional repurchases authorized in February 2011

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**Item 6. Selected Consolidated Financial Data**

The selected consolidated financial data presented below should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this document. The Statement of Income and Balance Sheet Data have been derived from our audited consolidated financial statements.

|   | 2010  | 2009     | 2008     | 2007     | 2006     |
|---|---|----------|----------|----------|----------|
|   | (Dollars in Millions,<br>Except Per Share and Per Square Foot Data)<br>(Restated) |          |          |          |          |
| <b>Statement of Income Data:</b>                                    |   |          |          |          |          |
| Net sales   | <b>\$18,391</b>   | \$17,178 | \$16,389 | \$16,474 | \$15,597 |
| Cost of merchandise sold  | <b>11,359</b>   | 10,680   | 10,334   | 10,460   | 9,922    |
| Gross margin  | <b>7,032</b>  | 6,498    | 6,055    | 6,014    | 5,675    |
| Selling, general and administrative expenses                        | <b>4,190</b>  | 3,951    | 3,769    | 3,548    | 3,279    |
| Depreciation and amortization                                       | <b>750</b>  | 688      | 632      | 535      | 464      |
| Operating income  | <b>2,092</b>  | 1,859    | 1,654    | 1,931    | 1,932    |
| Interest expense, net   | <b>304</b>  | 301      | 275      | 228      | 188      |
| Income before income taxes  | <b>1,788</b>  | 1,558    | 1,379    | 1,703    | 1,744    |
| Provision for income taxes  | <b>668</b>  | 585      | 522      | 643      | 654      |
| Net income  | <b>\$ 1,120</b>   | \$ 973   | \$ 857   | \$ 1,060 | \$ 1,090 |
| Net income per share:   |   |          |          |          |          |
| Basic   | <b>\$ 3.69</b>  | \$ 3.19  | \$ 2.80  | \$ 3.33  | \$ 3.28  |
| Diluted   | <b>\$ 3.66</b>  | \$ 3.17  | \$ 2.80  | \$ 3.31  | \$ 3.26  |
| <b>Operating Data:</b>  |   |          |          |          |          |
| Comparable store sales growth (a)                                   | <b>4.4%</b>   | 0.4%     | (6.9%)   | (0.8%)   | 5.9%     |
| Net sales per selling square foot (b)                               | <b>\$ 222</b>   | \$ 217   | \$ 222   | \$ 249   | \$ 256   |
| Total square feet of selling space (end of period, in thousands)    | 80,139  | 78,396   | 74,992   | 69,889   | 62,357   |
| Number of stores open (end of period)                               | <b>1,089</b>  | 1,058    | 1,004    | 929      | 817      |
| Return on average shareholders' equity (c)                          | <b>14.1%</b>  | 13.8%    | 13.8%    | 18.8%    | 19.5%    |
| <b>Balance Sheet Data (end of period):</b>                          |   |          |          |          |          |
| Working capital   | <b>\$ 2,861</b>   | \$ 3,030 | \$ 1,828 | \$ 1,903 | \$ 1,439 |
| Property and equipment, net   | <b>8,692</b>  | 8,506    | 8,402    | 7,937    | 6,725    |
| Total assets  | <b>14,779</b>   | 14,465   | 12,588   | 11,796   | 10,210   |
| Long-term debt (including current portion)                          | <b>1,894</b>  | 1,894    | 1,893    | 1,892    | 896      |
| Capital lease and financing obligations (including current portion) | <b>2,104</b>  | 2,046    | 1,914    | 1,864    | 1,750    |
| Shareholders' equity  | <b>7,850</b>  | 7,595    | 6,499    | 5,890    | 5,415    |

- (a) Comparable store sales growth is based on sales for stores (including E-Commerce sales and relocated or remodeled stores) which were open throughout both the full current and prior year periods. Fiscal 2006 was a 53-week year. Comparable store sales growth for 2006 is presented for the 52-weeks ended January 27, 2007 and excludes approximately \$200 million in sales which were earned in the 53<sup>rd</sup> week of that year.
- (b) Net sales per selling square foot is based on stores open for the full current period, excluding E-Commerce. Fiscal 2006 excludes the impact of the 53<sup>rd</sup> week.
- (c) Average shareholders' equity is based on a 5-quarter average for 2010 and the two most recent year-end balances for 2009, 2008, 2007, and 2006.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Executive Summary**

Total net sales for 2010 were \$18.4 billion, a 7.1% increase over 2009. Comparable store sales increased 4.4% over 2009. The Southeast region and the Footwear business reported the strongest comparable store sales growth.

Gross margin as a percent of net sales for the year increased approximately 40 basis points over the 2009 rate to 38.2%. Strong inventory management as well as increased penetration of private and exclusive brands contributed to the margin strength.

Selling, general and administrative expenses ("SG&A") increased 6% compared to the prior year. SG&A as a percentage of net sales, decreased, or "leveraged" primarily driven by store payroll and advertising.

Net income increased 15% for 2010 to \$1.1 billion, or \$3.66 per diluted share, compared to \$973 million, or \$3.17 per diluted share for 2009.

We ended the year with 1,089 stores in 49 states, including 31 which were successfully opened in 2010. We expect to open approximately 40 stores in fiscal 2011. Remodels remain a critical part of our long-term strategy as we believe it is important to maintain our existing store base. We completed 85 remodels in 2010, compared to 51 in 2009, and expect to remodel approximately 100 stores in 2011.

In February 2011, our Board of Directors approved our first ever dividend. The 25 cent per share quarterly dividend will be paid on March 30, 2011 to all shareholders of record as of March 9, 2011. The dividend reflects the Board's confidence in our long-term cash flow. We expect to use a portion of future free cash flow to continue to pay quarterly dividends. Our Board of Directors also increased the remaining share repurchase authorization under our existing share repurchase program by \$2.6 billion, from \$900 million to \$3.5 billion. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions and to complete the program by the end of Fiscal 2013.

On November 17, 2010, we entered into an accelerated share repurchase transaction with Morgan Stanley & Co. Incorporated ("Morgan Stanley") to repurchase \$1.0 billion of Kohl's common stock on an accelerated basis. This accelerated share repurchase was part of the \$2.5 billion share repurchase program authorized by our Board of Directors in September 2007. On November 18, 2010, we paid \$1.0 billion to Morgan Stanley from cash on hand. We received a total of 18.8 million shares under the program: 12.6 million shares on November 18, 2010, 3.8 million shares on December 7, 2010, 1.5 million on January 11, 2011, and a final delivery of 0.9 million shares on March 3, 2011.

We installed electronic signs in approximately 100 stores in 2010. We expect to have installed the signs in all stores by Holiday 2012. In-store kiosks were effectively rolled-out to all stores in August 2010. The kiosks allow customers to order items which are not available in the store and have them delivered to their home with no shipping costs. Preliminary results from the kiosks have exceeded our plans and we expect to add an additional kiosk in approximately 100 stores in 2011.

We believe that consumers will remain focused on value in 2011. We intend to continue to be flexible in our sales and inventory planning and in our expense management in order to react to changes in consumer demand. Additionally, merchandise costs in all apparel categories are expected to be up approximately 10% to 15% overall for Fall 2011 due to inflation in the cost of raw materials, labor and fuel. Specific increases are dependent on the category and the related fabric content. We have been preparing for these cost increases for some time and are working diligently to minimize the impact of these higher costs on a consumer that is still buying cautiously and, therefore, less open to paying higher prices for discretionary goods.

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**Results of Operations**

Our fiscal year ends on the Saturday closest to January 31. Unless otherwise noted, references to years in this report relate to fiscal years, rather than to calendar years. Fiscal year 2010 (“2010”) ended on January 29, 2011, fiscal year 2009 (“2009”) ended on January 30, 2010, and fiscal year 2008 (“2008”) ended on January 31, 2009. All three years were 52-week years.

*Net sales.*

|                                       | <u>2010</u>     | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-----------------|-------------|-------------|
| Net sales (in millions)               | <b>\$18,391</b> | \$17,178    | \$16,389    |
| Number of stores:                     |                 |             |             |
| Opened during the year                | <b>31</b>       | 56          | 75          |
| Open at end of year                   | <b>1,089</b>    | 1,058       | 1,004       |
| Comparable stores (a)                 | <b>1,003</b>    | 929         | 817         |
| Sales growth:                         |                 |             |             |
| Total                                 | <b>7.1%</b>     | 4.8%        | (0.5%)      |
| Comparable stores (a)                 | <b>4.4%</b>     | 0.4%        | (6.9%)      |
| Net sales per selling square foot (b) | <b>\$ 222</b>   | \$ 217      | \$ 222      |

- (a) Comparable store sales growth is based on sales for stores (including E-Commerce sales and relocated or remodeled stores) which were open throughout both the full current and prior year periods
- (b) Net sales per selling square foot is based on stores open for the full current period, excluding E-Commerce.

The changes in net sales were due to the following:

|                                     | <u>2010</u>    |             | <u>2009</u> |        | <u>2008</u> |        |
|-------------------------------------|----------------|-------------|-------------|--------|-------------|--------|
|                                     | \$             | %           | \$          | %      | \$          | %      |
| Comparable store sales:             |                |             |             |        |             |        |
| Stores                              | <b>\$ 500</b>  | <b>3.1%</b> | \$ (62)     | (0.4)% | \$ (1,209)  | (7.8)% |
| E-commerce                          | <b>244</b>     | <b>51.7</b> | 132         | 38.7   | 116         | 51.8   |
| Total                               | <b>744</b>     | <b>4.4</b>  | 70          | 0.4    | (1,093)     | (6.9)  |
| Sales from new stores               | <b>469</b>     | —           | 719         | —      | 1,008       | —      |
| Total net sales increase (decrease) | <b>\$1,213</b> | <b>7.1%</b> | \$789       | 4.8%   | \$ (85)     | (0.5)% |

Drivers of the changes in comparable store sales were as follows:

|                           | <u>2010</u>   | <u>2009</u> | <u>2008</u> |
|---------------------------|---------------|-------------|-------------|
| Selling price per unit    | <b>(1.5)%</b> | 2.3%        | 1.9%        |
| Units per transaction     | <b>(1.5)</b>  | (4.3)       | (2.9)       |
| Average transaction value | <b>(3.0)</b>  | (2.0)       | (1.0)       |
| Number of transactions    | <b>7.4</b>    | 2.4         | (5.9)       |
| Comparable store sales    | <b>4.4%</b>   | 0.4%        | (6.9)%      |

The Southeast region reported the strongest 2010 sales growth with comparable store sales increases in the mid-single digits. In 2010, the Southeast region benefited from implementing merchandising and marketing tactics similar to those that were implemented in the West region in 2009. All other regions reported comparable store sales increases of two to three percent for the year.

By line of business, Footwear, Men’s and Home outperformed our total company comparable store sales growth for the year. Footwear was led by strength in women’s and juniors’ shoes. Men’s was led by active and basics. Home was strong in electronics and small electrics. Women’s was similar to the company average and was led by Sonoma, juniors, active and updated sportswear. Accessories and Children’s were below the company average. Accessories was strongest in watches, fashion jewelry and sterling silver jewelry. The Children’s business had strength in toys.

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E-Commerce sales, which exclude shipping and other revenues, increased 51.7% to \$717 million for 2010. The number of E-Commerce transactions increased almost 60% due to increased customer traffic, increased style and size selections offered on-line compared with our in-store selection and the expansion of product categories not available in our stores.

Net sales per selling square foot increased \$5 to \$222 in 2010. The increase is primarily due to higher comparable store sales.

Net sales for 2009 increased 4.8% over 2008 and comparable store sales increased 0.4%. From a line of business perspective, Accessories reported the strongest comparable store sales in 2009 with strength in sterling silver jewelry, fashion jewelry and handbags. Footwear and Home outperformed the comparable store sales for the year, while Women's and Children's trailed the company. Men's was similar to the company average. The West region, which was favorably impacted by the closure of Mervyn's department stores, reported the strongest comparable store sales for 2009. E-Commerce sales increased approximately 40% to \$473 million for 2009.

Our merchandise mix over the last three years is reflected in the table below:

|             |       |
|-------------|-------|
| Women's     | 32%   |
| Men's       | 19    |
| Home        | 18    |
| Children's  | 12-13 |
| Accessories | 10    |
| Footwear    | 8-9   |

*Gross margin.*

|                           | 2010                  | 2009    | 2008    |
|---------------------------|-----------------------|---------|---------|
|                           | (Dollars in millions) |         |         |
| Gross margin              | \$7,032               | \$6,498 | \$6,055 |
| As a percent of net sales | 38.2%                 | 37.8%   | 36.9%   |

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 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 increased \$534 million, or 8.2%, in 2010 compared to 2009. Gross margin as a percentage of sales increased 41 basis points to 38.2% for 2010. Strong inventory management and increased penetration of private and exclusive brands contributed to the margin strength. Average inventory per store at year-end 2010 is approximately one percent higher than 2009. Clearance inventory units per store are approximately 12% lower this year than in 2009. Sales of private and exclusive brands reached 48% of net sales for 2010, an increase of approximately 290 basis points over 2009. Approximately 80 percent of our merchandise receipts are now subject to our size-optimization programs which has also had a positive impact on our gross margin rate.

Merchandise costs across all apparel categories are expected to be up approximately 10 to 15% overall for Fall 2011 due to inflation in the cost of raw materials, labor and fuel. Specific increases are dependent on the category and the related fabric content. We have been preparing for these cost increases for some time and are working diligently to minimize the impact of these higher costs on a consumer that is still buying cautiously and, therefore, less open to paying higher prices for discretionary goods.

Gross margin for 2009 increased \$443 million, or 7.3%, over 2008. The improvement in gross margin as a percent of net sales for 2009 compared to 2008 was driven by strong merchandise and inventory management and increased penetration of private and exclusive brands. Sales of private and exclusive brands reached 44% of net sales in 2009, an increase of 220 basis points over 2008.

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### *Selling, general and administrative expenses.*

|   | 2010                                | 2009     | 2008    |
|---|-------------------------------------|----------|---------|
|   | (Dollars in millions)<br>(Restated) |          |         |
| Selling, general, and administrative expenses | \$4,190                             | \$ 3,951 | \$3,769 |
| As a percent of net sales                     | 22.8%                               | 23.0%    | 23.0%   |

Selling, general and administrative expenses (“SG&A”) include compensation and benefit costs (including stores, headquarters, buying and merchandising and distribution centers); rent expense and other 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. SG&A also includes the costs incurred prior to new store openings, such as advertising, hiring and training costs for new employees, processing and transporting initial merchandise, and rent expense. We do not include depreciation and amortization in SG&A. The classification of these expenses varies across the retail industry.

SG&A for 2010 increased \$239 million, or 6%, over 2009, but decreased as a percentage of net sales, or “leveraged.” SG&A increased primarily due to store growth, higher sales, and investments in technology and infrastructure related to our E-Commerce business.

Hourly store payroll costs leveraged in 2010 and continue to be driven by sustainable productivity improvements, such as the rollout of electronic signs. Advertising leveraged in 2010 as we intentionally grew this expense less than sales. We continue to modify our media mix to utilize the most cost effective methods. In 2010, we increased direct mail and digital marketing efforts and decreased print media. Preopening expenses leveraged in 2010 as we opened fewer stores. Information services expenses increased as a percentage of net sales, or “deleveraged,” in 2010, primarily due to planned incremental investments in technology and infrastructure related to our E-Commerce business. Distribution costs, which are included in SG&A, totaled \$187 million for 2010, \$168 million for 2009 and \$166 million for 2008.

Net revenues from the credit card program also deleveraged in 2010 due to reductions in late fee revenue as a result of legislative changes. In connection with the April 2006 sale of our proprietary credit card accounts to JPMorgan Chase & Co. (“JPMorgan Chase”), we entered into a service and revenue-sharing agreement. Pursuant to this agreement, JPMorgan Chase issues Kohl’s branded private label credit cards to new and existing Kohl’s customers. Since we do not own the receivables, the receivables and the related allowance for bad debt reserve are not reported on our balance sheets. Risk-management decisions are jointly managed by JPMorgan Chase and us. We handle all customer service functions and are responsible for all advertising and marketing related to credit card customers and the majority of the associated expenses. Net revenues of the program are shared with JPMorgan Chase according to a fixed percentage and are settled monthly. Net revenues include finance charge and late fee revenues, less write-offs of uncollectible accounts and other expenses.

In August 2010, we entered into a Private Label Credit Card Program Agreement with Capital One, National Association (“Capital One”), which will be effective upon transition of the outstanding receivables from JPMorgan Chase to Capital One. We currently expect this transition to happen in the first fiscal quarter of 2011. Kohl’s and Capital One will share in the net risk-adjusted revenue of the portfolio as defined by the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. Changes in funding costs related to interest rate fluctuations will be shared similar to the revenue. Though management currently believes that increases in funding costs will be largely offset by increases in finance charge revenue, increases in funding costs could adversely impact the profitability of this program.

SG&A for 2009 increased \$182 million, or 5%, over 2008. SG&A increased primarily due to store growth and increased incentive compensation and changes made to our non-management compensation structure.

### *Depreciation and amortization.*

|                               | 2010                                | 2009   | 2008  |
|-------------------------------|-------------------------------------|--------|-------|
|                               | (Dollars in millions)<br>(Restated) |        |       |
| Depreciation and amortization | \$750                               | \$ 688 | \$632 |

The increases in depreciation and amortization are primarily due to the addition of new stores and remodels.

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### *Operating income.*

|                           | 2010    | 2009<br>(Dollars in millions)<br>(Restated) | 2008    |
|---------------------------|---------|---|---------|
| Operating income          | \$2,092 | \$ 1,859                                    | \$1,654 |
| As a percent of net sales | 11.4%   | 10.8%                                       | 10.1%   |

The changes in operating income and operating income as a percent of net sales are due to the factors discussed above.

### *Interest expense.*

|                       | 2010  | 2009<br>(Dollars in millions)<br>(Restated) | 2008  |
|-----------------------|-------|---|-------|
| Interest expense, net | \$304 | \$ 301                                      | \$275 |

Net interest expense for 2010 increased \$3 million over 2009. Net interest expense for 2009 increased \$26 million over 2008. The increases are primarily attributable to interest on new financing obligations related to new stores. The increase in 2009 was also attributable to lower interest income due to lower interest rates on our investments which were partially offset by higher average investments and a reduction in capitalized interest due to lower capital expenditures in 2009.

### *Income taxes.*

|                            | 2010   | 2009<br>(Dollars in millions)<br>(Restated) | 2008   |
|----------------------------|--------|---|--------|
| Provision for income taxes | \$ 668 | \$ 585                                      | \$ 522 |
| Effective tax rate         | 37.4%  | 37.5%                                       | 37.8%  |

The effective tax rate for 2010 was comparable to the 2009 and 2008 tax rates.

## **Inflation**

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.

We are beginning to experience inflation in our merchandise, raw material, labor and fuel costs. Such cost increases were not significant in 2010, but we do expect to see low to mid single-digit cost increases in the first six months of 2011 and low double-digit increases in the last six months of 2011. In our private and exclusive brands, where we have more control over the production and manufacture of the merchandise, we have historically been able to minimize inflationary pressures through measures such as committing earlier for fabric and certain other raw materials and shifting production to lower cost markets. Our third-party brand vendors are also facing the same inflationary pressures. We will continue to work with these vendors in our efforts to minimize the impact of inflation on our merchandise costs and our selling prices.

## **Liquidity and Capital Resources**

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 sources of funds are cash flow provided by operations, short-term trade credit and our lines of credit. Short-term trade credit, in the form of extended payment terms for inventory purchases, often represents a significant source of financing for merchandise inventories. Seasonal cash needs may be met by cash on hand and/or the line of credit available under our revolving credit facility. Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.

We anticipate that we will be able to satisfy our working capital requirements, planned capital expenditures, dividend payments and debt service requirements with available cash and cash equivalents, proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our revolving credit facility and other sources of financing. We expect to generate adequate cash flow from operating activities to sustain current levels of operations.



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As of January 29, 2011, we had cash and cash equivalents of \$2.3 billion. We generated \$900 million of free cash flow in 2010 and expect to generate \$1 billion in 2011. (See the Free Cash Flow discussion later in this Liquidity and Capital Resources section for additional discussion of free cash flow, a non-GAAP financial measure.)

|  | 2010                                | 2009     | 2008     |
|--|-------------------------------------|----------|----------|
|  | (Dollars in millions)<br>(Restated) |          |          |
| <b>Net cash provided by (used in):</b> |                                     |          |          |
| Operating activities                   | <b>\$1,756</b>                      | \$ 2,286 | \$ 1,752 |
| Investing activities                   | <b>(757)</b>                        | (649)    | (1,015)  |
| Financing activities                   | <b>(989)</b>                        | (13)     | (275)    |

### *Operating activities.*

Cash provided by operations decreased 23% in 2010 to \$1.8 billion.

At January 29, 2011, total merchandise inventories increased \$113 million, or 4%, from year-end 2009. On a dollars per store basis, merchandise inventories at January 29, 2011 increased 0.9% from year-end 2009. Clearance inventory units per store are down approximately 12%. These changes reflect our various inventory management initiatives, including our conservative sales and receipt planning and lower clearance levels.

Accounts payable at January 29, 2011 decreased \$50 million from year-end 2009, compared to increasing \$306 million from year-end 2008 to 2009. The change is primarily due to vendor finance initiatives which are now fully implemented. In prior years, we rolled out a receivable financing program whereby a financial institution provides our vendors with financing, at a rate which is below what the vendors could normally obtain on their own. We offer this program to vendors in exchange for extended payment terms. We do not incur any costs or expenses or forfeit any portion of our receivables in connection with this program. Timing of inventory purchases also contributed to the change.

Accounts payable as a percent of inventory was 37.5% at January 29, 2011, compared to 40.6% at year-end 2009. It has been more than a year since we implemented our vendor finance initiatives, so we no longer expect to see the significant improvement in this metric that we have seen in the past. Lower inventory turn also contributed to the decrease.

Cash provided by operations increased 30% over 2008 to \$2.3 billion in 2009, primarily due to a \$258 million increase in cash flows from accounts payable activities. Accounts payable at January 30, 2010 increased \$306 million from year-end 2008. Accounts payable as a percent of inventory was 40.6% at January 30, 2010, compared to 31.5% at year-end 2008, primarily due to strong inventory management, our cycle time reduction initiatives and improved vendor financing management. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories. Compared to year-end 2008, total merchandise inventories at January 30, 2010 increased 4% and inventory per store decreased 0.9%. Clearance inventory units per store were down approximately 14%. These reductions were the result of inventory management initiatives, including our conservative sales and receipt planning and lower clearance levels.

### *Investing activities.*

Net cash used in investing activities increased \$108 million to \$757 million in 2010, primarily due to an increase in capital expenditures.

Capital expenditures totaled \$801 million for 2010, a \$126 million increase over 2009. This increase is primarily due to higher capital spending as a result of increased remodels, the opening of our second E-Commerce fulfillment center and planned incremental IT investments to support our E-Commerce business. These increases were partially offset by reductions in capital spending for new stores.

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Capital expenditures by major category were as follows:

| (Restated)                      | 2011<br>Estimate | 2010  | 2009  | 2008  |
|---------------------------------|------------------|-------|-------|-------|
| New stores                      | 29 %             | 28 %  | 55 %  | 69 %  |
| Remodels/relocations            | 25               | 30    | 15    | 11    |
| Distribution centers            | 13               | 10    | —     | 4     |
| Capitalized software            | 15               | 12    | 8     | 5     |
| Fixtures and store improvements | 12               | 12    | 9     | 4     |
| Other                           | 6                | 8     | 13    | 7     |
| Total                           | 100 %            | 100 % | 100 % | 100 % |

We expect total capital expenditures of approximately \$1 billion in fiscal 2011 due primarily to an increase in new store openings (40 expected in 2011 compared to 31 in 2010). An increase in store remodels (approximately 100 expected in 2011 compared to 85 in 2010), construction of a third fulfillment center to support our E-Commerce business and the roll out of electronic signs to additional stores will also contribute to the increase. The actual amount of our future capital expenditures will depend primarily on the number of new stores opened, the mix of owned, leased or acquired stores, the number of stores remodeled and the timing of distribution center openings. We do not anticipate that our expansion plans will be limited by any restrictive covenants in our financing agreements. We believe that our capital structure is well positioned to support our expansion plans. We anticipate that internally generated cash flows will be the primary source of funding for future growth.

Sales of long-term investments generated cash of \$42 million in 2010 and \$28 million in 2009. As of January 29, 2011, we had investments in auction rate securities (“ARS”) with a par value of \$337 million and an estimated fair value of \$276 million. ARS are long-term debt instruments with interest rates reset through periodic short term auctions, which are typically held every 35 days. Beginning in February 2008, liquidity issues in the global credit markets resulted in the failure of auctions for all of our ARS. A “failed” auction occurs when the amount of securities submitted for sale in the auction exceeds the amount of purchase bids. As a result, holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the terms of the debt instrument. A failed auction limits liquidity for holders until there is a successful auction or until such time as another market for ARS develops. ARS are generally callable by the issuer at any time. Scheduled auctions continue to be held until the ARS matures or is called.

To date, we have collected all interest payable on outstanding ARS when due and expect to continue to do so in the future. Substantially all redemptions to date were made at par. 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 reduced liquidity has had a significant impact on the underlying credit quality of the assets backing our ARS. While the auction failures 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.

Net cash used in investing activities decreased \$366 million to \$649 million in 2009, primarily due to a decrease in capital expenditures. Capital expenditures totaled \$675 million for 2009, a \$391 million decrease from 2008. This decrease is primarily due to a decrease in the number of new store openings from 75 in 2008 to 56 in 2009.

### *Financing activities.*

Our financing activities used cash of \$989 million in 2010 and \$13 million in 2009. The change is primarily due to treasury stock purchases in the fourth quarter of 2010.

On November 17, 2010, we entered into an accelerated share repurchase transaction with Morgan Stanley & Co. Incorporated (“Morgan Stanley”) to repurchase \$1.0 billion of Kohl’s common stock on an accelerated basis. This accelerated share repurchase was part of the \$2.5 billion share repurchase program authorized by our Board of Directors in September 2007. On November 18, 2010, we paid \$1.0 billion to Morgan Stanley from cash on hand. We received a total of 18.8 million shares under the program: 12.6 million shares on November 18, 2010, 3.8 million shares on December 7, 2010, 1.5 million on January 11, 2011, and a final delivery of 0.9 million shares on March 3, 2011. The total number of shares received was generally determined by the discounted average of the daily volume weighted average price of shares traded during the relevant pricing periods.

We have \$300 million of long-term debt which was due in March 2011 and \$100 million of long-term debt which is due in October 2011. We expect to replace this debt in the second half of 2011. In anticipation of the debt refinancing, we entered into an interest rate swap in December 2010 to hedge our exposure to interest rate risk on the first \$200 million of debt issued. Amounts related to this financial instrument were not material. We also expect to refinance our \$900 million senior unsecured revolving facility which will expire in October 2011.

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In February 2011, our Board of Directors approved our first ever dividend. The 25 cent per share quarterly dividend will be paid on March 30, 2011 to all shareholders of record as of March 9, 2011. The dividend reflects the Board's confidence in our long-term cash flow. We expect to use a portion of future free cash flow to continue to pay quarterly dividends. Our Board of Directors also increased the remaining share repurchase authorization under our existing share repurchase program by \$2.6 billion, from \$900 million to \$3.5 billion. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions and to complete the program by the end of Fiscal 2013.

Our credit ratings have been unchanged since September 2007 when we issued \$1 billion in debt. Our ratings are currently as follows:

|                | <u>Moody's</u> | <u>Standard &amp; Poor's</u> | <u>Fitch</u> |
|----------------|----------------|------------------------------|--------------|
| Long-term debt | Baa1           | BBB+                         | BBB+         |

We may from time to time seek to retire or purchase our outstanding debt through open market cash purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved could be material.

Our financing activities used cash of \$13 million in 2009 and \$275 million in 2008. The change is primarily due to treasury stock purchases in the first six months of 2008.

### *Key financial ratios.*

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

|                                    | <u>2010</u> | <u>2009</u><br><u>(Restated)</u> | <u>2008</u> |
|------------------------------------|-------------|----------------------------------|-------------|
| Working capital (In Millions)      | \$ 2,861    | \$ 3,030                         | \$ 1,828    |
| Current ratio                      | 2.03:1      | 2.23:1                           | 1.96:1      |
| Debt/capitalization                | 33.7%       | 34.2%                            | 36.9%       |
| Ratio of earnings to fixed charges | 4.6         | 4.2                              | 4.1         |
| Return on gross investment*        | 19.2%       | 18.2%                            | 17.3%       |

\* Return on gross investment is a non-GAAP financial measure.

The decrease in working capital and the current ratio as of year-end 2010 compared to year-end 2009 was primarily due to the reclassification of \$400 million of debt maturing in 2011 from long-term to short-term and the \$1.0 billion purchase of Kohl's common stock pursuant to the accelerated stock repurchase program. The debt/capitalization ratio was comparable to 2009, as share repurchases offset earnings in equity. The increase in the 2010 ratio of earnings to fixed charges was primarily due to higher earnings. See Exhibit 12.1 to this Annual Report on Form 10-K/A for the calculation of this ratio.

The increase in working capital and the current ratio as of year-end 2009 compared to year-end 2008 was primarily due to higher cash and cash equivalents. The decrease in the debt/capitalization ratio reflects higher capitalization, primarily due to earnings. The increase in the 2009 ratio of earnings to fixed charges over 2008 was primarily due to higher earnings.

The increases in our Return on Gross Investment ("ROI") were primarily due to higher earnings. ROI is a non-GAAP financial measure which we define as earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") divided by average gross investment. Our ROI calculation may not be comparable to similarly titled measures reported by other companies. ROI should be evaluated in addition to, and not considered a substitute for, other financial measures such as return on assets. We believe that ROI measures how effectively we utilize our assets, excluding cash equivalents and long-term investments, to generate earnings.

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The following table includes our ROI and return on assets (the most comparable GAAP measure) calculations:

|   | 2010                               | 2009             | 2008             |
|---|------------------------------------|------------------|------------------|
|   | (Dollar in millions)<br>(Restated) |                  |                  |
| Net income  | \$ 1,120                           | \$ 973           | \$ 857           |
| Rent expense  | 264                                | 253              | 240              |
| Depreciation and amortization                               | 750                                | 688              | 632              |
| Net interest  | 304                                | 301              | 275              |
| Provision for income taxes                                  | 668                                | 585              | 522              |
| EBITDAR   | <u>\$ 3,106</u>                    | <u>\$ 2,800</u>  | <u>\$ 2,526</u>  |
| <b>Average:</b>   |                                    |                  |                  |
| Total assets <sup>(1)</sup>                                 | \$14,989                           | \$ 13,527        | \$ 12,192        |
| Cash equivalents and long-term investments <sup>(2,3)</sup> | (2,472)                            | (1,434)          | (513)            |
| Deferred tax assets <sup>(2)</sup>                          | (86)                               | (72)             | (71)             |
| Accumulated depreciation <sup>(1)</sup>                     | 3,948                              | 3,367            | 2,852            |
| Capitalized rent <sup>(4)</sup>                             | 2,546                              | 2,451            | 2,318            |
| Accounts payable <sup>(2)</sup>                             | (1,441)                            | (1,259)          | (1,066)          |
| Accrued liabilities <sup>(1)</sup>                          | (973)                              | (924)            | (829)            |
| Other long-term liabilities <sup>(1)</sup>                  | (357)                              | (313)            | (267)            |
| Gross Investment ("AGI")                                    | <u>\$16,154</u>                    | <u>\$ 15,343</u> | <u>\$ 14,616</u> |
| <b>Return on Assets ("ROA") <sup>(5)</sup></b>              | <b>7.5%</b>                        | <b>7.2%</b>      | <b>7.0%</b>      |
| <b>Return on Gross Investment ("ROI") <sup>(6)</sup></b>    | <b>19.2%</b>                       | <b>18.2%</b>     | <b>17.3%</b>     |

(1) Represents average of 5 most recent quarter end balances for 2010 and 2 most recent year-end balances for 2009 and 2008

(2) Represents average of 5 most recent quarter end balances for all periods

(3) Represents excess cash not required for operations

(4) Represents 10 times store rent expense and 5 times equipment/other rent

(5) Net income divided by Average total assets

(6) EBITDAR divided by Gross Investment

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*Debt Covenant Compliance.* Our debt agreements contain various covenants including limitations on additional indebtedness and the following leverage ratio:

|   | (Dollars in<br>Millions)<br>(Restated) |
|---|--|
| Total Debt per Balance Sheet                    | \$ 3,998                               |
| Other Debt                                      | —                                      |
| Subtotal  | <u>3,998</u>                           |
| Rent x 8  | <u>2,111</u>                           |
| A Included Indebtedness                         | <u>6,109</u>                           |
| Net Worth                                       | \$ 7,850                               |
| Investments (accounted for under equity method) | —                                      |
| Subtotal  | <u>7,850</u>                           |
| Included Indebtedness                           | <u>6,109</u>                           |
| B Capitalization                                | <u>13,959</u>                          |
| Leverage Ratio (A/B)                            | 0.44                                   |
| Maximum permitted Leverage Ratio                | 0.70                                   |

As of January 29, 2011, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2011.

*Free Cash Flow.* We generated free cash flow of approximately \$900 million in 2010 and \$1.6 billion in 2009. The decrease in free cash flow is primarily a result of lower cash provided by operating activities, as discussed above. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations (which generally represent landlord reimbursements of construction costs) less capital expenditures and capital lease and financing obligation payments. 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.

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

|   | 2010                                | 2009            | 2008          |
|---|-------------------------------------|-----------------|---------------|
|   | (Dollars in millions)<br>(Restated) |                 |               |
| Net cash provided by operating activities       | \$ 1,756                            | \$ 2,286        | \$ 1,752      |
| Acquisition of property and equipment           | (801)                               | (675)           | (1,066)       |
| Capital lease and financing obligation payments | (84)                                | (70)            | (62)          |
| Proceeds from financing obligations             | <u>27</u>                           | <u>10</u>       | <u>44</u>     |
| Free cash flow                                  | <u>\$ 898</u>                       | <u>\$ 1,551</u> | <u>\$ 668</u> |

We expect to generate \$1 billion of free cash flow in fiscal 2011.

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### Contractual Obligations

Our contractual obligations as of January 29, 2011 were as follows:

| (Restated)                                 | Total           | Less           | 1 - 3          | 3 - 5          | More            |
|--|-----------------|----------------|----------------|----------------|-----------------|
|  |                 | Than 1         | Years          | Years          | than 5          |
| (In Millions)                              |                 |                |                |                |                 |
| <b>Recorded contractual obligations:</b>   |                 |                |                |                |                 |
| Long-term debt                             | \$ 1,900        | \$ 400         | \$ —           | \$ —           | \$ 1,500        |
| Capital lease and financing obligations    | 1,678           | 86             | 164            | 158            | 1,270           |
|  | <u>3,578</u>    | <u>486</u>     | <u>164</u>     | <u>158</u>     | <u>2,770</u>    |
| <b>Unrecorded contractual obligations:</b> |                 |                |                |                |                 |
| Interest payments:                         |                 |                |                |                |                 |
| Long-term debt                             | 1,615           | 114            | 194            | 194            | 1,113           |
| Capital lease and financing obligations    | 3,185           | 195            | 373            | 345            | 2,272           |
| Operating leases (a)                       | 6,346           | 233            | 458            | 457            | 5,198           |
| Maintenance contracts                      | 25              | 13             | 11             | 1              | —               |
| Royalties                                  | 429             | 67             | 143            | 129            | 90              |
| Purchase obligations (b)                   | 4,088           | 4,058          | 30             | —              | —               |
|  | <u>15,688</u>   | <u>4,680</u>   | <u>1,209</u>   | <u>1,126</u>   | <u>8,673</u>    |
| Total                                      | <u>\$19,266</u> | <u>\$5,166</u> | <u>\$1,373</u> | <u>\$1,284</u> | <u>\$11,443</u> |

- (a) Our leases typically require that we pay real estate taxes, insurance and maintenance costs in addition to the minimum rental payments included in the table above. Such costs vary from period to period and totaled \$168 million for 2010, \$157 million for 2009 and \$148 million for 2008. The lease term includes cancelable option periods where failure to exercise such options would result in an economic penalty.
- (b) Our purchase obligations consist mainly of purchase orders for merchandise. Amounts committed under open purchase orders for merchandise are cancelable without penalty prior to a date that precedes the vendors' scheduled shipment date.

It is reasonably possible that our unrecognized tax positions may change within the next 12 months, primarily as a result of ongoing audits. While it is possible that one or more of these audits may be resolved in the next year, it is not anticipated that payment of any such amounts in future periods will materially affect liquidity and cash flows.

### Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of year-end 2010.

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 the 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 the reported amounts. A discussion of the more significant estimates follows. Management has discussed the development, selection and disclosure of these estimates and assumptions with the Audit Committee of our Board of Directors.

#### *Retail Inventory Method and Inventory Valuation*

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

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

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### *Vendor Allowances*

We record vendor allowances and discounts in the income statement when the purpose for which those monies were designated is fulfilled. Allowances provided by vendors generally relate to profitability of inventory recently sold and, accordingly, are reflected as reductions to cost of merchandise sold as negotiated. Vendor allowances received for advertising or fixture programs reduce our expense or expenditure for the related advertising or fixture program when appropriate. Vendor allowances will fluctuate based on the amount of promotional and clearance markdowns necessary to liquidate the inventory. See also Note 1 to the consolidated financial statements, "Business and Summary of Accounting Policies."

### *Insurance Reserve Estimates*

We use a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability and employee-related health care benefits, a portion of which is paid by our associates. We use a third-party actuary, which considers historical claims experience, demographic factors, severity factors and other actuarial assumptions, to estimate the liabilities associated with these risks. A change in claims frequency and severity of claims from historical experience as well as changes in state statutes and the mix of states in which we operate could result in a change to the required reserve levels. We retain the initial risk of \$500,000 per occurrence under our workers' compensation insurance policy and \$250,000 per occurrence under our general liability policy. The lifetime medical payment limit of \$1.5 million per plan participant was eliminated on December 31, 2010.

### *Impairment of Assets and Closed Store Reserves*

We have a significant investment in property and equipment. The related depreciation and amortization is computed using estimated useful lives of up to 40 years. We review our long-lived assets held for use for impairment whenever an event or change in circumstances, such as decisions to close a store, indicates the carrying value of the asset may not be recoverable. We have historically not experienced any significant impairment of long-lived assets or closed store reserves. Decisions to close a store can also result in accelerated depreciation over the revised useful life. When operations at a leased store are discontinued, a reserve is established for the discounted difference between the rent and the expected sublease rental income. A significant change in cash flows, market valuation, demand for real estate or other factors, could result in an increase or decrease in the reserve requirement or impairment charge.

### *Income Taxes*

We pay income taxes based on tax statutes, regulations and case law of the various jurisdictions in which we operate. At any one time, multiple tax years are subject to audit by the various taxing authorities. Our effective income tax rate was 37.4% in 2010, 37.5% in 2009 and 37.8% in 2008. The effective rate is impacted by changes in law, location of new stores, level of earnings and the result of tax audits.

### *Property Leases*

As of January 29, 2011, 707 of our 1,089 retail stores were subject to either a ground or building lease. Accounting for leased properties requires compliance with technical accounting rules and significant judgment by management. Application of these accounting rules and assumptions made by management will determine whether we are considered the owner for accounting purposes or whether the lease is accounted for as a capital or operating lease in accordance with ASC 840, Leases.

If we are considered the owner for accounting purposes or the lease is considered a capital lease, we record the property and a related financing or capital lease obligation on our balance sheet. The asset is then depreciated over its expected lease term. Rent payments for these properties are recognized as interest expense and a reduction of the financing or capital lease obligation.

If the lease is considered an operating lease, it is not recorded on our balance sheet and rent expense is recognized on a straight-line basis over the expected lease term.

The most significant estimates used by management in accounting for property leases and the impact of these estimates are as follows:

- **Expected lease term** – Our expected lease term includes both contractual lease periods and cancelable option periods where failure to exercise such options would result in an economic penalty. The expected lease term is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the lease term exceeds 75% of the leased asset's useful life. The expected lease term is also used in determining the depreciable life of the asset or the straight-line rent recognition period. Increasing the expected lease term will increase the probability that a lease will be considered a capital lease and will generally result in higher rent expense for an operating lease and higher interest and depreciation expenses for a leased property recorded on our balance sheet.

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- **Incremental borrowing rate** - We estimate our incremental borrowing rate using treasury rates for debt with maturities comparable to the expected lease term and our credit spread. The incremental borrowing rate is primarily used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the incremental borrowing rate decreases the net present value of the lease payments and reduces the probability that a lease will be considered a capital lease. For leases which are recorded on our balance sheet with a related capital lease or financing obligation, the incremental borrowing rate is also used in allocating our rental payments between interest expense and a reduction of the outstanding obligation.
- **Fair market value of leased asset** – The fair market value of leased retail property is generally estimated based on comparable market data or consideration received from the landlord. Fair market value is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the fair market value reduces the probability that a lease will be considered a capital lease. Fair market value is also used in determining the amount of property and related financing obligation to be recognized on our balance sheet for certain leased properties which are considered owned for accounting purposes.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

All of our long-term debt at year-end 2010 is at fixed interest rates and, therefore, is not affected by changes in interest rates. When our long-term debt instruments mature, we may refinance them at then existing market interest rates, which may be more or less than interest rates on the maturing debt.

Cash equivalents and long-term investments earn interest at variable rates and are affected by changes in interest rates. During 2010, average investments were \$2.7 billion and average yield was 0.3%. If interest rates on the average 2010 variable rate cash equivalents and long-term investments increased by 100 basis points, our annual interest income would also increase by approximately \$27 million assuming comparable investment levels.

We entered into an interest rate swap in December 2010 to hedge our exposure to interest rate risk on the first \$200 million of debt that we expect to issue in 2011. Amounts related to this financial instrument were not material and we were not a party to any other material derivative financial instruments in 2010, 2009 or 2008.

### **Item 8. Financial Statements and Supplementary Data**

The financial statements are included in this report beginning on page F-3.

### **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures**

None

### **Item 9A. Controls and Procedures**

#### *(a) Evaluation of Disclosure Controls and Procedures*

Prior to the filing of our original Annual Report on Form 10-K for the fiscal year ended January 29, 2011 and 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.

Disclosure controls and procedures are defined by Rules 13a-15(e) and 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.



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Based upon the Evaluation, our Chief Executive Officer and Chief Financial Officer had concluded that our disclosure controls and procedures were effective at the reasonable assurance level. Subsequently, during the second quarter of Fiscal 2011, we identified a material weakness in our controls over the accounting for leases. As a result of this discovery, our Chief Executive Officer and Chief Financial Officer have now concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of the last day of the period covered by this Report.

The principal factor that contributed to this material weakness was the misinterpretation of complex accounting standards related to leases where we, as the lessee, are involved in asset construction pursuant to ASC 840, Leases.

### (b) *Management's Annual Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of our published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Prior to the filing of our original Annual Report on Form 10-K for the fiscal year ended January 29, 2011, our management assessed the effectiveness of our internal control over financial reporting as of the last day of the period covered by the report. In making this assessment management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on this assessment, our management had believed that as of January 29, 2011, our internal control over financial reporting was effective based on those criteria. Subsequently, during the second quarter of Fiscal 2011, we identified a material weakness in our controls over financial reporting as of January 29, 2011. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

As stated above, we identified a material weakness in our controls over the accounting for leases. The principal factor that contributed to this material weakness was the misinterpretation of complex standards related to leases where we, as the lessee, are involved in asset construction pursuant to ASC 840, Leases. This material weakness resulted in a number of errors in our accounting for leases and contributed to our restatement of previously issued financial statements more fully described in Note 2 to the Consolidated Financial Statements. Based on our assessment, management now believes that, as of January 29, 2011, our internal control over financial reporting was not effective due to the identification of a material weakness.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K/A and, as part of its audit, has issued an attestation report, included herein, on the effectiveness of our internal control over financial reporting.

#### *Planned Remediation Efforts to Address Material Weakness*

To remediate the material weakness described above, we have implemented or plan to implement remedial measures including a review of all of our leases to correct instances where we were not complying with generally accepted accounting principles. In addition, we are developing updated procedures to reflect the technical guidance for lease accounting and will institute additional management review to confirm the proper implementation of accounting standards going forward. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We expect that the remediation of the material weakness related to controls over the accounting for leases will be completed prior to the fiscal year end January 28, 2012. However, we cannot make any assurances that we will successfully remediate this material weakness within the anticipated timeframe and thus reduce to remote the likelihood that material misstatements concerning lease accounting will not be prevented or detected in a timely manner.

### (c) *Changes in Internal Control Over Financial Reporting*

Except as otherwise discussed above, 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.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Kohl's Corporation

We have audited Kohl's Corporation's internal control over financial reporting as of January 29, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Kohl's Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 18, 2011, we expressed an unqualified opinion on internal control over financial reporting. As described in the following paragraph, a material weakness was subsequently identified as a result of the restatement of the previously issued financial statements. Accordingly, management has revised its assessment about the effectiveness of the Company's internal control over financial reporting and our present opinion on the effectiveness of the Company's internal control over financial reporting as of January 29, 2011, as expressed herein, is different from that expressed in our previous opinion.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the company's accounting for leases. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of January 29, 2011 and January 30, 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 29, 2011. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended January 29, 2011 and this report does not affect our report dated March 18, 2011, except for Note 2, as to which the date is September 13, 2011, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Kohl's Corporation has not maintained effective internal control over financial reporting as of January 29, 2011, based on the COSO criteria.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin  
March 18, 2011, except for the effects of the material weakness as to which the date is  
September 13, 2011

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**Item 9B. Other Information**

None

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

For information with respect to our Directors, the Board of Directors' Audit Committee and our written code of ethics, see the applicable portions of the "Questions and Answers About our Board of Directors and Corporate Governance Matters" and "Item 1: Election of Directors" sections of the Proxy Statement for our May 12, 2011 Annual Meeting of Shareholders ("our 2011 Proxy"), which information is incorporated herein by reference. For information with respect to Section 16 reports, see the information provided in the "Section 16(a) Beneficial Ownership Reporting Compliance" section of our 2011 Proxy, which information is incorporated herein by reference.

Our executive officers as of March 9, 2011 are as follows:

| <u>Name</u>        | <u>Age</u> | <u>Position</u>   |
|--------------------|------------|---|
| Kevin Mansell      | 58         | Chairman, Chief Executive Officer, President and Director |
| Don Brennan        | 50         | Chief Merchandising Officer                               |
| John Worthington   | 47         | Chief Administrative Officer                              |
| Wesley S. McDonald | 48         | Senior Executive Vice President — Chief Financial Officer |
| Peggy Eskenasi     | 55         | Senior Executive Vice President                           |

Mr. Mansell is responsible for Kohl's long-term growth and profitability along with strategic direction. He has served as Chairman since September 2009, Chief Executive Officer since August 2008 and President and Director since February 1999. He served as Executive Vice President — General Merchandise Manager from 1987 to 1998. Mr. Mansell joined Kohl's as a Divisional Merchandise Manager in 1982. Mr. Mansell began his retail career in 1975.

Mr. Brennan was promoted to Chief Merchandising Officer in November 2010 and is responsible for all merchandising divisions, product development, merchandise planning and allocation, as well as E-Commerce. Previously, he had served as Senior Executive Vice President since September 2007. He joined Kohl's in April 2001 as Executive Vice President, Merchandise Planning and Allocation, and also served as Executive Vice President, General Merchandise Manager Men's and Children's from April 2004 to September 2007. Prior to joining Kohl's, Mr. Brennan served in a variety of management positions with Burdines Department Stores, a division of Federated Department Stores, Inc. since 1982. Mr. Brennan has almost 30 years of experience in the retail industry.

Mr. Worthington was promoted to Chief Administrative Officer in November 2010 and is responsible for store operations, store administration, merchandise presentation, loss prevention, real estate, information services and purchasing. Previously, he had served as Senior Executive Vice President since September 2007. Prior to this assignment, Mr. Worthington served in a variety of positions with Kohl's, including Executive Vice President, Director of Stores from 2005 to 2007, Senior Vice President of Stores from 2004 to 2005 and Vice President, Regional Manager from 2002 to 2004. Mr. Worthington was with May Department Stores, Inc. before joining Kohl's and has over 20 years of experience in the retail industry.

Mr. McDonald was promoted to Senior Executive Vice President, Chief Financial Officer in November 2010 and is responsible for financial planning and analysis, investor relations, financial reporting, accounting operations, tax, treasury, corporate governance, credit and capital investment. Previously, he had served as Executive Vice President, Chief Financial Officer since August 2003. Prior to joining Kohl's, Mr. McDonald was Vice President, Chief Financial Officer of Abercrombie & Fitch since June 2000. Mr. McDonald served in a variety of management positions with Target Corporation from 1988 to 2000, most recently as Director, Target Corporation IS Finance & Administration. Mr. McDonald has over 20 years of experience in the retail industry.

Ms. Eskenasi was promoted to Senior Executive Vice President in November 2010 and oversees all product development. Previously, she had served as Executive Vice President — Product Development since October 2004. Prior to joining Kohl's, Ms. Eskenasi served as President of Private Label Brand Development for Saks Inc. and Vice President—General Manager for Frederick Atkins.

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Members of our Board of Directors as of March 9, 2011 were as follows:

**Kevin Mansell**

Chairman, President and Chief Executive Officer,  
Kohl's Corporation

**Peter Boneparth** <sup>(a)(c)</sup>

Senior Advisor,  
Irving Capital Partners

**Steven A. Burd** <sup>(b)(c)</sup>

Chairman, President and Chief Executive Officer,  
Safeway Inc.

**John F. Herma** <sup>(a)(c)</sup>

Former Chief Operating Officer and Secretary,  
Kohl's Corporation

**Dale E. Jones** <sup>(b)(c)</sup>

Vice Chairman and Partner of the CEO and Board Practice  
in the Americas,  
Heidrick and Struggles

**William S. Kellogg**

Former Chairman and Chief Executive Officer,  
Kohl's Corporation

**Frank V. Sica** <sup>(b)\*(c)</sup>

Managing Partner,  
Tailwind Capital

**Peter M. Sommerhauser**

Shareholder,  
Godfrey & Kahn, S.C. Law Firm

**Stephanie A. Streeter** <sup>(a)(c)</sup>

Former Chairman, President, and Chief Executive Officer,  
Banta Corporation

**Nina G. Vaca** <sup>(c)</sup>

Chairman, Chief Executive Officer,  
Pinnacle Technical Resources, Inc.

**Stephen E. Watson** <sup>(a)\*(c)\*</sup>

Former President, Chief Executive Officer of  
Gander Mountain, L.L.C.

Former Chairman and Chief Executive Officer,  
Department Store Division of Dayton-Hudson  
Corporation

(a) 2010 Audit Committee member

(b) 2010 Compensation Committee member

(c) 2010 Governance & Nominating Committee member

\* Denotes Chair

### **Item 11. Executive Compensation**

See the information provided in the applicable portions of the "Questions and Answers About our Board of Directors and Corporate Governance Matters" and "Item 1: Election of Directors" sections of our 2011 Proxy, which information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

See the information provided in the "Security Ownership of Certain Beneficial Owners, Directors and Management" and "Equity Compensation Plan Information" sections of our 2011 Proxy, which information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

See the information provided in the "Independence Determinations & Related Party Transactions" section of our 2011 Proxy, which information is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services**

See the information provided in the "Fees Paid to Ernst & Young" section of our 2011 Proxy, which information is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) Documents filed as part of this report:

1. Consolidated Financial Statements:

See “Index to Consolidated Financial Statements” on page F-1, the Report of Independent Registered Public Accounting Firm on page F-2 and the Consolidated Financial Statements beginning on page F-3, all of which are incorporated herein by reference.

2. Financial Statement Schedule:

All schedules have been omitted as they are not applicable.

3. Exhibits:

See “Exhibit Index” of this Form 10-K/A, which is incorporated herein by reference.

**Signatures**

Pursuant to the requirements of Section 13 or 15 (d) 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

By: /s/ KEVIN MANSELL  
Kevin Mansell  
*Chairman, President, Chief Executive Officer and Director  
(Principal Executive Officer)*

/s/ WESLEY S. MCDONALD  
Wesley S. McDonald  
*Senior Executive Vice President,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)*

Dated: September 13, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated above:

/s/ KEVIN MANSELL  
Kevin Mansell  
*Chairman, President, Chief Executive Officer and  
Director (Principal Executive Officer)*

/s/ JOHN SCHLIFSKE  
John Schlifske  
*Director*

/s/ PETER BONEPARTH  
Peter Boneparth  
*Director*

/s/ FRANK SICA  
Frank Sica  
*Director*

/s/ STEVEN A. BURD  
Steven A. Burd  
*Director*

/s/ PETER M. SOMMERHAUSER  
Peter M. Sommerhauser  
*Director*

/s/ JOHN F. HERMA  
John F. Herma  
*Director*

/s/ STEPHANIE A. STREETER  
Stephanie A. Streeter  
*Director*

/s/ DALE E. JONES  
Dale E. Jones  
*Director*

/s/ NINA VACA  
Nina Vaca  
*Director*

/s/ WILLIAM S. KELLOGG  
William S. Kellogg  
*Director*

/s/ STEPHEN E. WATSON  
Stephen E. Watson  
*Director*

**Exhibit Index**

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| 3.1                   | Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 1999.  |
| 3.2                   | Amendment to Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2006.  |
| 3.3                   | Amendment to Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 5, 2007.   |
| 3.4                   | 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 February 27, 2009.   |
| 4.1                   | Credit Agreement dated as of October 12, 2006 by and among the Company, the Lenders party thereto, Bank of America, N.A., as an Issuing Bank and Syndication Agent, JPMorgan Chase Bank, N.A., US Bank National Association and Wachovia Bank National Association, as Co-Documentation Agents and The Bank of New York, as an Issuing Bank, the Swing Line Lender and the Administrative Agent, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2006. |
| 4.2                   | Certain other long-term debt is described in Note 3 of the Notes to Consolidated Financial Statements. The Company agrees to furnish to the Commission, upon request, copies of any instruments defining the rights of holders of any such long-term debt described in Note 3 and not filed herewith.   |
| 10.1                  | Private Label Credit Card Program Agreement dated as of March 5, 2006, by and between Kohl's Department Stores, Inc., and Chase Bank USA, National Association, incorporated herein by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006.  |
| 10.2                  | Private Label Credit Card Program Agreement dated as of August 11, 2010 by and between Kohl's Department Stores, Inc and Capital One, National Association, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.   |
| 10.3                  | Amended and Restated Executive Deferred Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003.*  |
| 10.4                  | Kohl's Corporation 2005 Deferred Compensation Plan, as amended and restated effective January 1, 2005, incorporated herein by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006.*  |
| 10.5                  | Summary of Executive Medical Plan, incorporated herein by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*  |
| 10.6                  | Summary of Executive Life and Accidental Death and Dismemberment Plans, incorporated herein by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*   |
| 10.7                  | Kohl's Corporation Executive Bonus Plan, incorporated herein by reference to the Company's Schedule 14A (File No. 001-11084) filed on March 27, 2007.*  |
| 10.8                  | 1992 Long-Term Compensation Plan, incorporated herein by reference to Exhibit 10.13 of the Company's registration statement on Form S-1 (File No. 33-46883).*   |
| 10.9                  | 1994 Long-Term Compensation Plan, incorporated herein by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 1996.*   |
| 10.10                 | 1997 Stock Option Plan for Outside Directors, incorporated herein by reference to Exhibit 4.4 of the Company's registration statement on Form S-8 (File No. 333-26409), filed on May 2, 1997.*  |
| 10.11                 | Amended and Restated 2003 Long-Term Compensation Plan, incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2008.*  |
| 10.12                 | Kohl's Corporation 2010 Long Term Compensation Plan, incorporated by reference to Annex A to the Proxy Statement on Schedule 14A filed on March 26, 2010 in connection with the Company's 2010 Annual Meeting.*   |



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| <u>Exhibit Number</u> | <u>Description</u>   |
|-----------------------|--|
| 10.13                 | Form of Executive Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*                 |
| 10.14                 | Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*             |
| 10.15                 | Form of Outside Director Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*          |
| 10.16                 | Form of Outside Director Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*      |
| 10.17                 | Summary of Outside Director Compensation, incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011.*   |
| 10.18                 | Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Kevin Mansell dated as of September 1, 2009, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated August 26, 2009.*   |
| 10.19                 | Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Donald Brennan dated as of December 1, 2010, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 6, 2011.*   |
| 10.20                 | Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and John Worthington dated as of December 1, 2010, incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 6, 2011.* |
| 10.21                 | Employment Agreement between the Company and Peggy Eskenasi dated as of December 1, 2010, incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K dated January 6, 2011.*  |
| 10.22                 | Employment Agreement between the Company and Wesley S. McDonald dated as of December 1, 2010, incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K dated January 6, 2011.*  |
| 10.23                 | Form of Executive Compensation Agreement between the Company and various key executives incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.*                                       |
| 10.24                 | Summary of Strategic Action Committee Incentive Program incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010.*  |
| 12.1                  | Ratio of Earnings to Fixed Charges.  |

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| <u>Exhibit<br/>Number</u> | <u>Description</u>   |
|---------------------------|--|
| 21.1                      | Subsidiaries of the Registrant, incorporated herein by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011. |
| 23.1                      | Consent of Ernst & Young LLP.  |
| 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  |

\* A management contract or compensatory plan or arrangement.

**Index to Consolidated Financial Statements**

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Schedules have been omitted as they are not applicable.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of  
Kohl's Corporation

We have audited the accompanying consolidated balance sheets of Kohl's Corporation (the Company) as of January 29, 2011 and January 30, 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 29, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kohl's Corporation at January 29, 2011 and January 30, 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 29, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements for each of the three years in the period ended January 29, 2011 have been restated to correct for errors in accounting for leases.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kohl's Corporation's internal control over financial reporting as of January 29, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2011, except for the effects of the material weakness as to which the date is September 13, 2011, expressed an adverse opinion thereon.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin  
March 18, 2011, except for Note 2, as to which the date is  
September 13, 2011

**KOHL'S CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(Dollars in Millions, Except Per Share Data)**  
**(Restated)**

|   | January 29,<br>2011 | January 30,<br>2010 |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 2,277            | \$ 2,267            |
| Merchandise inventories   | 3,036               | 2,923               |
| Deferred income taxes   | 77                  | 73                  |
| Other   | <u>252</u>          | <u>222</u>          |
| Total current assets  | 5,642               | 5,485               |
| Property and equipment, net   | 8,692               | 8,506               |
| Long-term investments   | 277                 | 321                 |
| Other assets  | <u>168</u>          | <u>153</u>          |
| Total assets  | <u>\$ 14,779</u>    | <u>\$ 14,465</u>    |
| <b>Liabilities and Shareholders' Equity</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable  | \$ 1,138            | \$ 1,188            |
| Accrued liabilities   | 1,030               | 1,005               |
| Income taxes payable  | 127                 | 184                 |
| Current portion of long-term debt   | 400                 | —                   |
| Current portion of capital lease and financing obligations  | <u>86</u>           | <u>78</u>           |
| Total current liabilities   | 2,781               | 2,455               |
| Long-term debt  | 1,494               | 1,894               |
| Capital lease and financing obligations   | 2,018               | 1,968               |
| Deferred income taxes   | 256                 | 214                 |
| Other long-term liabilities   | 380                 | 339                 |
| Shareholders' equity:   |                     |                     |
| Common stock - \$0.01 par value, 800 million shares authorized, 355 and 353 million shares issued | 4                   | 4                   |
| Paid-in capital   | 2,225               | 2,085               |
| Treasury stock, at cost, 64 and 46 million shares   | (3,643)             | (2,639)             |
| Accumulated other comprehensive loss  | (37)                | (36)                |
| Retained earnings   | <u>9,301</u>        | <u>8,181</u>        |
| Total shareholders' equity  | 7,850               | 7,595               |
| Total liabilities and shareholders' equity  | <u>\$ 14,779</u>    | <u>\$ 14,465</u>    |

See accompanying Notes to Consolidated Financial Statements

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

|   | 2010            | 2009            | 2008            |
|---|-----------------|-----------------|-----------------|
| Net sales   | <u>\$18,391</u> | <u>\$17,178</u> | <u>\$16,389</u> |
| Cost of merchandise sold (exclusive of depreciation shown separately below) | <u>11,359</u>   | <u>10,680</u>   | <u>10,334</u>   |
| Gross margin  | 7,032           | 6,498           | 6,055           |
| Operating expenses:   |                 |                 |                 |
| Selling, general, and administrative  | 4,190           | 3,951           | 3,769           |
| Depreciation and amortization   | <u>750</u>      | <u>688</u>      | <u>632</u>      |
| Operating income  | 2,092           | 1,859           | 1,654           |
| Other expense (income):   |                 |                 |                 |
| Interest expense  | 313             | 311             | 296             |
| Interest income   | <u>(9)</u>      | <u>(10)</u>     | <u>(21)</u>     |
| Interest expense, net   | <u>304</u>      | <u>301</u>      | <u>275</u>      |
| Income before income taxes  | 1,788           | 1,558           | 1,379           |
| Provision for income taxes  | <u>668</u>      | <u>585</u>      | <u>522</u>      |
| Net income  | <u>\$ 1,120</u> | <u>\$ 973</u>   | <u>\$ 857</u>   |
| Net income per share:   |                 |                 |                 |
| Basic   | \$ 3.69         | \$ 3.19         | \$ 2.80         |
| Diluted   | \$ 3.66         | \$ 3.17         | \$ 2.80         |

See accompanying Notes to Consolidated Financial Statements

**KOHL'S CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(In Millions)

|  | Common Stock |             | Paid-In<br>Capital | Treasury Stock |                  | Accumulated<br>Other<br>Comprehensive<br>Gain (Loss) | Retained<br>Earnings | Total           |
|--|--------------|-------------|--------------------|----------------|------------------|--|----------------------|-----------------|
|  | Shares       | Amount      |                    | Shares         | Amount           |  |                      |                 |
| Balance at February 2, 2008 (previously reported)            | 351          | \$ 4        | \$ 1,911           | (40)           | \$(2,376)        | \$ —   | \$ 6,563             | \$ 6,102        |
| Cumulative effect of restatement on prior years (see Note 2) |              |             |                    |                |                  |  | (212)                | (212)           |
| Balance at February 2, 2008 (Restated)                       | 351          | 4           | 1,911              | (40)           | (2,376)          | —  | 6,351                | 5,890           |
| Net income (Restated)  | —            | —           | —                  | —              | —                | —  | 857                  | 857             |
| Other comprehensive loss:                                    |              |             |                    |                |                  |  |                      |                 |
| Unrealized loss on investments, net of tax of \$29           | —            | —           | —                  | —              | —                | (46)   | —                    | (46)            |
| Total comprehensive income                                   |              |             |                    |                |                  |  |                      | 811             |
| Stock options and awards                                     | —            | —           | 66                 | —              | —                | —  | —                    | 66              |
| Net income tax impact from stock option activity             | —            | —           | (6)                | —              | —                | —  | —                    | (6)             |
| Treasury stock purchases                                     | —            | —           | —                  | (6)            | (262)            | —  | —                    | (262)           |
| Balance at January 31, 2009 (Restated)                       | 351          | 4           | 1,971              | (46)           | (2,638)          | (46)   | 7,208                | 6,499           |
| Net income (Restated)  | —            | —           | —                  | —              | —                | —  | 973                  | 973             |
| Other comprehensive income:                                  |              |             |                    |                |                  |  |                      |                 |
| Unrealized gain on investments, net of tax of \$6            | —            | —           | —                  | —              | —                | 10   | —                    | 10              |
| Total comprehensive income                                   |              |             |                    |                |                  |  |                      | 983             |
| Stock options and awards                                     | 2            | —           | 120                | —              | —                | —  | —                    | 120             |
| Net income tax impact from stock option activity             | —            | —           | (6)                | —              | —                | —  | —                    | (6)             |
| Treasury stock purchases                                     | —            | —           | —                  | —              | (1)              | —  | —                    | (1)             |
| Balance at January 30, 2010 (Restated)                       | 353          | 4           | 2,085              | (46)           | (2,639)          | (36)   | 8,181                | 7,595           |
| Net income (Restated)  | —            | —           | —                  | —              | —                | —  | 1,120                | 1,120           |
| Other comprehensive loss:                                    |              |             |                    |                |                  |  |                      |                 |
| Unrealized loss on investments, net of tax of \$1            | —            | —           | —                  | —              | —                | (1)  | —                    | (1)             |
| Total comprehensive income                                   |              |             |                    |                |                  |  |                      | 1,119           |
| Stock options and awards                                     | 2            | —           | 145                | —              | —                | —  | —                    | 145             |
| Net income tax impact from stock option activity             | —            | —           | (5)                | —              | —                | —  | —                    | (5)             |
| Treasury stock purchases                                     | —            | —           | —                  | (18)           | (1,004)          | —  | —                    | (1,004)         |
| <b>Balance at January 29, 2011 (Restated)</b>                | <b>355</b>   | <b>\$ 4</b> | <b>\$ 2,225</b>    | <b>(64)</b>    | <b>\$(3,643)</b> | <b>\$ (37)</b>                                       | <b>\$ 9,301</b>      | <b>\$ 7,850</b> |

See accompanying Notes to Consolidated Financial Statements

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

|   | <u>2010</u>     | <u>2009</u>     | <u>2008</u>    |
|---|-----------------|-----------------|----------------|
| <b>Operating activities</b>   |                 |                 |                |
| Net income  | \$ 1,120        | \$ 973          | \$ 857         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |                |
| Depreciation and amortization   | 750             | 688             | 632            |
| Share-based compensation  | 66              | 64              | 55             |
| Excess tax benefits from share-based compensation                                 | 3               | 3               | —              |
| Deferred income taxes   | 39              | 40              | 66             |
| Other non-cash revenues and expenses  | 35              | 35              | 57             |
| Changes in operating assets and liabilities:                                      |                 |                 |                |
| Merchandise inventories   | (107)           | (119)           | 60             |
| Other current and long-term assets  | (50)            | (13)            | (40)           |
| Accounts payable  | (50)            | 306             | 48             |
| Accrued and other long-term liabilities   | 13              | 235             | 43             |
| Income taxes  | (63)            | 74              | (26)           |
| Net cash provided by operating activities   | <u>1,756</u>    | <u>2,286</u>    | <u>1,752</u>   |
| <b>Investing activities</b>   |                 |                 |                |
| Acquisition of property and equipment   | (801)           | (675)           | (1,066)        |
| Purchases of investments in auction rate securities                               | —               | —               | (53)           |
| Sales of investments in auction rate securities                                   | 42              | 28              | 93             |
| Other   | 2               | (2)             | 11             |
| Net cash used in investing activities   | <u>(757)</u>    | <u>(649)</u>    | <u>(1,015)</u> |
| <b>Financing activities</b>   |                 |                 |                |
| Treasury stock purchases  | (1,004)         | (1)             | (262)          |
| Capital lease and financing obligation payments                                   | (84)            | (70)            | (62)           |
| Proceeds from financing obligations   | 27              | 10              | 44             |
| Proceeds from stock option exercises  | 75              | 51              | 5              |
| Excess tax benefits from share-based compensation                                 | (3)             | (3)             | —              |
| Net cash used in financing activities   | <u>(989)</u>    | <u>(13)</u>     | <u>(275)</u>   |
| Net increase in cash and cash equivalents   | 10              | 1,624           | 462            |
| Cash and cash equivalents at beginning of year                                    | <u>2,267</u>    | <u>643</u>      | <u>181</u>     |
| Cash and cash equivalents at end of year  | <u>\$ 2,277</u> | <u>\$ 2,267</u> | <u>\$ 643</u>  |
| <b>Supplemental information:</b>  |                 |                 |                |
| Interest paid, net of capitalized interest  | \$ 304          | \$ 300          | \$ 301         |
| Income taxes paid   | 689             | 470             | 471            |
| <b>Non-cash investing and financing activities</b>                                |                 |                 |                |
| Property and equipment acquired through capital lease and financing obligations   | \$ 107          | \$ 183          | \$ 62          |

See accompanying Notes to Consolidated Financial Statements



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

**1. Business and Summary of Accounting Policies**

**Business**

As of January 29, 2011, Kohl's Corporation operated 1,089 family-oriented department stores that feature exclusive and national brand apparel, footwear, accessories, soft home products and housewares targeted to middle-income customers. Our stores are located in 49 states.

Our authorized capital stock consists of 800 million shares of \$0.01 par value common stock and 10 million shares of \$0.01 par value preferred stock.

**Consolidation**

The consolidated financial statements include the accounts of Kohl's Corporation and its subsidiaries including Kohl's Department Stores, Inc., its primary operating company. All intercompany accounts and transactions have been eliminated.

**Accounting Period**

Our fiscal year ends on the Saturday closest to January 31. Unless otherwise noted, references to years in this report relate to fiscal years, rather than to calendar years. Fiscal year 2010 ("2010") ended on January 29, 2011. Fiscal year 2009 ("2009") ended on January 30, 2010. Fiscal year 2008 ("2008") ended on January 31, 2009. Fiscal 2010, 2009 and 2008 were 52-week years.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to the prior period Consolidated Statements of Income and Consolidated Statements of Cash Flows to conform to the 2010 presentation.

**Cash and Cash Equivalents**

In addition to money market investments, cash equivalents include commercial paper with an original maturity of three months or less. We carry these investments at cost which approximates fair value.

Also included in cash and cash equivalents are amounts due from credit card transactions with settlement terms of less than five days. Credit and debit card receivables included within cash were \$70 million at January 29, 2011 and \$68 million at January 30, 2010.

**Long-term Investments**

Long-term investments consist primarily of investments in auction rate securities ("ARS") which are classified as available-for-sale securities and recorded at market.

**Merchandise Inventories**

Merchandise inventories are valued at the lower of cost or market with cost determined on the first-in, first-out ("FIFO") basis using the retail inventory method ("RIM"). Under RIM, the valuation of inventory at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value inventory. RIM is an averaging method that has been widely used in the retail industry due to its practicality. The use of RIM will result in inventory being valued at the lower of cost or market since permanent markdowns are currently taken as a reduction of the retail value of inventory. We record an additional reserve when the future estimated selling price is less than cost.

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### Property and Equipment

Property and equipment consist of the following:

|                                | <u>Jan. 29, 2011</u> | <u>Jan. 30, 2010</u> |
|--------------------------------|----------------------|----------------------|
|                                | (In Millions)        |                      |
|                                | (Restated)           |                      |
| Land                           | \$ 1,033             | \$ 1,041             |
| Buildings and improvements:    |                      |                      |
| Owned                          | 6,931                | 6,520                |
| Leased                         | 1,754                | 1,697                |
| Store fixtures and equipment   | 2,309                | 2,169                |
| Computer hardware and software | 696                  | 553                  |
| Construction in progress       | 172                  | 139                  |
| Total property and equipment   | <u>12,895</u>        | <u>12,119</u>        |
| Less accumulated depreciation  | <u>(4,203)</u>       | <u>(3,613)</u>       |
|                                | <u>\$ 8,692</u>      | <u>\$ 8,506</u>      |

Construction in progress includes land and improvements for locations not yet opened and for the expansion and remodeling of existing locations in process at the end of each year.

Property and equipment is recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leased property and improvements to leased property are amortized on a straight-line basis over the term of the lease or useful life of the asset, whichever is less.

The annual provisions for depreciation and amortization generally use the following ranges of useful lives:

|  |            |
|--|------------|
| Buildings and improvements                             | 8-40 years |
| Store fixtures and equipment                           | 3-15 years |
| Property under capital lease and financing obligations | 5-40 years |
| Computer hardware and software                         | 3-8 years  |

### Capitalized Interest

We capitalize interest on the acquisition and construction of new locations and expansion of existing locations and depreciate that amount over the lives of the related assets. Capitalized interest was \$6 million for 2010, \$5 million for 2009 and \$8 million for 2008.

### Long-Lived Assets

All property and equipment and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts. No material impairments were recorded in 2010, 2009, or 2008 as a result of the tests performed.

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### Accrued Liabilities

Accrued liabilities consist of the following:

|                                     | Jan. 29,<br>2011            | Jan. 30,<br>2010 |
|-------------------------------------|-----------------------------|------------------|
|                                     | (In Millions)<br>(Restated) |                  |
| Various liabilities to customers    | \$ 267                      | \$ 221           |
| Payroll and related fringe benefits | 184                         | 201              |
| Sales, property and use taxes       | 159                         | 156              |
| Due to JPMorgan Chase               | 84                          | 121              |
| Accrued construction costs          | 97                          | 76               |
| Accrued interest                    | 21                          | 22               |
| Other                               | 218                         | 208              |
|                                     | <u>\$ 1,030</u>             | <u>\$ 1,005</u>  |

The various liabilities to customers include gift cards and merchandise return cards that have been issued but not presented for redemption.

### Self-Insurance

We use a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability and employee-related health care benefits, a portion of which is paid by our associates. Liabilities associated with these losses include estimates of both reported losses and losses incurred but not yet reported. We use a third-party actuary, which considers historical claims experience, demographic factors, severity factors and other actuarial assumptions, to estimate the liabilities associated with these risks. We retain the initial risk of \$500,000 per occurrence under our workers' compensation insurance policy and \$250,000 per occurrence under our general liability policy. The lifetime medical payment limit of \$1.5 million per plan participant was eliminated on December 31, 2010. Total estimated liabilities for workers' compensation, general liability and employee-related health benefits, excluding administrative expenses and before pre-funding, were approximately \$89 million at January 29, 2011 and \$85 million at January 30, 2010. Although these amounts are actuarially determined based on analysis of historical trends, the amounts that we will ultimately disburse could differ from these estimates.

### Long-term Liabilities

Other long-term liabilities consist of the following:

|  | Jan. 29,<br>2011            | Jan. 30,<br>2010 |
|--|-----------------------------|------------------|
|  | (In Millions)<br>(Restated) |                  |
| Property-related liabilities (straight-line rents and rent incentives) | \$ 198                      | \$ 162           |
| Unrecognized tax benefits, including accrued interest and penalties    | 120                         | 114              |
| Deferred compensation  | 38                          | 35               |
| Other  | 24                          | 28               |
|  | <u>\$ 380</u>               | <u>\$ 339</u>    |

### Treasury Stock

We account for repurchases of common stock using the cost method with common stock in treasury classified in the Consolidated Balance Sheets as a reduction of shareholders' equity.

### Revenue Recognition

Revenue from the sale of merchandise at our stores is recognized at the time of sale, net of any returns. E-Commerce sales are recorded based on estimated receipt of merchandise by the customer. Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales taxes.

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Revenue from gift card sales is recognized when the gift card is redeemed. Gift card breakage revenue is based on historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by a customer is remote.

### **Cost of Merchandise Sold and Selling, General and Administrative Expenses**

The following table illustrates the primary costs classified in Cost of Merchandise Sold and Selling, General and Administrative Expenses:

| <b>Cost of Merchandise Sold</b>   | <b>Selling, General and Administrative Expenses</b>  |
|---|--|
| <ul style="list-style-type: none"><li>• Total cost of products sold including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs</li><li>• Inventory shrink</li><li>• Markdowns</li><li>• Freight expenses associated with moving merchandise from our vendors to our distribution centers</li><li>• Shipping and handling expenses of E-Commerce sales</li><li>• Terms cash discount</li></ul> | <ul style="list-style-type: none"><li>• Compensation and benefit costs including:<ul style="list-style-type: none"><li>• Stores</li><li>• Corporate headquarters, including buying and merchandising</li><li>• Distribution centers</li></ul></li><li>• Rent expense and other occupancy and operating costs of our retail, distribution and corporate facilities</li><li>• Net revenues from the Kohl's credit card agreement with JPMorgan Chase</li><li>• Freight expenses associated with moving merchandise from our distribution centers to our retail stores, and among distribution and retail facilities</li><li>• Advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs</li><li>• Costs incurred prior to new store openings, such as advertising, hiring and training costs for new employees, processing and transporting initial merchandise, and rent expense</li><li>• Other administrative costs</li></ul> |

The classification of these expenses varies across the retail industry.

### **Vendor Allowances**

We receive consideration for a variety of vendor-sponsored programs, such as markdown allowances, volume rebates and promotion and advertising support. The vendor consideration is recorded either as a reduction of inventory costs or Selling, General and Administrative ("SG&A") expenses based on the application of Accounting Standards Codification ("ASC") No. 605, Subtopic 50, "Customer Payments and Incentives." Promotional and advertising allowances are intended to offset our advertising costs to promote vendors' merchandise. Markdown allowances and volume rebates are recorded as a reduction of inventory costs.

## Leases

We lease certain property and equipment used in our operations.

We are often involved extensively in the construction of leased stores. In many cases, we are responsible for construction cost over runs or construct non-standard tenant improvements (e.g. roof or HVAC systems). As a result of this involvement, we are deemed the “owner” for accounting purposes during the construction period, so are required to capitalize the construction costs on our Balance Sheet. Upon completion of the project, we perform a sale-leaseback analysis pursuant to ASC 840, Leases, to determine if we can remove the assets from our Balance Sheet. In many of our leases, we are reimbursed a portion of the construction costs via adjusted rental and/or cash payments or have terms which fix the rental payments for a significant percentage of the leased asset’s economic life. These items are generally considered “continuing involvement” which precludes us from derecognizing the assets from our Balance Sheet when construction is complete. In conjunction with these leases, we also record financing obligations equal to the cash proceeds or fair market value of the assets received from the landlord. At the end of the lease term, including exercise of any renewal options, the net remaining financing obligation over the net carrying value of the fixed asset will be recognized as a non-cash gain on sale of the property. We do not report rent expense for the properties which are owned for accounting purposes. Rather, rental payments under the lease are recognized as a reduction of the financing obligation and interest expense.

Some of our property and equipment is held under capital leases. These assets are included in property and equipment and depreciated over the term of the lease. We do not report rent expense for capital leases. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

All other leases are considered operating leases in accordance with ASC 840. Assets subject to an operating lease and the related lease payments are not recorded on our balance sheet. Rent expense is recognized on a straight-line basis over the expected lease term.

The lease term for all types of leases begins on the date we become legally obligated for the rent payments or we take possession of the building or land, whichever is earlier. The lease term includes cancelable option periods where failure to exercise such options would result in an economic penalty. Failure to exercise such options would result in the recognition of accelerated depreciation expense of the related assets.

## Advertising

Advertising costs, which include primarily television and radio broadcast, direct mail, and newspaper circulars, are expensed when the advertisement is first seen. Advertising costs, net of related vendor allowances, were as follows:

|   | 2010          | 2009          | 2008          |
|---|---------------|---------------|---------------|
|   |               | (In Millions) |               |
| Gross advertising costs                         | \$ 1,017      | \$ 988        | \$ 1,037      |
| Vendor allowances                               | (148)         | (142)         | (147)         |
| Net advertising costs                           | <u>\$ 869</u> | <u>\$ 846</u> | <u>\$ 890</u> |
| Net advertising costs as a percent of net sales | 4.7%          | 4.9%          | 5.4%          |

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### Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recorded based on differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes. Deferred tax assets and liabilities are calculated using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We establish valuation allowances for deferred tax assets when we believe it is more likely than not that the asset will not be realizable for tax purposes.

We recognize interest and penalty expense related to unrecognized tax benefits in our provision for income tax expense.

### Net Income Per Share

Basic net income per share is net income divided by the average number of common shares outstanding during the period. Diluted net income per share includes incremental shares assumed to be issued upon exercise of stock options.

The information required to compute basic and diluted net income per share is as follows:

|   | 2010  | 2009          | 2008          |
|---|---|---------------|---------------|
|   | (In Millions except per share data)<br>(Restated) |               |               |
| Numerator—net income                          | <u>\$ 1,120</u>                                   | <u>\$ 973</u> | <u>\$ 857</u> |
| Denominator—weighted average shares           |   |               |               |
| Basic   | 304   | 305           | 306           |
| Impact of dilutive employee stock options (a) | 2   | 1             | 1             |
| Diluted                                       | <u>306</u>  | <u>306</u>    | <u>307</u>    |
| Net income per share:                         |   |               |               |
| Basic   | \$ 3.69   | \$ 3.19       | \$ 2.80       |
| Diluted                                       | \$ 3.66   | \$ 3.17       | \$ 2.80       |

(a) Excludes 8 million options for 2010, 17 million options for 2009 and 18 million options for 2008 as the impact of such options was antidilutive.

### Stock Options

Stock-based compensation expense, including stock options and nonvested stock awards, is recognized on a straight-line basis over the vesting period based on the fair value of awards which are expected to vest. The fair value of all share-based awards is estimated on the date of grant.

## 2. Restatement

We are restating our previously issued consolidated financial statements for the year ended January 29, 2011 to correct various errors in our accounting for leases.

The most significant of the corrections resulted from improper application of the sale-leaseback provisions of ASC 840, Leases. We are often involved extensively in the construction of leased stores. In many cases, we are responsible for construction cost over runs or construct non-standard tenant improvements (e.g. roof or HVAC systems). As a result of this involvement, we are deemed the “owner” for accounting purposes during the construction period, so are required to capitalize the construction costs on our Balance Sheet. Upon completion of the project, we must perform a sale-leaseback analysis pursuant to ASC 840 to determine if we can remove the assets from our Balance Sheet. In many of our leases, we are reimbursed a portion of the construction costs via adjusted rental and/or cash payments or have terms which fix the rental payments for a significant percentage of the leased asset’s economic life. These items are generally considered “continuing involvement” which preclude us from derecognizing the constructed assets from our Balance Sheet when construction is complete.

Additionally, certain store and equipment leases were improperly recorded as operating leases, rather than capital leases.

To correct the accounting errors, we have recorded additional property and the related capital lease and financing obligations on our Balance Sheets. In our Statements of Income, lease payments related to these properties are now recognized as depreciation and interest expense, rather than rent expense (which we record in Selling, General and Administrative Expense). The corrections impact the classification of cash flows from operations, financing activities and investing activities, but have no impact on the net increase or decrease in cash and cash equivalents reported in our Statements of Cash Flows. As part of the restatement, we also reversed a \$31 million cumulative lease accounting correction to net income which was recorded in the quarterly period ended October 30, 2010 (as disclosed in our quarterly report on Form 10-Q which was filed on December 9, 2010) and recorded the adjustment in the proper accounting periods.

The following tables summarize the corrections by financial statement line item.

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|  | January 29, 2011           |                              |                 |
|--|----------------------------|------------------------------|-----------------|
|  | Previously<br>Reported (1) | Adjustments<br>(In Millions) | Restated        |
| <b>Assets</b>  |                            |                              |                 |
| Current assets:  |                            |                              |                 |
| Cash and cash equivalents                                  | \$ 2,277                   | \$ —                         | \$ 2,277        |
| Merchandise inventories                                    | 3,036                      | —                            | 3,036           |
| Deferred income taxes                                      | 77                         | —                            | 77              |
| Other  | 255                        | (3)                          | 252             |
| Total current assets                                       | 5,645                      | (3)                          | 5,642           |
| Property and equipment, net                                | 7,256                      | 1,436                        | 8,692           |
| Long-term investments                                      | 277                        | —                            | 277             |
| Other assets   | 386                        | (218)                        | 168             |
| Total assets   | <u>\$ 13,564</u>           | <u>\$ 1,215</u>              | <u>\$14,779</u> |
| <b>Liabilities and Shareholders' Equity</b>                |                            |                              |                 |
| Current liabilities:                                       |                            |                              |                 |
| Accounts payable   | \$ 1,138                   | \$ —                         | \$ 1,138        |
| Accrued liabilities  | 1,027                      | 3                            | 1,030           |
| Income taxes payable                                       | 127                        | —                            | 127             |
| Current portion of long-term debt                          | 400                        | —                            | 400             |
| Current portion of capital lease and financing obligations | 18                         | 68                           | 86              |
| Total current liabilities                                  | 2,710                      | 71                           | 2,781           |
| Long-term debt   | 1,494                      | —                            | 1,494           |
| Capital lease and financing obligations                    | 184                        | 1,834                        | 2,018           |
| Deferred income taxes                                      | 418                        | (162)                        | 256             |
| Other long-term liabilities                                | 656                        | (276)                        | 380             |
| Shareholders' equity                                       | 8,102                      | (252)                        | 7,850           |
| Total liabilities and shareholders' equity                 | <u>\$ 13,564</u>           | <u>\$ 1,215</u>              | <u>\$14,779</u> |

(1) Includes certain reclassifications to conform to the current presentation.



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|  | January 30, 2010           |                 |                 |
|--|----------------------------|-----------------|-----------------|
|  | Previously<br>Reported (1) | Adjustments     | Restated        |
|  | (In Millions)              |                 |                 |
| <b>Assets</b>  |                            |                 |                 |
| Current assets:  |                            |                 |                 |
| Cash and cash equivalents                                  | \$ 2,267                   | \$ —            | \$ 2,267        |
| Merchandise inventories                                    | 2,923                      | —               | 2,923           |
| Deferred income taxes                                      | 73                         | —               | 73              |
| Other  | 222                        | —               | 222             |
| Total current assets                                       | 5,485                      | —               | 5,485           |
| Property and equipment, net                                | 7,018                      | 1,488           | 8,506           |
| Long-term investments                                      | 321                        | —               | 321             |
| Other assets   | 336                        | (183)           | 153             |
| Total assets   | <u>\$ 13,160</u>           | <u>\$ 1,305</u> | <u>\$14,465</u> |
| <b>Liabilities and Shareholders' Equity</b>                |                            |                 |                 |
| Current liabilities:                                       |                            |                 |                 |
| Accounts payable   | \$ 1,188                   | \$ —            | \$ 1,188        |
| Accrued liabilities  | 1,002                      | 3               | 1,005           |
| Income taxes payable                                       | 184                        | —               | 184             |
| Current portion of capital lease and financing obligations | 16                         | 62              | 78              |
| Total current liabilities                                  | 2,390                      | 65              | 2,455           |
| Long-term debt   | 1,894                      | —               | 1,894           |
| Capital lease and financing obligations                    | 158                        | 1,810           | 1,968           |
| Deferred income taxes                                      | 377                        | (163)           | 214             |
| Other long-term liabilities                                | 488                        | (149)           | 339             |
| Shareholders' equity                                       | 7,853                      | (258)           | 7,595           |
| Total liabilities and shareholders' equity                 | <u>\$ 13,160</u>           | <u>\$ 1,305</u> | <u>\$14,465</u> |

(1) Includes certain reclassifications to conform to the current presentation.

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|                                      | 2010                                 |                |                 |
|--------------------------------------|--------------------------------------|----------------|-----------------|
|                                      | Previously<br>Reported               | Adjustments    | Restated        |
|                                      | (In Millions, Except per Share Data) |                |                 |
| Sales                                | \$ 18,391                            | \$ —           | \$ 18,391       |
| Cost of merchandise sold             | 11,359                               | —              | 11,359          |
| Gross margin                         | 7,032                                | —              | 7,032           |
| Operating expenses:                  |                                      |                |                 |
| Selling, general, and administrative | 4,462                                | (272)          | 4,190           |
| Depreciation and amortization        | 656                                  | 94             | 750             |
| Operating income                     | 1,914                                | 178            | 2,092           |
| Interest expense, net                | 132                                  | 172            | 304             |
| Income before income taxes           | 1,782                                | 6              | 1,788           |
| Provision for income taxes           | 668                                  | —              | 668             |
| Net income                           | <u>\$ 1,114</u>                      | <u>\$ 6</u>    | <u>\$ 1,120</u> |
| Net income per share:                |                                      |                |                 |
| Basic                                | \$ 3.67                              | \$ 0.02        | \$ 3.69         |
| Diluted                              | \$ 3.65                              | \$ 0.01        | \$ 3.66         |
|                                      |                                      |                |                 |
|                                      | 2009                                 |                |                 |
|                                      | Previously<br>Reported               | Adjustments    | Restated        |
|                                      | (In Millions, Except per Share Data) |                |                 |
| Sales                                | \$ 17,178                            | \$ —           | \$ 17,178       |
| Cost of merchandise sold             | 10,680                               | —              | 10,680          |
| Gross margin                         | 6,498                                | —              | 6,498           |
| Operating expenses:                  |                                      |                |                 |
| Selling, general, and administrative | 4,196                                | (245)          | 3,951           |
| Depreciation and amortization        | 590                                  | 98             | 688             |
| Operating income                     | 1,712                                | 147            | 1,859           |
| Interest expense, net                | 124                                  | 177            | 301             |
| Income before income taxes           | 1,588                                | (30)           | 1,558           |
| Provision for income taxes           | 597                                  | (12)           | 585             |
| Net income                           | <u>\$ 991</u>                        | <u>\$ (18)</u> | <u>\$ 973</u>   |
| Net income per share:                |                                      |                |                 |
| Basic                                | \$ 3.25                              | \$ (0.06)      | \$ 3.19         |
| Diluted                              | \$ 3.23                              | \$ (0.06)      | \$ 3.17         |

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|                                      | 2008                                 |             |           |
|--------------------------------------|--------------------------------------|-------------|-----------|
|                                      | Previously<br>Reported               | Adjustments | Restated  |
|                                      | (In Millions, Except per Share Data) |             |           |
| Sales                                | \$ 16,389                            | \$ —        | \$ 16,389 |
| Cost of merchandise sold             | 10,334                               | —           | 10,334    |
| Gross margin                         | 6,055                                | —           | 6,055     |
| Operating expenses:                  |                                      |             |           |
| Selling, general, and administrative | 3,978                                | (209)       | 3,769     |
| Depreciation and amortization        | 541                                  | 91          | 632       |
| Operating income                     | 1,536                                | 118         | 1,654     |
| Interest expense, net                | 111                                  | 164         | 275       |
| Income before income taxes           | 1,425                                | (46)        | 1,379     |
| Provision for income taxes           | 540                                  | (18)        | 522       |
| Net income                           | \$ 885                               | \$ (28)     | \$ 857    |
| Net income per share:                |                                      |             |           |
| Basic                                | \$ 2.89                              | \$ (0.09)   | \$ 2.80   |
| Diluted                              | \$ 2.89                              | \$ (0.09)   | \$ 2.80   |

The cumulative effect of the restatement on retained earnings for all periods prior to February 2, 2008 was \$212 million.

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|   | 2010                   |                              |                 |
|---|------------------------|------------------------------|-----------------|
|   | Previously<br>Reported | Adjustments<br>(In Millions) | Restated        |
| <b>Operating activities</b>   |                        |                              |                 |
| Net income  | \$ 1,114               | \$ 6                         | \$ 1,120        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                              |                 |
| Depreciation and amortization   | 656                    | 94                           | 750             |
| Share-based compensation  | 66                     | —                            | 66              |
| Excess tax benefits from share-based compensation                                 | 3                      | —                            | 3               |
| Deferred income taxes   | 38                     | 1                            | 39              |
| Other non-cash revenues and expenses  | 66                     | (31)                         | 35              |
| Changes in operating assets and liabilities:                                      |                        |                              |                 |
| Merchandise inventories   | (107)                  | —                            | (107)           |
| Other current and long-term assets  | (50)                   | —                            | (50)            |
| Accounts payable  | (50)                   | —                            | (50)            |
| Accrued and other long-term liabilities   | 3                      | 10                           | 13              |
| Income taxes  | (63)                   | —                            | (63)            |
| Net cash provided by operating activities   | <u>1,676</u>           | <u>80</u>                    | <u>1,756</u>    |
| <b>Investing activities</b>   |                        |                              |                 |
| Acquisition of property and equipment   | (761)                  | (40)                         | (801)           |
| Sales of investments in auction rate securities                                   | 42                     | —                            | 42              |
| Other   | 2                      | —                            | 2               |
| Net cash used in investing activities   | <u>(717)</u>           | <u>(40)</u>                  | <u>(757)</u>    |
| <b>Financing activities</b>   |                        |                              |                 |
| Treasury stock purchases  | (1,004)                | —                            | (1,004)         |
| Capital lease and financing obligation payments                                   | (17)                   | (67)                         | (84)            |
| Proceeds from financing obligations   | —                      | 27                           | 27              |
| Proceeds from stock option exercises  | 75                     | —                            | 75              |
| Excess tax benefits from share-based compensation                                 | (3)                    | —                            | (3)             |
| Net cash used in financing activities   | <u>(949)</u>           | <u>(40)</u>                  | <u>(989)</u>    |
| Net increase in cash and cash equivalents   | 10                     | —                            | 10              |
| Cash and cash equivalents at beginning of period                                  | 2,267                  | —                            | 2,267           |
| Cash and cash equivalents at end of period  | <u>\$ 2,277</u>        | <u>\$ —</u>                  | <u>\$ 2,277</u> |

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|   | 2009                   |                              |                 |
|---|------------------------|------------------------------|-----------------|
|   | Previously<br>Reported | Adjustments<br>(In Millions) | Restated        |
| <b>Operating activities</b>   |                        |                              |                 |
| Net income  | \$ 991                 | \$ (18)                      | \$ 973          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                              |                 |
| Depreciation and amortization   | 590                    | 98                           | 688             |
| Share-based compensation  | 64                     | —                            | 64              |
| Excess tax benefits from share-based compensation                                 | 3                      | —                            | 3               |
| Deferred income taxes   | 52                     | (12)                         | 40              |
| Other non-cash revenues and expenses  | 52                     | (17)                         | 35              |
| Changes in operating assets and liabilities:                                      |                        |                              |                 |
| Merchandise inventories   | (119)                  | —                            | (119)           |
| Other current and long-term assets  | (13)                   | —                            | (13)            |
| Accounts payable  | 306                    | —                            | 306             |
| Accrued and other long-term liabilities   | 234                    | 1                            | 235             |
| Income taxes  | 74                     | —                            | 74              |
| Net cash provided by operating activities   | <u>2,234</u>           | <u>52</u>                    | <u>2,286</u>    |
| <b>Investing activities</b>   |                        |                              |                 |
| Acquisition of property and equipment   | (666)                  | (9)                          | (675)           |
| Sales of investments in auction rate securities                                   | 28                     | —                            | 28              |
| Other   | (2)                    | —                            | (2)             |
| Net cash used in investing activities   | <u>(640)</u>           | <u>(9)</u>                   | <u>(649)</u>    |
| <b>Financing activities</b>   |                        |                              |                 |
| Treasury stock purchases  | (1)                    | —                            | (1)             |
| Capital lease and financing obligation payments                                   | (17)                   | (53)                         | (70)            |
| Proceeds from financing obligations   | —                      | 10                           | 10              |
| Proceeds from stock option exercises  | 51                     | —                            | 51              |
| Excess tax benefits from share-based compensation                                 | (3)                    | —                            | (3)             |
| Net cash provided by (used in) financing activities                               | <u>30</u>              | <u>(43)</u>                  | <u>(13)</u>     |
| Net increase in cash and cash equivalents   | 1,624                  | —                            | 1,624           |
| Cash and cash equivalents at beginning of period                                  | 643                    | —                            | 643             |
| Cash and cash equivalents at end of period  | <u>\$ 2,267</u>        | <u>\$ —</u>                  | <u>\$ 2,267</u> |

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|   | 2008                   |                              |                |
|---|------------------------|------------------------------|----------------|
|   | Previously<br>Reported | Adjustments<br>(In Millions) | Restated       |
| <b>Operating activities</b>   |                        |                              |                |
| Net income  | \$ 885                 | \$ (28)                      | \$ 857         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                              |                |
| Depreciation and amortization   | 541                    | 91                           | 632            |
| Share-based compensation  | 55                     | —                            | 55             |
| Deferred income taxes   | 84                     | (18)                         | 66             |
| Other non-cash revenues and expenses  | 49                     | 8                            | 57             |
| Changes in operating assets and liabilities:                                      |                        |                              |                |
| Merchandise inventories   | 60                     | —                            | 60             |
| Other current and long-term assets  | (40)                   | —                            | (40)           |
| Accounts payable  | 48                     | —                            | 48             |
| Accrued and other long-term liabilities   | 42                     | 1                            | 43             |
| Income taxes  | (26)                   | —                            | (26)           |
| Net cash provided by operating activities   | <u>1,698</u>           | <u>54</u>                    | <u>1,752</u>   |
| <b>Investing activities</b>   |                        |                              |                |
| Acquisition of property and equipment   | (1,014)                | (52)                         | (1,066)        |
| Purchases of investments in auction rate securities                               | (53)                   | —                            | (53)           |
| Sales of investments in auction rate securities                                   | 93                     | —                            | 93             |
| Other   | 11                     | —                            | 11             |
| Net cash used in investing activities   | <u>(963)</u>           | <u>(52)</u>                  | <u>(1,015)</u> |
| <b>Financing activities</b>   |                        |                              |                |
| Treasury stock purchases  | (262)                  | —                            | (262)          |
| Capital lease and financing obligation payments                                   | (16)                   | (46)                         | (62)           |
| Proceeds from financing obligations   | —                      | 44                           | 44             |
| Proceeds from stock option exercises  | 5                      | —                            | 5              |
| Net cash used in financing activities   | <u>(273)</u>           | <u>(2)</u>                   | <u>(275)</u>   |
| Net increase in cash and cash equivalents   | 462                    | —                            | 462            |
| Cash and cash equivalents at beginning of period                                  | 181                    | —                            | 181            |
| Cash and cash equivalents at end of period  | <u>\$ 643</u>          | <u>\$ —</u>                  | <u>\$ 643</u>  |

### 3. Long-term Investments

As of January 29, 2011, the par value of our long-term investments was \$338 million and the estimated fair value was \$277 million. Our auction rate securities (“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. Approximately \$145 million of our ARS (at fair value) are rated “AAA” by Moody’s, Standard & Poor’s and/or Fitch Ratings.

Beginning in February 2008, liquidity issues in the global credit markets resulted in the failure of auctions for all of our ARS. A “failed” auction occurs when the amount of securities submitted for sale in the auction exceeds the amount of purchase bids. As a result, holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the terms of the debt instrument. A failed auction limits liquidity for holders until there is a successful auction or until such time as another market for ARS develops. ARS are generally callable by the issuer at any time. Scheduled auctions continue to be held until the ARS matures or is called.

To date, 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 reduced liquidity has had a significant impact on the underlying credit quality of the assets backing our ARS. While the auction failures limit our ability to liquidate these investments, we do not believe these failures will have any significant impact on our ability to fund ongoing operations and growth initiatives.

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We intend to hold these ARS until maturity or until we can liquidate them at par value. Based on our other sources of liquidity, we do not believe we will be required to sell them before recovery of par value. Therefore, impairment charges are considered temporary and have been included in Accumulated Other Comprehensive Loss within our Consolidated Balance Sheet. In certain cases, holding the investments until recovery may mean until maturity, which ranges from 2015 to 2056. The weighted-average maturity date is 2035. As a result of the persistent failed auctions and the uncertainty of when these investments could be successfully liquidated at par, we have recorded all of our ARS as Long-term Investments within the Consolidated Balance Sheet.

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

The fair value for our ARS is based on third-party pricing models and is classified as a Level 3 pricing category. We utilized a discounted cash flow model to estimate the current fair market value for each of the securities we owned as there was no recent activity in the secondary markets in these types of securities. This model used unique inputs for each security including discount rate, interest rate currently being paid and maturity. The discount rate was calculated using the closest match available for other insured asset backed securities. A market failure scenario was employed as recent successful auctions of these securities were very limited.

The following table presents a rollforward of our long-term ARS, all of which are measured at fair value on a recurring basis using unobservable inputs (Level 3):

|                              | <u>2010</u>   | <u>2009</u>  |
|------------------------------|---------------|--------------|
|                              | (In Millions) |              |
| Balance at beginning of year | \$320         | \$332        |
| Sales                        | (42)          | (28)         |
| Unrealized gains / (losses)  | (2)           | 16           |
| Balance at end of year       | <u>\$276</u>  | <u>\$320</u> |

Unrealized gains / (losses) are reported net of deferred taxes of \$1 million at January 29, 2011 and \$6 million at January 30, 2010 as a component of Accumulated Other Comprehensive Gain (Loss) in the Consolidated Statements of Changes in Shareholders' Equity.

#### 4. Debt

Long-term debt consists of the following non-callable and unsecured senior debt:

| <u>Maturing</u>           | <u>Rate</u> | <u>Jan. 29,<br/>2011</u> | <u>Jan. 30,<br/>2010</u> |
|---------------------------|-------------|--------------------------|--------------------------|
|                           |             | (\$ in Millions)         |                          |
| March 2011                | 6.32%       | \$ 300                   | \$ 300                   |
| October 2011              | 7.41%       | 100                      | 100                      |
| 2017                      | 6.31%       | 650                      | 650                      |
| 2029                      | 7.36%       | 200                      | 200                      |
| 2033                      | 6.05%       | 300                      | 300                      |
| 2037                      | 6.89%       | 350                      | 350                      |
| Total senior debt         | 6.55%       | <u>1,900</u>             | 1,900                    |
| Unamortized debt discount |             | (6)                      | (6)                      |
| Less current portion      |             | <u>(400)</u>             | —                        |
| Long-term debt            |             | <u>\$1,494</u>           | <u>\$1,894</u>           |

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Based on quoted market prices (Level 1 per ASC No. 820, “Fair Value Measurements and Disclosures”), the estimated fair value of our senior debt was approximately \$2.1 billion at both January 29, 2011 and January 30, 2010.

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. Depending on the type of advance under these facilities, amounts borrowed bear interest at competitive bid rates; LIBOR plus a margin, depending on our long-term unsecured debt ratings; or the agent bank’s base rate. 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 2010 or 2009. Prior to or upon termination of these facilities, we plan to renew or replace them with similar arrangements.

Our debt agreements contain various covenants including limitations on additional indebtedness and certain financial tests. As of January 29, 2011, we were in compliance with all covenants of the debt agreements.

We also have outstanding trade letters of credit and stand-by letters of credit totaling approximately \$78 million at January 29, 2011, issued under uncommitted lines with two banks.

In December 2010, we entered into a \$200 million forward starting interest rate swap. We entered into this derivative financial instrument to reduce risk associated with movements in interest rates on debt which we expect to issue in the second half of fiscal 2011. This derivative financial instrument qualifies as a cash flow hedge. Accordingly, the effective portion of the instrument’s gains or losses is reported as a component of other comprehensive income and will be reclassified into earnings when the interest payments on the forecasted debt transaction affect earnings. Amounts related to this financial instrument were not material in 2010.

### 5. Lease Commitments

Rent expense charged to operations was \$264 million for 2010, \$253 million for 2009 and \$240 million for 2008. Rent expense includes contingent rents, which are based on sales, of \$3 million for 2010, \$2 million for 2009 and \$3 million for 2008. In addition, we are often required to pay real estate taxes, insurance and maintenance costs. These items are not included in the rent expenses listed above. Many store leases include multiple renewal options, exercisable at our option, that generally range from four to eight additional five-year periods.

Future minimum lease payments at January 29, 2011, are as follows:

|                                   | Capital<br>Lease and<br>Financing<br>Obligations | Operating<br>Leases |
|-----------------------------------|--|---------------------|
|                                   | (In Millions)<br>(Restated)                      |                     |
| Fiscal year:                      |  |                     |
| 2011                              | \$ 281   | \$ 233              |
| 2012                              | 271  | 230                 |
| 2013                              | 266  | 228                 |
| 2014                              | 256  | 228                 |
| 2015                              | 247  | 229                 |
| Thereafter                        | <u>3,542</u>                                     | <u>5,198</u>        |
|                                   | 4,863  | <u>\$ 6,346</u>     |
| Non-cash gain on sale of property | 426  |                     |
| Amount representing interest      | <u>(3,185)</u>                                   |                     |
| Present value of lease payments   | <u>\$ 2,104</u>                                  |                     |

### 6. Benefit Plans

We have an Employee Stock Ownership Plan (“ESOP”) for the benefit of our non-management associates. Contributions are made at the discretion of the Board of Directors. ESOP expenses totaled \$20 million for 2010, \$17 million for 2009 and \$8 million for 2008. Shares of our stock held by the ESOP are included as shares outstanding for purposes of the net income per share computations.

We also have a defined contribution savings plan covering all full-time and certain part-time associates. Participants in this plan may invest up to 100% of their base compensation, subject to certain statutory limits. Prior to 2010, we matched 100% of the first 3%



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of each participant's contribution. This match was increased to 5% in 2010. Prior to 2010, we also made defined annual contributions for all qualifying associates based on a percentage of qualifying payroll earnings. Defined contribution plan expense, net of forfeitures, was \$34 million for 2010, \$37 million for 2009 and \$30 million for 2008.

We also offer a non-qualified deferred compensation plan to a group of executives which provides for pre-tax compensation deferrals up to 100% of salary and/or bonus. Deferrals and credited investment returns are 100% vested. The expense for 2010, 2009, and 2008 was immaterial.

### 7. Income Taxes

Deferred income taxes consist of the following:

|  | Jan. 29,<br>2011            | Jan. 30,<br>2010 |
|--|-----------------------------|------------------|
|  | (In Millions)<br>(Restated) |                  |
| Deferred tax liabilities:                              |                             |                  |
| Property and equipment                                 | \$ 473                      | \$ 433           |
| Deferred tax assets:                                   |                             |                  |
| Merchandise inventories                                | 27                          | 36               |
| Accrued and other liabilities, including stock options | 216                         | 175              |
| Accrued step rent liability                            | 27                          | 58               |
| Unrealized loss on auction rate securities             | 24                          | 23               |
|  | <u>294</u>                  | <u>292</u>       |
| Net deferred tax liability                             | <u>\$ 179</u>               | <u>\$ 141</u>    |

The components of the provision for income taxes are as follows:

|                  | 2010                        | 2009         | 2008         |
|------------------|-----------------------------|--------------|--------------|
|                  | (In Millions)<br>(Restated) |              |              |
| Current federal  | \$561                       | \$480        | \$411        |
| Current state    | 69                          | 59           | 45           |
| Deferred federal | 35                          | 42           | 60           |
| Deferred state   | 3                           | 4            | 6            |
|                  | <u>\$668</u>                | <u>\$585</u> | <u>\$522</u> |

The provision for income taxes differs from the amount that would be provided by applying the statutory U.S. corporate tax rate due to the following items:

|  | 2010         | 2009         | 2008         |
|--|--------------|--------------|--------------|
| Provision at statutory rate                    | 35.0%        | 35.0%        | 35.0%        |
| State income taxes, net of federal tax benefit | 2.7          | 2.8          | 3.0          |
| Tax-exempt interest income                     | (0.3)        | (0.3)        | (0.2)        |
| Provision for income taxes                     | <u>37.4%</u> | <u>37.5%</u> | <u>37.8%</u> |

We have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. The only federal returns subject to examination are for the 2003 through 2010 tax years. State returns subject to examination are generally for the 2003 through 2010 tax years. Certain states have proposed adjustments which we are currently appealing. If we do not prevail on our appeals, we do not anticipate that the adjustments would result in a material change in our financial position.

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A reconciliation of the beginning and ending gross amount of unrecognized tax benefits is as follows:

|  | <u>2010</u>                 | <u>2009</u>  |
|--|-----------------------------|--------------|
|  | (In Millions)<br>(Restated) |              |
| Balance at beginning of year               | \$ 89                       | \$ 92        |
| Increases due to:                          |                             |              |
| Tax positions taken in prior years         | —                           | 5            |
| Tax positions taken in current year        | 25                          | 20           |
| Decreases due to:                          |                             |              |
| Tax positions taken in prior years         | (9)                         | (8)          |
| Settlements with taxing authorities        | (4)                         | (13)         |
| Lapse of applicable statute of limitations | (5)                         | (7)          |
| Balance at end of year                     | <u>\$ 96</u>                | <u>\$ 89</u> |

Not included in the unrecognized tax benefits reconciliation above are gross unrecognized accrued interest and penalties of \$24 million at January 29, 2011 and \$25 million at January 30, 2010. Interest and penalty expense was \$7 million for 2010 and \$4 million for 2009.

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were \$64 million as of January 29, 2011 and \$59 million as of January 30, 2010.

It is reasonably possible that our unrecognized tax positions may change within the next 12 months, primarily as a result of ongoing audits. While it is possible that one or more of these examinations may be resolved in the next year, it is not anticipated that a significant impact to the unrecognized tax benefit balance will occur.

## 8. Stock-Based Compensation

We currently grant share-based compensation pursuant to the Kohl's Corporation 2010 Long-Term Compensation Plan, which provides for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of our common stock, to officers, key employees and directors. As of January 29, 2011, there were 18.5 million shares authorized and 18.2 million shares available for grant under the 2010 Long-Term Compensation Plan. Options and nonvested stock that are surrendered or terminated without issuance of shares are available for future grants.

Annual grants of stock options and nonvested stock are made in the first quarter of the subsequent fiscal year. Grants to newly-hired and promoted employees and other discretionary grants are made periodically throughout the remainder of the year. We also have outstanding options which were granted under previous compensation plans.

### Stock options

The majority of stock options granted to employees prior to 2009 vest in four equal annual installments. Remaining stock options vest in five to seven equal annual installments. Outside directors' stock options are typically granted upon a director's election or re-election to our Board of Directors and vest over the term to which the director was elected, generally one year. Options granted to employees after 2005 have a term of seven years. Outstanding options granted to employees prior to 2006 have a term of up to 15 years. Options granted to directors have a term of 10 years.

All stock options have an exercise price equal to the fair market value of the common stock on the date of grant. The fair value of each option award is estimated using a Black-Scholes option valuation model and the following assumptions as of the grant date:

|   | 2010    | 2009    | 2008    |
|---|---------|---------|---------|
| Dividend yield                            | 0%      | 0%      | 0%      |
| Volatility                                | 33.5%   | 42.8%   | 36.6%   |
| Risk-free interest rate                   | 2.3%    | 1.8%    | 2.5%    |
| Expected life in years                    | 5.5     | 5.4     | 5.3     |
| Weighted average fair value at grant date | \$19.07 | \$17.68 | \$15.52 |

The dividend yield represents the expected dividends on our stock for the expected term of the option. The expected volatility assumption is based on the historical volatility of our stock. The risk-free interest rate for periods within the life of the option is based on a blend of U.S. Treasury bond rates. We use historical data to estimate the expected life of the option and the period of time that options granted are expected to be outstanding.

The following table summarizes our stock option activity for 2010, 2009, and 2008:

|                              | 2010          |                                 | 2009          |                                 | 2008          |                                 |
|------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                              | Shares        | Weighted Average Exercise Price | Shares        | Weighted Average Exercise Price | Shares        | Weighted Average Exercise Price |
| Balance at beginning of year | 19,848        | \$ 52.10                        | 19,134        | \$ 53.01                        | 17,313        | \$ 55.79                        |
| Granted                      | 656           | 54.56                           | 3,034         | 42.88                           | 3,568         | 41.93                           |
| Exercised                    | (1,848)       | 40.46                           | (1,273)       | 39.83                           | (135)         | 40.87                           |
| Forfeited/expired            | (787)         | 57.25                           | (1,047)       | 56.79                           | (1,612)       | 59.37                           |
| Balance at end of year       | <u>17,869</u> | <u>\$ 53.17</u>                 | <u>19,848</u> | <u>\$ 52.10</u>                 | <u>19,134</u> | <u>\$ 53.01</u>                 |

The intrinsic value of options exercised represents the excess of our stock price at the time the option was exercised over the exercise price and was \$25 million in 2010, \$20 million in 2009 and \$1 million in 2008.

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Additional information related to stock options outstanding and exercisable at January 29, 2011, segregated by exercise price range, is summarized below:

| Range of Exercise Prices       | Stock Options Outstanding |  |                                 | Stock Options Exercisable |  |                                 |
|--------------------------------|---------------------------|--|---------------------------------|---------------------------|--|---------------------------------|
|                                | Shares                    | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Shares                    | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
|                                | (Shares in Thousands)     |  |                                 |                           |  |                                 |
| \$ 17.00 – \$ 35.50            | 1,646                     | 3.6  | \$ 29.43                        | 1,339                     | 3.3  | \$ 29.65                        |
| \$ 35.51 – \$ 38.30            | 170                       | 4.6  | 37.27                           | 74                        | 4.3  | 37.14                           |
| \$ 38.31 – \$ 41.63            | 2,232                     | 5.2  | 41.58                           | 432                       | 5.4  | 41.44                           |
| \$ 41.64 – \$ 45.57            | 1,894                     | 4.6  | 43.03                           | 906                       | 5.0  | 43.03                           |
| \$ 45.58 – \$ 50.37            | 2,317                     | 7.6  | 48.20                           | 1,888                     | 8.1  | 48.05                           |
| \$ 50.38 – \$ 51.81            | 2,377                     | 4.0  | 51.39                           | 2,303                     | 3.9  | 51.39                           |
| \$ 51.82 – \$ 66.25            | 3,092                     | 5.3  | 59.29                           | 2,146                     | 5.1  | 60.65                           |
| \$ 66.26 – \$ 75.90            | 1,436                     | 5.2  | 68.48                           | 1,337                     | 5.3  | 68.23                           |
| \$ 75.91 – \$ 77.62            | 2,705                     | 3.2  | 75.98                           | 2,053                     | 3.2  | 75.98                           |
|                                | <u>17,869</u>             | <u>4.8</u>   | <u>\$ 53.17</u>                 | <u>12,478</u>             | <u>4.8</u>   | <u>\$ 54.96</u>                 |
| Intrinsic value (in thousands) | <u>\$82,633</u>           |  |                                 | <u>\$48,003</u>           |  |                                 |

The intrinsic value of outstanding and exercisable stock options represents the excess of our closing stock price on January 29, 2011 (\$51.20) over the exercise price multiplied by the applicable number of stock options.

*Nonvested stock awards*

We have also awarded shares of nonvested common stock to eligible key employees and to our Board of Directors. Substantially all awards have restriction periods tied primarily to employment and/or service. Nonvested stock awarded to employees generally vests over three to five years. Beginning in 2010, nonvested stock was awarded upon a director's election or re-election to our Board of Directors. Director awards vest over the term to which the director was elected, generally one year.

The fair value of nonvested stock awards is the closing price of our common stock on the date of grant. We may acquire shares from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employee's unvested stock award. Such shares are then designated as treasury shares.

The following table summarizes nonvested stock activity for 2010, 2009 and 2008:

|                              | 2010                  |  | 2009       |  | 2008       |  |
|------------------------------|-----------------------|--|------------|--|------------|--|
|                              | Shares                | Weighted Average Grant Date Fair Value | Shares     | Weighted Average Grant Date Fair Value | Shares     | Weighted Average Grant Date Fair Value |
|                              | (Shares in Thousands) |  |            |  |            |  |
| Balance at beginning of year | 883                   | \$ 45.44                               | 276        | \$ 54.39                               | 150        | \$ 69.98                               |
| Granted                      | 498                   | 55.24                                  | 715        | 43.04                                  | 187        | 44.86                                  |
| Vested                       | (219)                 | 47.52                                  | (76)       | 57.13                                  | (54)       | 64.48                                  |
| Forfeited                    | (46)                  | 47.75                                  | (32)       | 42.51                                  | (7)        | 54.90                                  |
| Balance at end of year       | <u>1,116</u>          | <u>\$ 49.30</u>                        | <u>883</u> | <u>\$ 45.44</u>                        | <u>276</u> | <u>\$ 54.39</u>                        |

The aggregate fair value of awards at the time of vesting was \$12 million in 2010, \$3 million in 2009 and \$2 million in 2008.

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### *Other required disclosures*

Stock-based compensation expense for both stock options and nonvested stock awards is included in Selling, General and Administrative expense in our Consolidated Statements of Income. Such expense totaled \$66 million for 2010, \$64 million for 2009 and \$55 million for 2008. At January 29, 2011, we had approximately \$120 million of unrecognized share-based compensation expense (before forfeitures and capitalization), which is expected to be recognized over a weighted average period of 2.7 years.

### **9. 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 financial position or results of operations.

### **10. Quarterly Financial Information (Unaudited)**

|                              | 2010   |         |         |         |
|------------------------------|--|---------|---------|---------|
|                              | First  | Second  | Third   | Fourth  |
|                              | (In Millions, Except Per Share Data)<br>(Restated) |         |         |         |
| Net sales                    | \$4,035  | \$4,100 | \$4,218 | \$6,038 |
| Gross margin                 | \$1,537  | \$1,651 | \$1,622 | \$2,223 |
| Net income                   | \$ 195   | \$ 255  | \$ 176  | \$ 494  |
| Basic shares                 | 307  | 307     | 307     | 295     |
| Basic net income per share   | \$ 0.63  | \$ 0.83 | \$ 0.57 | \$ 1.68 |
| Diluted shares               | 309  | 308     | 308     | 297     |
| Diluted net income per share | \$ 0.63  | \$ 0.83 | \$ 0.57 | \$ 1.66 |

|                              | 2009   |         |         |         |
|------------------------------|--|---------|---------|---------|
|                              | First  | Second  | Third   | Fourth  |
|                              | (In Millions, Except Per Share Data)<br>(Restated) |         |         |         |
| Net sales                    | \$3,638  | \$3,806 | \$4,051 | \$5,682 |
| Gross margin                 | \$1,368  | \$1,520 | \$1,539 | \$2,070 |
| Net income                   | \$ 133   | \$ 226  | \$ 188  | \$ 426  |
| Basic shares                 | 305  | 305     | 305     | 306     |
| Basic net income per share   | \$ 0.43  | \$ 0.74 | \$ 0.62 | \$ 1.39 |
| Diluted shares               | 306  | 306     | 308     | 308     |
| Diluted net income per share | \$ 0.43  | \$ 0.74 | \$ 0.61 | \$ 1.38 |

Due to changes in stock prices during the year and timing of issuance of shares, the sum of quarterly net income per share may not equal the annual net income per share.

### **11. Related Party**

One of our directors is also a shareholder of a law firm which performs legal services for us.

We have agreements with Blackhawk Network, Inc. ("Blackhawk") pursuant to which Blackhawk distributes our prepaid gift cards for sale in various retail outlets and, beginning in 2008, to which we will sell prepaid gift cards for other retailers in our stores. We pay Blackhawk a fee for Kohl's gift cards which are sold at other retailers and receive a fee for selling gift cards for other retailers in our stores. Blackhawk is a subsidiary of Safeway Stores, Inc. ("Safeway") and one of our directors is Chairman, President and Chief Executive Officer of Safeway. This director also holds a small minority ownership interest in Blackhawk. The agreements were entered into in the ordinary course of our business, and our director was not involved in any negotiations. Blackhawk is a leading provider of gift card marketing services in the retail industry, and Safeway has confirmed that the terms of our agreements with Blackhawk are substantially similar to the terms of Blackhawk's agreements with other similarly situated national retailers.

## **12. Treasury Stock Repurchases**

On November 17, 2010, we entered into an accelerated share repurchase transaction with Morgan Stanley & Co. Incorporated (“Morgan Stanley”) to repurchase \$1.0 billion of Kohl’s common stock on an accelerated basis. This accelerated share repurchase was part of the \$2.5 billion share repurchase program authorized by our Board of Directors in September 2007.

We received a total of 18.8 million shares under the program: 12.6 million shares on November 18, 2010, 3.8 million shares on December 7, 2010, 1.5 million on January 11, 2011, and a final delivery of 0.9 million shares on March 3, 2011. The total number of shares received was generally determined by the discounted average of the daily volume weighted average price of shares traded during the relevant pricing periods.

**Kohl's Corporation**  
**Ratio of Earnings to Fixed Charges**  
**(Dollars in Millions)**  
**(Restated)**

|  | <u>2010</u>           | <u>2009</u>    | <u>2008</u>    |
|--|-----------------------|----------------|----------------|
| <b>Earnings</b>                                    |                       |                |                |
| Income before income taxes                         | <b>\$1,788</b>        | \$1,558        | \$1,379        |
| Fixed charges                                      | <b>489</b>            | 479            | 446            |
| Less: interest capitalized during period           | <b>(6)</b>            | (5)            | (8)            |
|  | <b><u>\$2,271</u></b> | <u>\$2,032</u> | <u>\$1,817</u> |
| <b>Fixed Charges</b>                               |                       |                |                |
| Interest (expensed or capitalized)                 | <b>\$ 319</b>         | \$ 316         | \$ 304         |
| Portion of rent expense representative of interest | <b>170</b>            | 163            | 142            |
|  | <b><u>\$ 489</u></b>  | <u>\$ 479</u>  | <u>\$ 446</u>  |
| <b>Ratio of earnings to fixed charges</b>          | <b><u>4.6</u></b>     | <u>4.2</u>     | <u>4.1</u>     |

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 #33-49886, Form S-8 #333-26409, Form S-8 #33-84558, Form S-8 #333-105264, Form S-8 #333-143086, and Form S-3 #333-167338) of Kohl's Corporation and in the related prospectuses, of our report dated March 18, 2011, except for Note 2, as to which the date is September 13, 2011, with respect to the consolidated financial statements of Kohl's Corporation, and our report relating to the effectiveness of internal control over financial reporting of Kohl's Corporation dated March 18, 2011, except for the effects of the material weakness identified in our report as to which the date is September 13, 2011 (which report expresses an adverse opinion on internal control over financial reporting), included in this Annual Report (Form 10-K/A) for the year ended January 29, 2011.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin  
September 13, 2011



**Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Kevin Mansell, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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.

Date: September 13, 2011

/s/ Kevin Mansell

Kevin Mansell

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

**Certification of the 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 Annual Report on Form 10-K/A 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.

Date: September 13, 2011

/s/ Wesley S. McDonald

Wesley S. McDonald  
Chief Financial Officer

**Certification by 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**

I, Kevin Mansell, Chairman, President and 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 my knowledge, on the date of this Certification:

1. This Annual Report on Form 10-K/A of the Company for the annual period ended January 29, 2011 (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 13, 2011

/s/ Kevin Mansell

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Kevin Mansell

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

**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**

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 my knowledge, on the date of this Certification:

1. This Annual Report on Form 10-K/A of the Company for the annual period ended January 29, 2011 (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 13, 2011

/s/ Wesley S. McDonald

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Wesley S. McDonald  
Chief Financial Officer