

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 28, 2006

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from _____ to _____

Commission File 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	Name of each exchange on which registered
Common Stock, \$.01 Par Value	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 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No .

At July 29, 2005, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was approximately \$19,405,000,000 (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date). At March 1, 2006, the Registrant had issued and outstanding an aggregate of 345,475,525 shares of its Common Stock.

Documents Incorporated by Reference:

Portions of the Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on April 26, 2006 are incorporated into Part III.

PART I

Item 1. Business

Overview

The Company operates family-oriented, specialty department stores that feature quality, exclusive and national brand merchandise priced to provide value to customers. The Company's stores sell moderately priced apparel, footwear, accessories and home products targeted to middle-income customers shopping for their families and homes. Kohl's offers a convenient shopping experience through easily accessible locations, well laid out stores, central checkout and good in-stock position which allows the customer to get in and out quickly. Kohl's stores have fewer departments than traditional, full-line department stores but offer customers dominant assortments of merchandise displayed in complete selections of styles, colors and sizes. Central to the Company's pricing strategy and overall profitability is a culture focused on maintaining a low cost structure. Critical elements of this low cost structure are the Company's unique store format, lean staffing levels, sophisticated management information systems and operating efficiencies resulting from centralized buying, advertising and distribution. As of January 28, 2006, the Company operated 732 stores in 41 states. In March 2006, the Company opened nine additional stores and currently operates 741 stores.

As used herein, the terms "Company" and "Kohl's" refer to Kohl's Corporation, its consolidated subsidiaries and predecessors. The Company's fiscal year ends on the Saturday closest to January 31. Fiscal 2005 ended on January 28, 2006, and was a 52 week year. The Company was organized in 1988 and is a Wisconsin corporation.

Expansion

The Company's expansion strategy is designed to achieve profitable growth. Since 1992, the Company has expanded from 79 stores located in the Midwest to a current total of 741 stores with a presence in six regions of the country: the Midwest, Mid-Atlantic, Northeast, South Central, Southeast and Southwest.

Region	States	Number of Stores				
		At Fiscal Year End				As of March 2006
		1992	1997	2002	2005	
Midwest	IA, IL, IN, MI, MN, ND, NE, OH, SD, WI	79	136	196	243	244
Mid-Atlantic	DE, MD, PA, VA, WV	—	28	57	77	79
Northeast	CT, MA, ME, NH, NJ, NY, RI, VT	—	4	77	117	117
South Central	AR, KS, MO, OK, TX	—	8	67	93	95
Southeast	AL, FL, GA, KY, MS, NC, SC, TN	—	6	49	85	87
Southwest	AZ, CA, CO, NV, UT	—	—	11	117	119
Total		79	182	457	732	741

In support of its geographic expansion, the Company has focused on providing the solid infrastructure needed to ensure consistent execution. Kohl's proactively invests in distribution capacity and regional management to facilitate the growth in new and existing markets. The Company's central merchandising organization tailors merchandise assortments to reflect regional climates and preferences. Management information systems support the Company's low cost culture by enhancing productivity and providing the information needed to make key merchandising decisions.

The Kohl's concept has proven to be transferable to markets across the country. New market entries are supported by extensive advertising and promotions designed to introduce new customers to the Kohl's concept of brands, value and convenience. Additionally, the Company has been successful in acquiring, refurbishing and operating locations previously operated by other retailers. Of the 732 stores the Company operated as of January 28, 2006, 184 are take-over locations, which facilitated the entry into several markets including Chicago, Detroit, Minneapolis, Columbus, Boston, Philadelphia, St. Louis, the New York region and Hartford/New Haven.

Once a new market is established, the Company adds additional fill-in stores to further strengthen market share and enhance profitability. As of January 28, 2006, the Company operated stores in the following large and intermediate sized markets:

	Number of stores January 28, 2006		Number of stores January 28, 2006
Greater New York metropolitan area	52	Cleveland/Akron	17
Chicago	43	Denver	15
Los Angeles	35	Indianapolis	14
Greater Philadelphia metropolitan area	32	San Francisco	14
Dallas/Fort Worth	23	Phoenix	13
Milwaukee	21	Houston	12
Boston	21	Hartford/New Haven	12
Minneapolis/St. Paul	20	St. Louis	11
Atlanta	19	Columbus	10
Detroit	19	Sacramento	9
Washington DC	18		

In fiscal 2005, Kohl's successfully opened 95 new stores, significantly increasing its presence in the Southwest region with an additional 13 stores. The Company entered the Buffalo, NY market with three stores; the Orlando, FL market with six stores and the Jacksonville, FL market with three stores. In addition, the Company added 22 stores in the Midwest region, 13 stores in the South Central region, 12 stores in the Southeast region, 12 stores in the Mid-Atlantic region and 11 stores in the Northeast region.

Management believes there is substantial opportunity for further growth and intends to open approximately 80-85 new stores in fiscal 2006, with 17 stores opening during the first quarter including its initial entry into the Pacific Northwest in the Portland, OR market. The Company expects to open the remainder of its stores in the third quarter of fiscal 2006 with plans to enter the Seattle, WA market. The remaining stores will be opened in existing markets and spread across all regions of the country.

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

Merchandising

Kohl's stores feature moderately priced, exclusive and national brand merchandise, which provide value to customers. Kohl's merchandise is targeted to appeal to middle-income customers shopping for their families and homes. The Company's stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. The Company's stores emphasize apparel, accessories and footwear for women, men, and children, soft home products, such as towels, sheets and pillows, and housewares.

Convenience

Convenience is another important cornerstone of Kohl's business model. At Kohl's, convenience begins before the customer enters the store, with a neighborhood location close to home. Other aspects of convenience include easily accessible entry, knowledgeable and friendly associates, wide aisles, a functional store layout, shopping carts/strollers and fast, centralized checkouts. The physical store layout coupled with the Company's focus on strong in-stock position in color and size are aimed at providing a convenient shopping experience for an increasingly time starved customer. In addition, Kohl's offers on-line shopping on the Company's website. Designed as an added service for customers who prefer to shop from their homes, the website offers key items, best selling family apparel and home merchandise. The site is designed to provide an easy-to-navigate, on-line shopping environment that complements the Company's in-store focus on convenience.

Distribution

The Company receives substantially all of its merchandise at eight distribution centers, with the balance delivered directly to the stores by vendors or their distributors. The distribution centers ship merchandise to each store by contract carrier several times a week.

The following table summarizes key information about each distribution center.

<u>Location</u>	<u>Fiscal Year Opened</u>	<u>Square Footage</u>	<u>States Served</u>	<u>Approximate Store Capacity</u>
Menomonee Falls, Wisconsin	1981	530,000	Illinois, Wisconsin	90
Findlay, Ohio	1994	780,000	Ohio, Michigan, Indiana, Kentucky, West Virginia	120
Winchester, Virginia	1997	420,000	Pennsylvania, North Carolina, Virginia, Maryland, Delaware	100
Blue Springs, Missouri	1999	540,000	Minnesota, Colorado, Missouri, Iowa, Kansas, Nebraska, North Dakota, South Dakota	100
Corsicana, Texas	2001	540,000	Texas, Oklahoma, Arkansas, Mississippi	110
Mamakating, New York	2002	605,000	New York, New Jersey, Massachusetts, Connecticut, New Hampshire, Rhode Island, Maine, Vermont	100
San Bernardino, California	2002	575,000	California, Arizona, Nevada, Utah	110
Macon, Georgia	2005	560,000	Alabama, Tennessee, Georgia, South Carolina, Florida	125

The Company opened its eighth distribution center in Macon, Georgia in the spring of 2005 to support the Company's growth in the Southeast region. The Company plans to open its ninth distribution center in Patterson, California in the spring of 2006 to support the Company's growth in the Pacific Northwest and Southwest.

The Company operates a 500,000 square foot fulfillment center in Monroe, Ohio that services the Company's e-commerce business.

Employees

As of January 28, 2006, the Company employed approximately 107,000 associates, including approximately 17,000 full-time and 90,000 part-time associates. The number of associates varies during the year, peaking during the back-to-school and holiday seasons. None of the Company's associates are represented by a collective bargaining unit. The Company believes its relations with its associates are very good.

Competition

The retail industry is highly competitive. Management considers quality, value, merchandise mix, service and convenience to be the most significant competitive factors in the industry. The Company's primary competitors are traditional department stores, upscale mass merchandisers and specialty stores. The Company's specific competitors vary from market to market.

Merchandise Vendors

The Company purchases merchandise from many suppliers, none of which accounted for more than 5% of the Company's net purchases during fiscal 2005. The Company has no long-term purchase commitments or

arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company continues to have good working relationships with its suppliers.

Seasonality

The Company's business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the last half of each fiscal year, which includes the back-to-school (August—September) and holiday (November—December) seasons. Approximately 15% and 30% of sales typically occur during the back-to-school and holiday seasons, respectively. Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for the fiscal year. In addition, quarterly results of operations depend significantly upon the timing and amount of revenues and costs associated with the opening of new stores.

Trademarks and Service Marks

The name "Kohl's," written in its distinctive block style, is a registered service mark of a wholly-owned subsidiary of the Company, and the Company considers this mark and the accompanying name recognition to be valuable to its business. This subsidiary has approximately 85 additional registered trademarks, trade names and service marks, most of which are used in the Company's private label program.

Available Information

The Company's internet website is www.kohls.com. Through the "Investor Relations-Financial Links-SEC Filings" portion of this website, the Company makes available, free of charge, its 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 filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material has been filed with, or furnished to, the Securities and Exchange Commission (SEC). The Company has also posted on its website, under the caption "Investor Relations-Corporate Governance," the Company's Corporate Governance Guidelines; Charters of its Board of Directors' Audit Committee, Compensation Committee and Governance & Nominating Committee; and the Code of Ethical Standards and Responsibility that applies to all of the Company's associates and, to the extent practicable, members of the Company's Board of Directors. Any amendment to or waiver from the provisions of the Code of Ethical Standards and Responsibility that are applicable to the Company's 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 the Company's website is not part of this Annual Report on Form 10-K.

The above-referenced materials will also be provided without charge to any shareholder submitting a written request to the Company's Investor Relations Department at N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin 53051.

Item 1A. Risk Factors

Forward Looking Statements

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events the Company expects or anticipates will occur in the future. The Company intends words such as "believes," "anticipates," "plans," "expects" and similar expressions to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based on management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties

that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the following important risk factors that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward looking statements relate to the date initially made, and the Company undertakes no obligation to update them. An investment in the Company's common stock or other securities carries certain risks. Investors should carefully consider the risks described below and other risks which may be disclosed from time to time in the Company's filings with the SEC before investing in the Company's securities.

General Economic Conditions

General economic factors that are beyond the Company's control impact the Company's forecasts and actual performance. These factors include interest rates; recession; inflation; deflation; consumer credit availability; consumer debt levels; energy costs; tax rates and policy; unemployment trends; the threat or possibility of war, terrorism or other global or national unrest; political or financial instability; and other matters that influence consumer confidence and spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. Changes in the economic climate could adversely affect the Company's performance.

Competitive Pressures

The retail business is highly competitive. The Company competes for customers, associates, locations, merchandise, services and other important aspects of its business with many other local, regional and national retailers. Those competitors, some of which have a greater market presence than the Company, 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 the Company's performance.

Consumer Demand

The Company's business is dependent on the Company's 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 the Company's performance and long term relationships with its customers.

Credit Card Operations

The Company's credit card operations facilitate sales in our stores and generate additional revenue from fees related to extending credit. The Company's ability to extend credit to its customers depends on many factors including compliance with federal and state banking and consumer protection laws, any of which may change from time to time. Changes in credit card use, payment patterns and default rates may result from a variety of economic, legal, social and other factors that we cannot control or predict with certainty. Changes that adversely impact the Company's ability to extend credit and collect payments could negatively affect our results. In addition, the Company's finance charge revenue is subject to changes in state legislation regarding interest rates.

Weather conditions

Because a significant portion of the Company's business is apparel and subject to weather conditions in its markets, its operating results may be unexpectedly and adversely affected. Frequent or unusually heavy snow, ice or rain storms or extended periods of unseasonable temperatures in its markets could adversely affect the Company's performance.

Seasonality

The Company's 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 the Company's operating results to vary considerably from quarter to quarter and could materially adversely affect the market price of its securities.

Merchandise Sourcing

The merchandise sold by the Company is sourced from a wide variety of domestic and international vendors. All of the Company's vendors must comply with applicable laws and the Company's required standards of conduct. The Company's 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 the Company's control and could adversely impact the Company's performance.

Labor Conditions

The Company's 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. The Company's ability to meet the Company's labor needs while controlling the Company's costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact the Company's ability to attract and retain quality associates could adversely affect the Company's performance.

New Store Growth

The Company's plan to continue to increase the number of its 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 the Company's growth opportunities and affect its return on investment. There can be no assurance that such stores or sites will be available to the Company for purchase or lease, or that they will be available on terms acceptable to the Company. If the Company is unable to grow its retail business, the Company's financial performance could be adversely affected.

New Markets

The Company's growth strategy is dependent upon the Company's ability to successfully execute the Company's retailing concept in new markets and geographic regions. If the Company is unable to successfully execute its retail concept in these new markets and regions, or if consumers are not receptive to the Company's concept in these markets or regions, the Company's financial performance could be adversely affected.

Regulatory and Litigation Developments

Various aspects of the Company's operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. Additionally, the Company is regularly involved in various litigation matters that arise in the ordinary course of its business. Litigation or regulatory developments could adversely affect the Company's business operations and financial performance.

Information Systems

The efficient operation of our business is dependent on our information systems. In particular, the Company relies on its information systems to effectively manage sales, distribution, merchandise planning and allocation functions. The Company possesses offsite recovery capabilities for its information systems. The failure of the Company's information systems to perform as designed could disrupt its business and harm sales and profitability.

Other Factors

The foregoing list of risk factors is not exclusive. Other factors and unanticipated events could adversely affect the Company. The Company does not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

As of January 28, 2006, the Company operated 732 stores in 41 states. The Company owned 231 stores, owned 147 stores with ground leases and leased 354 stores. The Company's typical lease has an initial term of 20-25 years plus two to eight renewal options for consecutive five or ten-year extension terms.

Substantially all of the Company's leases provide for a minimum annual rent that is fixed or adjusts to set levels during the lease term, including renewals. Approximately 29% of the leases provide for additional rent based on a percentage of sales to be paid when designated sales levels are achieved.

The Company's stores are located in strip shopping centers (533), community and regional malls (55) and as free standing units (144). Of the Company's stores, 676 are one-story facilities and 56 are multi-story facilities.

	Number of Stores at January 28, 2006	Retail Square Footage
California	72	5,740,702
Illinois	53	4,184,477
Texas	54	4,172,316
Ohio	46	3,532,901
New York	37	2,944,343
Michigan	36	2,732,700
Wisconsin	36	2,669,597
Pennsylvania	35	2,642,825
New Jersey	30	2,324,566
Indiana	29	2,193,134
Minnesota	23	1,800,688
Georgia	21	1,619,367
Massachusetts	20	1,609,625
North Carolina	21	1,581,991
Virginia	20	1,538,128
Colorado	18	1,406,655
Missouri	18	1,397,129
Connecticut	17	1,294,181
Arizona	16	1,259,379
Maryland	15	1,167,933
Tennessee	12	914,974
Florida	10	793,915
Iowa	11	774,882
Kentucky	10	769,451
Oklahoma	8	615,478
Kansas	7	516,320
Utah	6	472,359
Arkansas	6	466,310
New Hampshire	6	461,538
Nevada	5	393,975
South Carolina	5	386,640
Nebraska	5	345,874
Delaware	4	326,406
Maine	4	315,859
Alabama	4	310,325
West Virginia	3	225,003
South Dakota	2	168,930
North Dakota	2	164,792
Mississippi	2	157,047
Rhode Island	2	154,815
Vermont	1	77,302
Total	732	56,624,832

The Company owns its distribution centers in Menomonee Falls, Wisconsin; Findlay, Ohio; Winchester, Virginia; Blue Springs, Missouri; Mamakating, New York; San Bernardino, California and Macon, Georgia. The Company also owns its corporate headquarters in Menomonee Falls, Wisconsin and the e-commerce fulfillment center in Monroe, Ohio. The Company leases the distribution center in Corsicana, Texas.

Item 3. Legal Proceedings

The Company and its subsidiaries are not currently parties to any material legal proceedings, but are subject to certain legal proceedings and claims from time to time that are incidental to their ordinary course of business. The Company will record a liability related to its legal proceedings and claims when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that an obligation is reasonably possible, the Company will if material, disclose the nature of the loss contingency and the estimated range of possible loss, or include a statement that no estimate of loss can be made.

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

No matters were submitted to a vote of the Company's security holders during the last quarter of fiscal 2005.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market information

The 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 prices of the Common Stock for each quarter in fiscal 2005 and 2004.

	Price Range	
	High	Low
Fiscal 2005		
First Quarter	\$53.86	\$45.26
Second Quarter	58.90	46.50
Third Quarter	57.44	43.63
Fourth Quarter	50.96	42.78
Fiscal 2004		
First Quarter	\$54.10	\$39.59
Second Quarter	48.83	40.10
Third Quarter	52.86	43.70
Fourth Quarter	53.24	45.40

(b) Holders

At March 1, 2006, there were 5,973 record holders of the Common Stock.

(c) Dividends

The Company has never paid a cash dividend and has no current plans to pay dividends on its Common Stock. The payment of future dividends, if any, will be determined by the Board of Directors in light of existing business conditions, including the Company's earnings, financial condition and requirements, restrictions in financing agreements and other factors deemed relevant by the Board of Directors.

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

During the fiscal year ended January 28, 2006, the Company did not sell any equity securities which were not registered under the Securities Act or repurchase any of its equity securities. On March 6, 2006, the Company announced that its Board of Directors authorized a \$2.0 billion repurchase program, to be completed over the next two to three years.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with the consolidated financial statements of the Company and related notes included elsewhere in this document. The selected consolidated financial data, except for the operating data, has been derived from the audited consolidated financial statements of the Company, which have been audited by Ernst & Young LLP, independent registered public accounting firm, and have been restated to reflect share-based payment adjustments discussed in Note 2, "Restatement of Financial Statements," to the consolidated financial statements.

	Fiscal Year Ended				
	January 28, 2006	January 29, 2005 (Restated)	January 31, 2004 (Restated)	February 1, 2003 (Restated)	February 2, 2002 (Restated)
(Dollars in Thousands, Except Per Share and Per Square Foot Data)					
Statement of Operations Data:					
Net sales	\$13,402,217	\$11,700,619	\$10,282,094	\$9,120,287	\$7,488,654
Cost of merchandise sold	8,639,278	7,586,992	6,887,033	5,981,219	4,923,527
Gross margin	4,762,939	4,113,627	3,395,061	3,139,068	2,565,127
Selling, general and administrative expenses	2,963,472	2,582,996	2,157,030	1,882,889	1,583,489
Depreciation and amortization	338,916	288,173	239,558	193,497	158,417
Preopening expenses	44,370	49,131	47,029	41,198	33,360
Operating income	1,416,181	1,193,327	951,444	1,021,484	789,861
Interest expense, net	70,391	62,452	72,931	56,009	50,111
Income before income taxes	1,345,790	1,130,875	878,513	965,475	739,750
Provision for income taxes	503,830	427,474	332,050	364,950	281,327
Net income	\$ 841,960	\$ 703,401	\$ 546,463	\$ 600,525	\$ 458,423
Net income per share :					
Basic	\$ 2.45	\$ 2.06	\$ 1.61	\$ 1.78	\$ 1.37
Diluted	\$ 2.43	\$ 2.04	\$ 1.59	\$ 1.75	\$ 1.35
Operating Data:					
Comparable store sales growth (a)	3.4%	0.3%	(1.6%)	5.3%	6.8%
Net sales per selling square foot (b)	\$ 252	\$ 255	\$ 268	\$ 284	\$ 283
Total square feet of selling space (in thousands; end of period)	56,625	49,201	41,447	34,507	28,576
Number of stores open (end of period)	732	637	542	457	382
Balance Sheet Data (end of period):					
Working capital	\$ 2,519,597	\$ 2,187,379	\$ 1,902,280	\$1,776,029	\$1,584,103
Property and equipment, net	4,543,832	3,987,945	3,316,486	2,734,228	2,196,490
Total assets	9,153,038	7,979,299	6,690,750	6,310,636	4,926,582
Long-term debt and capital leases	1,046,104	1,103,441	1,075,973	1,058,784	1,095,420
Shareholders' equity	5,957,338	5,033,898	4,211,523	3,531,726	2,803,133

(a) Comparable store sales growth for each period is based on sales of stores (including relocated or expanded stores) open throughout the full period and throughout the full prior period. Fiscal 2001 comparable store sales growth compares the 52 weeks of fiscal 2001 to the 52 weeks ended January 27, 2001.

(b) Net sales per selling square foot is calculated using net sales of stores that have been open for the full year divided by their square footage of selling space.

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

Executive Summary

Kohl's mission is to be the leading family-focused, value-oriented, specialty department store offering quality, exclusive and national brand merchandise to the customer in an environment that is convenient, friendly and exciting.

Kohl's operates from coast to coast, having grown from 76 stores in six states at the time of its initial public offering (IPO) in 1992 to 732 stores in 41 states at January 28, 2006. In fiscal 2005, the Company continued its expansion with entries into the Buffalo, NY; Orlando, FL; and Jacksonville, FL markets.

Kohl's concentrates on profitable expansion. The Company's future growth plans are to increase its presence in all of the regions it currently serves and to expand into new markets. The Company plans to add approximately 500 stores over the next five years. The Company opened 95 stores in fiscal 2005. In fiscal 2006, the Company plans to open approximately 80-85 new stores with continual expansion in Florida, and entry into the Pacific Northwest with stores opening in Washington and Oregon. The store expansion involves all three of the Company's prototypes: suburban, small, and urban, with the primary vehicle remaining the suburban prototype. The Company's disciplined approach to new store selection ensures that new store locations achieve an appropriate return on investment.

The Company's capital structure is well positioned to continue to support its expansion plans. Internally generated cash flows will continue to be the primary source of the funding required for future growth. In addition, the Company has long-term debt ratings of A3 by Moody's, BBB+ by Standard & Poor's and A by Fitch.

The Company's revenues are generated through sales from existing stores and through sales from new stores opened as a result of its expansion program. In order to increase sales productivity in existing stores and attract new customers, the Company strives to add freshness in its assortments through the addition of new and exclusive brands and extension of existing brands into new classifications. The Company also continues to invest in updating its stores with a goal of remodeling stores approximately every 8-10 years.

Critical to the Company's successful growth is the infrastructure that has been developed and refined since becoming a public company in 1992. Over the past five years, sales have grown at a compound annual growth rate (CAGR) of approximately 17% and net income has grown at a CAGR of approximately 20%. This growth was achieved through a combination of comparable store sales increases, square footage growth, gross margin expansion and selling, general and administrative (S,G&A) expense control.

Fiscal 2005 was a solid year from an earnings and operational perspective. The Company earned \$842 million in net income, an increase of 19.7% over last year. The Company's net sales increased 14.5% while comparable store sales increased 3.4%. In fiscal 2005, the Company achieved the highest gross margin rate in its history. The Company's S,G&A expenses increased 14.7% over fiscal 2004 which was in line with the Company's square footage growth of 15.1%.

The Company's earnings guidance for fiscal 2006 is to achieve net income growth of 13% to 18%, assuming a comparable store sales increase of 2% to 4% and total sales growth of 12% to 14%. The Company expects to leverage S,G&A expenses with an approximately 2% comparable store sales increase in fiscal 2006. In order to achieve this guidance, the Company will continue to focus on the following initiatives:

- Merchandise content
- Inventory management

-
- In-store shopping experience
 - Differentiation in marketing

The Company progressed on these initiatives in fiscal 2005. The merchandise content was broadened by adding new national, exclusive and private brands. The Company continued its focus on inventory management and increased its effectiveness of being in-stock by flowing goods more frequently and closer to the time of sale. The shopping experience is where everything the Company does comes together. The Company organized departments by lifestyle for ease of shopping, differentiated special sizes, added graphics that highlight key trends and presented merchandise to give customers ideas on how to create their own looks. These initiatives not only make it easier to shop, but also more exciting.

In 2006, the Company is focused on continuing to introduce new brands and extend successful brands into additional areas of the store to build awareness with its existing customers and drive more frequent trips as well as gain new customers. In order to achieve this goal, the Company will continue to use a fully integrated marketing approach using circulars, direct mail, radio, magazines, internet and television to brand Kohl's. The Company's marketing strategies will continue to evolve as it seeks new and exciting ways to reach its customers.

The Company's long-term goal remains to increase net income approximately 15%-20% annually through a combination of new store and comparable store sales growth, slight increase annually in the gross margin rate, and modest S,G&A expense leverage on the increasing sales base.

Restatement of Financial Statements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS No. 123R), "Share Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

The Company adopted SFAS No. 123R on January 30, 2005 requiring the Company to recognize expense related to the fair value of its employee stock option awards. The Company adopted the "modified retrospective" method, which requires the prior period financial statements be restated under the provisions of SFAS No. 123R to recognize compensation cost in the amounts previously reported in the pro forma footnote disclosures.

As a result of adopting SFAS No. 123R, the Company's income before income taxes for the years ended January 28, 2006, January 29, 2005 and January 31, 2004 are \$40.4 million, \$43.4 million and \$55.4 million lower, respectively, than if it had continued to account for the share-based compensation under APB No. 25.

Prior to adoption of SFAS No. 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires that cash flows resulting from the tax deductions in excess of the compensation costs recognized for those options be presented as financing cash flows.

See Note 2, "Restatement of Financial Statements," to the consolidated financial statements for a summary of the effects of these changes on the Company's Consolidated Balance Sheets as of January 29, 2005, as well as on the Company's Consolidated Statements of Income and Cash Flows for fiscal years 2004 and 2003. The accompanying Management's Discussion and Analysis gives effect to these changes.

The discussion and analysis below further explains the Company's results of operations for fiscal 2005.

Results of Operations

The Company's net income was \$842.0 million in fiscal 2005 compared to \$703.4 million in fiscal 2004, an increase of \$138.6 million or 19.7%. Fiscal 2004 net income increased 28.7% over fiscal 2003 net income of \$546.5 million.

Components of net income. The following table sets forth statement of operations data as a percentage of net sales for each of the last three fiscal years:

	Fiscal Year		
	2005	2004 (Restated)	2003 (Restated)
Net sales	100.0%	100.0%	100.0%
Cost of merchandise sold	64.5	64.8	67.0
Gross margin	35.5	35.2	33.0
Selling, general and administrative expenses	22.1	22.1	21.0
Depreciation and amortization	2.5	2.5	2.3
Preopening expenses	0.3	0.4	0.4
Operating income	10.6	10.2	9.3
Interest expense, net	0.6	0.5	0.8
Income before income taxes	10.0	9.7	8.5
Provision for income taxes	3.7	3.7	3.2
Net income	6.3%	6.0%	5.3%

Net sales. Net sales, number of stores, sales growth, net sales per selling square foot and comparable store base for the last three fiscal years were as follows:

	Fiscal Year		
	2005	2004	2003
Net sales (in thousands)	\$13,402,217	\$11,700,619	\$10,282,094
Number of stores open (end of period)	732	637	542
Sales growth—all stores	14.5%	13.8%	12.7%
Sales growth—comparable stores (a)	3.4%	0.3%	(1.6)%
Net sales per selling square foot (b)	\$ 252	\$ 255	\$ 268
Comparable store base	542	457	382

- (a) Comparable store sales growth for each period is based on sales of stores (including relocated or expanded stores) open throughout the full period and throughout the full prior period.
- (b) Net sales per selling square foot is calculated using net sales of stores that have been open for the full year divided by their square footage of selling space.

Net sales increased \$1,701.6 million, or 14.5%, from \$11,700.6 million in fiscal 2004 to \$13,402.2 million in fiscal 2005. Net sales increased \$1,336.4 million due to the opening of 95 new stores in fiscal 2005 and to the inclusion of a full year of operating results for the 95 stores opened in fiscal 2004. Comparable store sales increased \$365.2 million, or 3.4%, in fiscal 2005. The number of transactions increased 1.2% and the average transaction value increased 2.2% in comparable stores. All areas of the business had positive sales results with the Men's and Accessories businesses having the strongest sales performance. All regions had positive comparable sales increases. The Southwest region had the strongest comparable store sales performance.

Net sales increased \$1,418.5 million, or 13.8%, from \$10,282.1 million in fiscal 2003 to \$11,700.6 million in fiscal 2004. Net sales increased \$1,395.1 million due to the opening of 95 new stores in fiscal 2004 and to the inclusion of a full year of operating results for the 85 stores opened in fiscal 2003. Comparable store sales increased \$23.4 million, or 0.3%, in fiscal 2004.

The Company's merchandise mix is reflected in the table below:

	Fiscal Year		
	2005	2004	2003
Women's	32.6%	32.5%	32.1%
Men's	18.6%	18.5%	19.0%
Home	18.4%	18.5%	18.4%
Children's	13.0%	13.4%	13.5%
Accessories	9.2%	9.0%	8.7%
Footwear	8.2%	8.1%	8.3%

Gross margin. The Company's gross margin as a percent of net sales was 35.5% for fiscal 2005 compared to 35.2% for fiscal 2004. Gross margin increased \$649.3 million from \$4,113.6 million in fiscal 2004 to \$4,762.9 million in fiscal 2005. Gross margin increased \$459.0 million due to the opening of 95 new stores in fiscal 2005 and to the inclusion of a full year of operating results for the 95 stores opened in fiscal 2004. The comparable store gross margin increase of \$190.3 million was a result of improved gross margin on clearance sales, better merchandise content and improved inventory flow. The merchandise category that was the largest contributor to the gross margin rate increase was Women's.

Gross margin increased \$718.5 million from \$3,395.1 million in fiscal 2003 to \$4,113.6 million in fiscal 2004. Gross margin increased \$501.5 million due to the opening of 95 new stores in fiscal 2004 and to the inclusion of a full year of operating results for the 85 stores opened in fiscal 2003. Comparable store gross margin increased \$217.0 million due mainly to lower level of clearance sales, improved gross margin on the clearance sales and the adoption of Emerging Issues Task Force ("EITF") No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor," in fiscal 2004. The largest contributor to the gross margin rate increase was Women's.

Selling, general and administrative expenses. S,G&A expenses include all direct store expenses such as payroll, occupancy and store supplies and all costs associated with the Company's distribution centers, advertising and corporate functions, but exclude depreciation and amortization. S,G&A expenses increased \$380.5 million, or 14.7%, to \$2,963.5 million in fiscal 2005 compared to \$2,583.0 million in fiscal 2004. S,G&A expenses as a percent of net sales was 22.1% in both fiscal 2005 and fiscal 2004. Store operating expenses increased 15.5%, which is consistent with the Company's square footage growth of 15.1%. The Company leveraged distribution expenses due to the increased productivity on a units per hour basis. The Company also leveraged credit expenses which were offset by increased corporate expenses as a percent of net sales.

S,G&A expenses increased \$426.0 million, or 19.7%, to \$2,583.0 million in fiscal 2004 compared to \$2,157.0 million in fiscal 2003. S,G&A expenses as a percent of net sales increased from 21.0% in fiscal 2003 to 22.1% in fiscal 2004, an increase of 110 basis points. Store operating expenses increased 18.5%, which is consistent with the Company's square footage growth of 18.7%. Advertising expenses increased 85 basis points primarily due to the adoption of EITF 02-16 (see Note 1 to the consolidated financial statements for further discussion), which had an unfavorable impact of approximately 60 basis points. These increases were offset by a 12 basis point reduction in corporate expenses, a 10 basis point reduction in distribution expenses and a 10 basis point reduction in credit operations.

Depreciation and amortization. The total amount of depreciation and amortization increased from fiscal 2004 to fiscal 2005 due to the addition of new stores and the mix of owned compared to leased stores. Depreciation and amortization as a percentage of net sales was 2.5% for both fiscal 2005 and 2004 and was 2.3% for fiscal 2003.

Preopening expenses. Preopening expenses are expensed as incurred and relate to the costs incurred prior to new store openings which includes advertising, hiring, and training costs for new employees, processing and transporting initial merchandise and rent expense. The average cost per store fluctuates based on the mix of stores opened in new markets compared to fill-in markets, with new markets being more expensive. The average

cost to open the 95 new stores in fiscal 2005 was \$481,000, the average cost to open the 95 new stores in fiscal 2004 was \$540,000 and the average cost to open the 85 new stores in fiscal 2003 was \$592,000. The decrease in the average cost to open a store in fiscal 2005 was due to the mix of stores opened in new markets compared to fill-in markets as well as entries made into less expensive markets.

Interest expense. Net interest expense increased \$7.9 million from \$62.5 million in fiscal 2004 to \$70.4 million in fiscal 2005. Of the increase, \$6.0 million is attributed to decreased capitalized interest due to less capital spending. Net interest expense in fiscal 2004 decreased \$10.4 million from \$72.9 million in fiscal 2003 to \$62.5 million. The decrease was a result of writing off \$6.1 million in deferred financing fees related to the redemption of the Company's Liquid Yield Option Subordinated Notes (LYONs) in the second quarter of fiscal 2003. The remaining decrease is primarily attributable to the redemption of the 2.75% LYONs during the second quarter of fiscal 2003.

Income taxes. The Company's effective tax rate was 37.4% in fiscal 2005 and was 37.8% in both fiscal 2004 and in fiscal 2003. The decrease in the fiscal 2005 effective tax rate was a result of a tax adjustment of \$4.9 million due to the favorable resolution of certain state tax matters.

Inflation

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

Liquidity and Capital Resources

The Company's primary ongoing cash requirements are for capital expenditures in connection with the expansion and remodeling programs, seasonal and new store inventory purchases, and the growth in credit card accounts receivable. The Company's primary sources of funds for its business activities are cash flow provided by operations and short-term trade credit.

Operating activities. Cash flow provided by operations was \$881.7 million in fiscal 2005 compared to \$937.1 million in fiscal 2004, a \$55.4 million decrease. The primary sources of cash flow provided by operations were net income before depreciation and amortization and a \$125.3 million increase in accounts payable, as discussed below. The primary uses of cash flow were a \$290.6 million increase in merchandise inventories and a \$262.4 million increase in the accounts receivable portfolio, as discussed below. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories. Seasonal cash needs are met by financing secured by proprietary accounts receivable and lines of credit available under its revolving credit facilities. The Company's working capital and inventory levels typically build throughout the fall, peaking during the holiday selling season.

Key financial ratios that provide certain measures of the Company's liquidity are as follows:

	January 28, 2006	January 29, 2005 (Restated)	January 31, 2004 (Restated)
	(\$ In Thousands)		
Working capital	\$2,519,597	\$2,187,379	\$1,902,280
Current ratio	2.44:1	2.50:1	2.69:1
Debt / capitalization	16.2%	18.0%	20.5%
Earnings to fixed charges	6.35	5.83	4.90

The decrease in the Company's current ratio in fiscal 2005 is due to accounts payable increasing at a higher rate than inventory and the increase of \$100.0 million in the current portion of long-term debt. The decrease in the Company's current ratio in fiscal 2004 from fiscal 2003 is also due to accounts payable increasing at a higher rate than inventory. The improvement in the debt / capitalization percentage and earnings to fixed charges ratio in fiscal 2005 was due to an increase in retained earnings as a result of growth in net income in fiscal 2005 over fiscal 2004 of 19.7%.

The Company's accounts receivable at January 28, 2006 increased \$262.4 million, or 18.9%, over the January 29, 2005 balance. The increase is primarily due to a 18.6% increase in proprietary credit card sales and a decrease in payment rates. Net write-offs increased to 1.0% of Kohl's charge sales in fiscal 2005 from 0.9% in fiscal 2004. The Company's incremental bad debt expense related to the revised bankruptcy legislation, effective

October 17, 2005, was \$3.2 million. The Company believes write-offs of delinquent accounts were accelerated due to the bankruptcy legislation. As a result, the allowance for doubtful accounts was reduced to 1.6% of gross accounts receivable in fiscal 2005 from 1.7% in fiscal 2004. The Company's credit card program supports earnings growth by driving sales through promotional events and through the growth in the proprietary credit card financial performance. The following table summarizes information related to Kohl's proprietary credit card receivables:

	January 28, 2006	January 29, 2005	January 31, 2004
	(\$ In Thousands)		
Gross accounts receivable	\$1,678,400	\$1,414,289	\$1,172,678
Allowance for doubtful accounts	\$ 26,335	\$ 24,657	\$ 22,521
Allowance as a % of gross accounts receivable	1.6%	1.7%	1.9%
Accounts receivable turnover (rolling 4 quarters) *	3.8x	3.8x	3.6x
Proprietary credit card share	40.6%	39.2%	36.0%
Accounts over 60 days past due	2.4%	2.5%	2.7%

* Credit card sales divided by average quarterly gross accounts receivable

At January 28, 2006, the Company's merchandise inventories increased \$290.6 million, an increase of 14.9% from the January 29, 2005, balance of \$1,947.0 million. On an average store basis, the inventory at January 28, 2006, was flat to January 29, 2005. Accounts payable increased \$125.3 million to \$830.0 million at January 28, 2006, from the January 28, 2005, balance primarily due to an increase in stores and the execution of flowing goods closer to the point of sale.

Investing activities. Capital expenditures include costs for new store openings, store remodels, distribution center openings, the expansion of the corporate office and other base capital needs. The Company's capital expenditures, including favorable lease rights, were \$799.4 million during fiscal 2005, \$889.6 million during fiscal 2004 and \$831.6 million during fiscal 2003. The Company opened 95 new stores in fiscal 2005. In addition, the Company continued to make capital investments for information systems, distribution capacity and other infrastructure to support the Company's growth. The decrease in capital spending was a result of opening 17 stores during the first quarter of fiscal 2006 compared to 32 stores during the first quarter of fiscal 2005.

The Company plans to open approximately 80-85 new stores in fiscal 2006. Total capital expenditures for fiscal 2006 are currently expected to be in the range of \$1.0 billion. Capital expenditures include costs for new store openings, store remodels, the construction of a distribution center in Patterson, CA and other base capital needs. The amount of capital expenditures fluctuate as a result of the timing of new store capital spending, the mix of owned, leased and acquired stores, the number of stores remodeled and the timing of opening distribution centers. The Company does not anticipate that its planned expansion will be limited by any restrictive covenants in its financing agreements. The Company's capital structure is well positioned to support its expansion plans. The Company anticipates that internally generated cash flows will be the primary source of funding for future growth.

Financing activities. The Company anticipates that it will be able to satisfy its working capital requirements, planned capital expenditures and debt service requirements with available cash and short-term investments, proceeds from cash flows from operations, short-term trade credit, financing secured by its proprietary credit card accounts receivable, seasonal borrowings under its revolving credit facilities and other sources of financing. The Company expects to generate adequate cash flows from operating activities to sustain current levels of operations. The Company maintains favorable banking relationships and anticipates that the necessary credit agreements will be extended or new agreements will be entered into in order to provide future borrowing requirements as needed.

The Company maintains the following credit ratings:

	Credit Ratings		
	Moody's	Standard & Poor's	Fitch
Long-term debt	A3	BBB+	A

The Company has an agreement with Preferred Receivables Funding Corporation and JPMorgan Chase, as agent, under which the Company periodically sells, generally with recourse, an undivided interest in the revolving pool of its private label credit card receivables up to a maximum of \$225 million. The agreement runs through December 14, 2006, and is renewable for one year intervals at the Company's request and the investor's option. No receivables were sold as of January 28, 2006, or January 29, 2005. For financial reporting purposes, receivables sold are treated as secured borrowings.

The Company has an unsecured revolving bank credit facility totaling \$532 million. In addition, the Company also has two demand notes with availability totaling \$50 million. Depending on the type of advance under these facilities, amounts borrowed bear interest at competitive bid rates; the LIBOR plus a margin, based on the Company's long-term unsecured debt rating; or the agent bank's base rate.

Outlook

The Company's earnings guidance for fiscal 2006 is to achieve net income growth of 13% to 18%, based upon a comparable store sales increase of 2% to 4% and total sales growth of 12% to 14%. The Company will attain this goal by introducing new brands and extending successful brands into additional areas of the store. The Company will also focus on improved receipt flow to improve transitions and lower clearance levels. Finally, the Company will continue to invest in both direct mail and broadcast media to support the new brand launches and to build sales momentum throughout the year.

The Company will achieve its net income increase through a combination of new store and comparable store sales growth, improvement in gross margin rate and the assumption of S,G&A expense leverage at a 2% comparable sales increase.

Contractual Obligations

The Company has aggregate contractual obligations of \$13,448.5 million related to debt repayments, capital leases, operating leases, royalties and purchase obligations as follows:

	Fiscal Year						Total
	2006	2007	2008	2009	2010	Thereafter	
	(In Thousands)						
Long-term debt (a)	\$ 162,547	\$ 59,144	\$ 59,104	\$ 58,775	\$ 58,775	\$ 1,751,175	\$ 2,149,520
Capital leases (a)	19,286	19,761	19,939	18,467	15,871	189,555	282,879
Operating leases	340,540	340,648	335,598	331,704	329,643	6,404,148	8,082,281
Royalties	7,221	13,462	15,250	17,731	20,969	1,688	76,321
Purchase obligations (b)	2,520,248	—	—	—	—	—	2,520,248
Other (c)	156,457	26,352	12,149	7,593	7,361	127,304	337,216
Total	\$ 3,206,299	\$ 459,367	\$ 442,040	\$ 434,270	\$ 432,619	\$ 8,473,870	\$ 13,448,465

- (a) Annual commitments on long-term debt and capital leases are inclusive of related interest costs which total \$1,152.8 million and \$125.6 million, respectively.
- (b) The Company's 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.
- (c) The other category above includes commitments for stores to be opened in fiscal 2006 and 2007 and employment contracts.

The Company also has outstanding letters of credit and stand-by letters of credit that total approximately \$33.2 million at January 28, 2006. If certain conditions were met under these arrangements, the Company would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, the Company does not expect to make any significant payments. Therefore, they have been excluded from the preceding table.

Off-Balance Sheet Arrangements

The Company has not provided any financial guarantees as of January 28, 2006.

The Company has not created, and is not party to, any special-purpose or off balance sheet entities for the purpose of raising capital, incurring debt or operating the Company's business. The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect the Company's liquidity or the availability of capital resources.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the Company 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 the Board of Directors.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts as an estimate of the accounts receivable balance that may not be collected. The Company evaluates the collectibility of accounts receivable based on the aging of accounts, historical write off experience and specific review for potential bad debts. Delinquent accounts are written off automatically after the passage of 180 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. For all other accounts, the Company recognizes reserves for bad debts based on the length of time the accounts are past due and the anticipated future write-offs based on historical experience.

Factors that would cause this allowance to increase primarily relate to increased customer bankruptcies or other difficulties that make further collection unlikely. Conversely, improved write-off experience and aging of receivables would result in a decrease in the provision.

Retail Inventory Method and Inventory Valuation

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

Based on a review of historical clearance markdowns, current business trends, 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 the Company's inventory valuation approximates the net realizable value of clearance inventory and results in carrying inventory at the lower of cost or market.

Vendor Allowances

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

Insurance Reserve Estimates

The Company uses a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability and employee-related health care benefits, a portion of which is paid by its associates. The Company determines the estimates for the liabilities associated with these risks by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. 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 the Company operates could result in a change to the required reserve levels. Under its workers' compensation and general liability insurance policies, the Company retains the initial risk of \$500,000 and \$250,000, respectively, per occurrence. The Company also has a lifetime medical payment limit of \$1.5 million.

Impairment of Assets and Closed Store Reserves

The Company has a significant investment in property and equipment and favorable lease rights. The related depreciation and amortization is computed using estimated useful lives of up to 50 years. The Company reviews whether indicators of impairment of long-lived assets held for use (including favorable lease rights) are present annually or whenever an event, such as decisions to close a store, indicate the carrying value of the asset may not be recoverable. The Company has 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. If the store is leased, a reserve is set up for the discounted difference between the rent and the expected sublease rental income when the location is no longer in use. 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

The Company pays income taxes based on tax statutes, regulations and case law of the various jurisdictions in which it operates. At any one time, multiple tax years are subject to audit by the various taxing authorities. The Company's effective income tax rate was 37.4% in fiscal 2005 and 37.8% in fiscal 2004 and 2003. The effective rate is impacted by changes in law, location of new stores, level of earnings and the result of tax audits.

Operating Leases

The Company leases retail stores under operating leases. Many lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. The Company uses a time period for its straight-line rent expense calculation that equals or exceeds the time period used for depreciation. In addition, the commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when the Company takes possession of the building for initial setup of fixtures and merchandise.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of Accounting Research Bulletin No. 43, Chapter 4." SFAS No. 151 amends the guidance in ARB No. 43 on inventory pricing and clarifies that abnormal idle facility expense, freight, handling costs and spoilage are to be treated as current

period expenses and not a cost of inventory. The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect this statement to have an impact on net earnings, cash flows or financial position upon adoption.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47) to clarify the guidance included in SFAS No. 143, "Accounting for Asset Retirement Obligations." FIN 47 requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. If amounts cannot be reasonably estimated, certain disclosures are required about the unrecognized asset retirement obligations. FIN 47 was adopted by the Company in fiscal 2005. Adoption of this statement did not have a material impact on the Company's consolidated financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which establishes retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force (EITF) released No. 05-6, "Determining the Amortization Period for Leasehold Improvements," was issued. It provides guidance on determining amortization periods for leasehold improvements purchased after lease inception or acquired in a business combination. Leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of acquisition. Leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. Effective for leasehold improvements purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of this guidance did not have an impact on the Company's net earnings, cash flows or financial position.

In October 2005, the FASB issued FASB Staff Position FAS 123 (R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)" (FSP 123(R)-2). SFAS No. 123 (R) (FAS No. 123R) requires companies to estimate the fair value of share based payment awards when the award has been granted. One of the criteria for determining that an award has been granted is that the employer and its employees have a mutual understanding of the key terms and conditions of the award. Under FSP 123 (R)-2, a mutual understanding is assumed to exist on the date the award is approved by the Board of Directors and the key terms and conditions of the award are expected to be communicated to the individual within a relatively short time period from the date of approval. This FSP 123 (R)-2 is applicable upon initial adoption of SFAS No. 123 (R) or for companies who have already adopted SFAS No. 123R, the first reporting period after the FSP is posted to the FASB website. As required, the Company applied the guidance in FSP 123 (R)-2 beginning October 2005. The adoption of this guidance did not have a material impact on the Company's net earnings, cash flows or financial position.

In October 2005, the FASB issued FASB Staff Position FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" (FSP 13-1). FSP 13-1 requires that rental costs associated with ground or building operating leases that are incurred during the construction period be recognized as rental expense. FSP 13-1 is applicable for the first reporting period after December 15, 2005. The Company has historically capitalized rental costs incurred during a construction period and the adoption of this guidance is expected to negatively impact net income per diluted share by approximately \$0.03 in fiscal 2006.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary exposure to market risk consists of changes in interest rates or borrowings. At January 28, 2006, the Company's long-term debt, excluding capital leases, was \$996.7 million, all of which is fixed rate debt.

Long-term fixed rate debt is utilized as a primary source of capital. When these debt instruments mature, the Company may refinance such debt at then existing market interest rates, which may be more or less than interest

rates on the maturing debt. If interest rates on the existing fixed rate debt outstanding at January 28, 2006 and January 29, 2005 changed by 100 basis points, the Company's annual interest expense would change by \$10.0 million in each respective year.

During fiscal 2005, average borrowings under the Company's variable rate revolving credit facilities and its short-term financing of its proprietary accounts receivable were \$79.0 million and \$76.1 million at January 28, 2006 and January 29, 2005, respectively. If interest rates on the average fiscal 2005 and fiscal 2004 variable rate debt changed by 100 basis points, the Company's annual interest expense would change by \$790,000 and \$761,000, respectively, assuming comparable borrowing levels.

During fiscal 2005 and fiscal 2004, the Company did not enter into any derivative financial instruments.

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 and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (the "Evaluation") as of the last day of the period covered by this Report. Based upon the Evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, alerting them to material information required to be disclosed in the Company's periodic reports filed with the SEC. 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 its stated goals under all potential future conditions, regardless of how remote.

(b) Management Report on Internal Control over Financial Reporting

The management of Kohl's Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Kohl's Corporation's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of 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.

Kohl's Corporation management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment we believe that, as of January 28, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Kohl's Corporation's independent registered public accounting firm, Ernst & Young LLP, issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on the following page.

(c) Changes in Internal Control over Financial Reporting

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the last fiscal quarter, 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 management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Kohl's Corporation maintained effective internal control over financial reporting as of January 28, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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 opinion, management's assessment that Kohl's Corporation maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Kohl's Corporation maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kohl's Corporation as of January 28, 2006 and January 29, 2005, and the related consolidated statements of net income, changes in shareholders' equity and cash flows for each of the three years in the period ended January 28, 2006 and our report dated March 3, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Milwaukee, Wisconsin
March 3, 2006

PART III

Item 9B. Other Information

None

Item 10. Directors and Executive Officers of Registrant

The information set forth under "Election of Directors" on pages 1-3, under "Board of Directors' Meetings, Attendance and Compensation" on pages 3-4, under "Corporate Governance Guidelines and Code of Ethics" on page 6 under "Committees of the Board of Directors" on pages 4-6 and under "Section 16(a) Beneficial Ownership Reporting Compliance" on page 12 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 is incorporated herein by reference.

The executive officers of the Company as of March 1, 2006 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
R. Lawrence Montgomery	57	Chairman, Chief Executive Officer and Director
Kevin Mansell	53	President and Director
Arlene Meier	53	Chief Operating Officer, Treasurer and Director
Wesley S. McDonald	43	Executive Vice President—Chief Financial Officer

Mr. Montgomery was elected Chairman of the Board in February 2003. He was promoted to Chief Executive Officer in February 1999. He was appointed to the Board of Directors in 1994 and served as Vice Chairman from March 1996 to November 2000. Mr. Montgomery served as Executive Vice President of Stores from February 1993 to February 1996 after joining the Company as Senior Vice President—Director of Stores in 1988. Mr. Montgomery has 35 years of experience in the retail industry.

Mr. Mansell has served as President and Director since February 1999. Mr. Mansell served as Executive Vice President—General Merchandise Manager from 1987 to 1998. Mr. Mansell joined the Company as a Divisional Merchandise Manager in 1982, and has 31 years of experience in the retail industry.

Ms. Meier has served as Chief Operating Officer since November 2000. Ms. Meier served as Executive Vice President—Chief Financial Officer from October 1994 to November 2000 and was appointed to the Board of Directors in March 2000. Ms. Meier joined the Company as Vice President—Controller in 1989. Ms. Meier has 30 years of experience in the retail industry.

Mr. McDonald has served as Executive Vice President—Chief Financial Officer since August 2003. Prior to joining the Company, Mr. McDonald held the position of Vice President—Chief Financial Officer at Abercrombie & Fitch from 2000 to 2003. Additionally, Mr. McDonald had served for 12 years in various executive positions at Target Corporation. Mr. McDonald has 18 years of experience in the retail industry.

Item 11. Executive Compensation

The information set forth under "Executive Compensation" on pages 10-14, "Compensation Committee Interlocks and Insider Participation" on page 6 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 is incorporated herein by reference. A description of the Company's compensation of directors as set forth under "Board of Directors Meetings, Attendance and Compensation" on page 4 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 is incorporated herein by reference.

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

The information set forth under "Beneficial Ownership of Shares" on pages 8-9 and under "Equity Compensation Plan Information" on page 12 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information set forth under "Other Transactions" on pages 6-7 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under "Fees Paid to Ernst & Young LLP" on page 20 of the Proxy Statement for the Company's Annual Meeting of Shareholders to be held on April 26, 2006 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 and Schedule of Kohl's Corporation" on page F-1, the Report of Independent Registered Public Accounting Firm on page F-2 and the Consolidated Financial Statements and Schedule on pages F-3 to F-24, all of which are incorporated herein by reference.

2. Financial Statement Schedule:

See "Index to Consolidated Financial Statements and Schedule of Kohl's Corporation" on page F-1 and the "Financial Statement Schedule" on page F-24, all of which are incorporated herein by reference.

3. Exhibits:

See "Exhibit Index" of this Form 10-K, which is incorporated herein by reference.

The Exhibit Index has been omitted from this printed shareholder report. Shareholders may obtain the Exhibit Index without charge by calling Kohl's investor relations at 262-703-1440 or by accessing the Company's website at www.kohls.com, selecting "Investor Relations," then "Financial Links," then "SEC Filings."

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SCHEDULE OF KOHL'S CORPORATION**

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All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

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 and subsidiaries (the Company) as of January 28, 2006 and January 29, 2005, 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 28, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 28, 2006 and January 29, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 of the consolidated financial statements, in 2005 the Company changed its method of accounting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Kohl's Corporation's internal control over financial reporting as of January 28, 2006, 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 3, 2006, expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Milwaukee, Wisconsin
March 3, 2006

KOHL'S CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Data)

	January 28, 2006	January 29, 2005 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126,839	\$ 116,717
Short-term investments	160,077	88,767
Accounts receivable trade, net of allowance for doubtful accounts of \$26,335 and \$24,657, respectively	1,652,065	1,389,632
Merchandise inventories	2,237,568	1,946,977
Deferred income taxes	23,677	54,050
Other	65,826	47,294
Total current assets	4,266,052	3,643,437
Property and equipment, net	4,543,832	3,987,945
Favorable lease rights, net	212,380	224,903
Goodwill	9,338	9,338
Other assets	121,436	113,676
Total assets	\$ 9,153,038	\$ 7,979,299
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 829,971	\$ 704,655
Accrued liabilities	641,635	570,757
Income taxes payable	166,908	177,182
Current portion of long-term debt and capital leases	107,941	3,464
Total current liabilities	1,746,455	1,456,058
Long-term debt and capital leases	1,046,104	1,103,441
Deferred income taxes	217,801	229,381
Other long-term liabilities	185,340	156,521
Shareholders' equity:		
Common stock-\$0.01 par value, 800,000 shares authorized, 345,088 and 343,345 shares issued and outstanding, respectively	3,450	3,433
Paid-in capital	1,583,035	1,501,572
Retained earnings	4,370,853	3,528,893
Total shareholders' equity	5,957,338	5,033,898
Total liabilities and shareholders' equity	\$ 9,153,038	\$ 7,979,299

See accompanying notes

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

	Fiscal Year Ended		
	January 28, 2006	January 29, 2005 (Restated)	January 31, 2004 (Restated)
Net sales	\$ 13,402,217	\$ 11,700,619	\$ 10,282,094
Cost of merchandise sold	8,639,278	7,586,992	6,887,033
Gross margin	4,762,939	4,113,627	3,395,061
Operating expenses:			
Selling, general and administrative	2,963,472	2,582,996	2,157,030
Depreciation and amortization	338,916	288,173	239,558
Preopening expenses	44,370	49,131	47,029
Total operating expenses	3,346,758	2,920,300	2,443,617
Operating income	1,416,181	1,193,327	951,444
Other expense (income):			
Interest expense	72,086	64,761	76,371
Interest income	(1,695)	(2,309)	(3,440)
Income before income taxes	1,345,790	1,130,875	878,513
Provision for income taxes	503,830	427,474	332,050
Net income	\$ 841,960	\$ 703,401	\$ 546,463
Net income per share:			
Basic	\$ 2.45	\$ 2.06	\$ 1.61
Diluted	\$ 2.43	\$ 2.04	\$ 1.59

See accompanying notes

KOHL'S CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock		Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at February 1, 2003 (previously reported)	337,322	\$ 3,373	\$ 1,082,277	\$ 2,393,692	\$ 3,479,342
Cumulative effect of restatement on prior years (see Note 2)	—	—	167,047	(114,663)	52,384
Balance at February 1, 2003 (as restated, see Note 2)	337,322	3,373	1,249,324	2,279,029	3,531,726
Exercise of stock options	2,819	28	46,229	—	46,257
Income tax benefit from exercise of stock options	—	—	31,719	—	31,719
Share-based compensation expense	—	—	55,358	—	55,358
Net income	—	—	—	546,463	546,463
Balance at January 31, 2004 (as restated, see Note 2)	340,141	3,401	1,382,630	2,825,492	4,211,523
Exercise of stock options	3,204	32	47,062	—	47,094
Income tax benefit from exercise of stock options	—	—	28,505	—	28,505
Share-based compensation expense	—	—	43,375	—	43,375
Net income	—	—	—	703,401	703,401
Balance at January 29, 2005 (as restated, see Note 2)	343,345	3,433	1,501,572	3,528,893	5,033,898
Exercise of stock options	1,743	17	22,841	—	22,858
Income tax benefit from exercise of stock options	—	—	14,458	—	14,458
Share-based compensation expense	—	—	40,639	—	40,639
Unearned compensation amortization	—	—	3,525	—	3,525
Net income	—	—	—	841,960	841,960
Balance at January 28, 2006	345,088	\$ 3,450	\$ 1,583,035	\$ 4,370,853	\$ 5,957,338

See accompanying notes

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

	Fiscal Year Ended		
	January 28, 2006	January 29, 2005 (Restated)	January 31, 2004 (Restated)
Operating activities			
Net income	\$ 841,960	\$ 703,401	\$ 546,463
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	339,608	288,892	246,594
Share-based compensation	43,941	43,375	55,358
Excess tax benefits from share-based compensation	(14,458)	(10,563)	(14,797)
Deferred income taxes	18,793	78,274	54,629
Amortization of debt discount	218	216	3,576
Changes in operating assets and liabilities:			
Accounts receivable trade, net	(262,433)	(239,475)	(159,347)
Merchandise inventories	(290,591)	(339,987)	20,006
Other current and long-term assets	(19,594)	19,188	(27,180)
Accounts payable	125,316	172,056	(118,132)
Accrued and other long-term liabilities	94,747	151,558	107,471
Income taxes	4,184	70,160	25,023
Net cash provided by operating activities	881,691	937,095	739,664
Investing activities			
Acquisition of property and equipment and favorable lease rights	(799,417)	(889,598)	(831,599)
Net (purchases) sales of short-term investments	(71,310)	(54,482)	441,706
Acquisition of software and other	(33,056)	(33,411)	(25,624)
Net cash used in investing activities	(903,783)	(977,491)	(415,517)
Financing activities			
Excess tax benefits from share-based compensation	14,458	10,563	14,797
Payments of convertible and other long-term debt	(5,102)	(13,292)	(362,538)
Net proceeds from issuance of common shares	22,858	47,094	46,257
Net cash provided by (used in) financing activities	32,214	44,365	(301,484)
Net increase in cash and cash equivalents	10,122	3,969	22,663
Cash and cash equivalents at beginning of year	116,717	112,748	90,085
Cash and cash equivalents at end of year	\$ 126,839	\$ 116,717	\$ 112,748

See accompanying notes

KOHL'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Summary of Accounting Policies

Business

As of January 28, 2006, Kohl's Corporation (the Company) operated 732 family oriented, specialty department stores located in 41 states that feature exclusive and national brand apparel, footwear, accessories, soft home products and housewares targeted to middle-income customers.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Accounting Period

The Company's fiscal year end is the Saturday closest to January 31. The financial statements reflect the results of operations and cash flows for the fiscal years ended January 28, 2006 (fiscal 2005), January 29, 2005 (fiscal 2004) and January 31, 2004 (fiscal 2003). Fiscal 2005, 2004 and 2003 each include 52 weeks.

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 prior years' financial statements to conform to the fiscal 2005 presentation.

Cash Equivalents

Cash equivalents represent money market funds and are stated at cost, which approximates fair value.

Short-term Investments

Short-term investments consist primarily of municipal auction rate securities and are stated at cost, which approximates market value. Short-term investments are classified as available-for-sale securities and are highly liquid. These securities generally have a put option feature that allows the Company to liquidate the investments at par.

Accounts Receivable Trade, Net

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

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market. The Company changed its method of accounting for inventory from the last in, first out method (LIFO) to the first in, first out method (FIFO) during fiscal 2005. The Company believes that adopting the FIFO method provides more transparent financial reporting and is consistent with the Company's changing business environment with respect to the sourcing of goods and the nature of its inventory. The cumulative effect of the change was a \$2.4 million increase to gross margin recorded in the quarter ended July 30, 2005. Because the accounting change was not material to the Company's financial statements for any of the years presented, no retroactive restatement of prior years' financial statements was made. At January 29, 2005, inventories would have been \$2,415,000 higher if they would have been valued using the FIFO method.

Property and Equipment

Property and equipment is carried at cost and generally depreciated on a straight-line basis over the estimated useful lives of the assets. Property rights under capital leases 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 have been principally computed using the following ranges of useful lives:

Buildings and improvements	8-40 years
Store fixtures and equipment	3-15 years
Property under capital leases	5-40 years

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 fiscal year.

Capitalized Software

The Company capitalizes purchased and internally developed software and amortizes such costs on a straight-line basis over 3 to 5 years depending on the estimated life of the software. Capitalized software is included in other long-term assets.

Capitalized Interest

The Company capitalizes interest on the acquisition and construction of new locations and expansion of existing locations and depreciates that amount over the lives of the related assets. The total interest capitalized was \$7,297,000, \$13,297,000 and \$9,861,000 in fiscal 2005, 2004 and 2003, respectively.

Favorable Lease Rights

Favorable lease rights are generally amortized on a straight-line basis over the remaining base lease term plus certain options with a maximum of 50 years. Accumulated amortization was \$71,537,000 at January 28, 2006 and \$59,014,000 at January 29, 2005. Amortization begins when the respective stores are opened. Amortization expense was \$12,523,000, \$10,288,000 and \$9,115,000 for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. The estimated amortization expense for the current favorable lease right assets for the next five years is expected to be approximately \$12,000,000 in 2006, \$10,900,000 in 2007, \$10,800,000 in 2008 and 2009 and \$10,300,000 in 2010.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Long-Lived Assets

The Company annually considers whether indicators of impairment of long-lived assets held for use (including favorable lease rights) are present and, if such indicators are present, determines whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts. The Company evaluated the ongoing value of its property and equipment and other long-lived assets as of January 28, 2006, and January 29, 2005, and determined that there was no significant impact on the Company's results of operations.

Goodwill

The Company completed its annual goodwill impairment tests for fiscal 2005, 2004 and 2003 and determined there was no impairment of existing goodwill. The remaining goodwill balance is \$9.3 million as of January 28, 2006 and January 29, 2005.

Long-term Liabilities

The major components of other long-term liabilities consist of the following:

	January 28, 2006	January 29, 2005
	(In Thousands)	
Property related liabilities	\$143,896	\$120,065
Deferred compensation	27,552	25,967
Other long-term liabilities	13,892	10,489
	<u>\$185,340</u>	<u>\$156,521</u>

Comprehensive Income

Net income for all years presented is the same as comprehensive income.

Revenue Recognition

Revenue from sales of the Company's merchandise at its stores is recognized at the time of sale, net of any returns. E-Commerce sales are recorded upon the shipment of merchandise.

Vendor Allowances

In November 2002, the Emerging Issues Task Force ("EITF") released No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor," applicable to fiscal years beginning after December 15, 2002 and is effective for contracts entered into after December 31, 2002. The adoption of EITF No. 02-16 did not have a material impact on net income in fiscal 2003, as the Company entered into substantially all of its fiscal 2003 vendor contracts prior to December 31, 2002. Because substantially all new vendor contracts for new store advertising had been put in place for fiscal 2004, the Company adopted the provisions of EITF No. 02-16 and accounted for these allowances as a reduction of inventory and cost of merchandise sold in fiscal 2004. This change in accounting reduced fiscal year 2004 diluted net income per share by approximately \$0.03 per diluted share with the majority of the impact on net income occurring during the first and third quarters of fiscal 2004 in conjunction with the Company's new store openings and build in inventory. This change in accounting did not impact the Company's cash flow or the amount of contributions received from the Company's vendors.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses. Total advertising costs, net of cooperative advertising agreements, were \$594,446,000, \$521,033,000 and \$373,956,000 in fiscal 2005, 2004 and 2003, respectively. Television and radio broadcast and newspaper circulars make up the majority of the advertising costs all three years. The majority of the increase in total advertising costs in fiscal 2004 was due to the change in accounting for vendor allowances discussed above.

Preopening Costs

Preopening expenses, which are expensed as incurred, relate to the costs associated with new store openings, including advertising, hiring and training costs for new employees, processing and transporting initial merchandise and step rent expenses.

Income Taxes

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes.

Net Income Per Share

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

	Fiscal Year		
	2005	2004 (Restated)	2003 (Restated)
	(In Thousands)		
Numerator for basic net income per share—net income	\$ 841,960	\$ 703,401	\$ 546,463
Interest expense related to convertible notes, net of tax	—	—	2,090
Numerator for diluted net income per share	\$ 841,960	\$ 703,401	\$ 548,553
Denominator for basic net income per share—weighted average shares	344,172	341,724	339,199
Impact of dilutive employee stock options (a)	2,600	3,049	4,263
Shares issued upon assumed conversion of convertible notes	—	—	1,445
Denominator for diluted net income per share	346,772	344,773	344,907

(a) In fiscal 2005, 2004 and 2003, 6,428,000, 7,527,000 and 4,919,000 options, respectively, were not included in the net income per share calculation as the impact of such options was antidilutive.

Stock Options

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS No. 123R), "Share Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the “modified retrospective” method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnote disclosures. See Note 2 for the effect of the adoption on the fiscal 2004 and 2003 results.

As of January 28, 2006, the Company had three long-term compensation plans. Information related to the outstanding stock options and nonvested stock are disclosed in Note 9.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs, an Amendment of Accounting Research Bulletin No. 43, Chapter 4.” SFAS No. 151 amends the guidance in ARB No. 43 on inventory pricing and clarifies that abnormal idle facility expense, freight, handling costs and spoilage are to be treated as current period expenses and not a cost of inventory. The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect this statement to have an impact on net earnings, cash flows or financial position upon adoption.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47) to clarify the guidance included in SFAS No. 143, “Accounting for Asset Retirement Obligations.” FIN 47 requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. If amounts cannot be reasonably estimated, certain disclosures are required about the unrecognized asset retirement obligations. FIN 47 was adopted by the Company in fiscal 2005. Adoption of this statement did not have a material impact on the Company’s consolidated financial position.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections,” which establishes retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, EITF No. 05-6, “Determining the Amortization Period for Leasehold Improvements,” was issued. It provides guidance on determining amortization periods for leasehold improvements purchased after lease inception or acquired in a business combination. Leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of acquisition. Leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. This statement is effective for leasehold improvements purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of this guidance did not have an impact on the Company’s earnings, cash flows or financial position.

In October 2005, the FASB issued FASB Staff Position FAS 123 (R)-2, “Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)” (FSP 123(R)-2). SFAS No. 123 R requires companies to estimate the fair value of share based payment awards when the award has been granted. One of the criteria for determining that an award has been granted is that the employer and its employees have a mutual understanding of the key terms and conditions of the award. Under FSP 123 (R)-2, a mutual understanding is assumed to exist on the date the award is approved by the Board of Directors and key terms and conditions of the

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

award are expected to be communicated to the individual within a relatively short time period from the date of approval. This FSP 123 (R)-2 is applicable upon initial adoption of SFAS No. 123R or for companies who have already adopted SFAS No. 123 R, the first reporting period after the FSP is posted to the FASB website. As required, the Company applied the guidance in FSP 123 (R)-2 beginning October 2005. The adoption of this guidance did not have a material impact on the Company's net earnings, cash flows or financial position.

In October 2005, the FASB issued FASB Staff Position FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" (FSP 13-1). FSP 13-1 requires that rental costs associated with ground or building operating leases that are incurred during the construction period be recognized as rental expense. FSP 13-1 is applicable for the first reporting period after December 15, 2005. The Company has historically capitalized rental costs incurred during a construction period and the adoption of this guidance is expected to negatively impact net income per diluted share by approximately \$0.03 in fiscal 2006.

2. Restatement of Financial Statements

Effective January 30, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R using the "modified retrospective" method, which requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnotes.

Below is a summary of the effects of the restatement on the Company's consolidated balance sheet as of January 29, 2005, as well as the effects of these changes on the Company's consolidated statements of income and consolidated statements of cash flows for fiscal years 2004 and 2003. The cumulative effect of the restatement relating to fiscal years 1995 through 2002 is an increase in paid-in capital of \$167.0 million, an increase in deferred income taxes of \$52.3 million and an increase in selling, general and administrative expenses (S,G&A) of \$185.9 million. As a result, retained earnings at January 31, 2004 decreased by \$114.7 million.

Consolidated Balance Sheets			
	As previously reported	Adjustments	As restated
	(In Thousands)		
January 29, 2005			
Deferred income taxes	\$ 296,551	\$ (67,170)	\$ 229,381
Paid-in capital	1,258,326	243,246	1,501,572
Retained earnings	3,704,969	(176,076)	3,528,893

Consolidated Statement of Income			
	As previously reported	Adjustments	As restated
	(In Thousands, Except per Share Data)		
Fiscal year ended January 29, 2005			
Selling, general and administrative expenses	\$2,539,621	\$ 43,375	\$2,582,996
Operating income	1,236,702	(43,375)	1,193,327
Income before income taxes	1,174,250	(43,375)	1,130,875
Provision for income taxes	443,870	(16,396)	427,474
Net income	730,380	(26,979)	703,401
Net income per share:			
Basic	\$ 2.14	\$ (0.08)	\$ 2.06
Diluted	\$ 2.12	\$ (0.08)	\$ 2.04

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. Restatement of Financial Statements (continued)

Consolidated Statement of Income			
	As previously reported	Adjustments	As restated
(In Thousands, Except per Share Data)			
Fiscal year ended January 31, 2004			
Selling, general and administrative expenses	\$2,101,672	\$ 55,358	\$2,157,030
Operating income	1,006,802	(55,358)	951,444
Income before income taxes	933,871	(55,358)	878,513
Provision for income taxes	352,974	(20,924)	332,050
Net income	580,897	(34,434)	546,463
Net income per share:			
Basic	\$ 1.71	\$ (0.10)	\$ 1.61
Diluted	\$ 1.69	\$ (0.10)	\$ 1.59

Consolidated Statement of Cash Flows			
	As previously reported	Adjustments	As restated
(In Thousands)			
Fiscal year ended January 29, 2005			
Net income	\$ 730,380	\$ (26,979)	\$ 703,401
Share-based compensation	—	43,375	43,375
Excess tax benefits from share-based compensation	—	(10,563)	(10,563)
Deferred income taxes	82,430	(4,156)	78,274
Income taxes	82,400	(12,240)	70,160
Net cash provided by operating activities	947,658	(10,563)	937,095
Excess tax benefits from share-based compensation	—	10,563	10,563
Net cash provided by financing activities	33,802	10,563	44,365

Consolidated Statement of Cash Flows			
	As previously reported	Adjustments	As restated
(In Thousands)			
Fiscal year ended January 31, 2004			
Net income	\$ 580,897	\$ (34,434)	\$ 546,463
Share-based compensation	—	55,358	55,358
Excess tax benefits from share-based compensation	—	(14,797)	(14,797)
Deferred income taxes	65,259	(10,630)	54,629
Income taxes	35,317	(10,294)	25,023
Net cash provided by operating activities	754,461	(14,797)	739,664
Excess tax benefits from share-based compensation	—	14,797	14,797
Net cash used in financing activities	(316,281)	14,797	(301,484)

See Note 11 for the impact of the restatement on fiscal 2004 quarterly information.

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

3. Selected Balance Sheet Information

Property and equipment consist of the following:

	January 28, 2006	January 29, 2005
(In Thousands)		
Land	\$ 576,688	\$ 469,851
Buildings and improvements	3,389,373	2,819,162
Store fixtures and equipment	1,461,997	1,218,858
Property under capital leases	172,260	120,240
Construction in progress	185,213	345,040
Total property and equipment	5,785,531	4,973,151
Less accumulated depreciation	1,241,699	985,206
	\$ 4,543,832	\$ 3,987,945

Depreciation expense for property and equipment, including property under capital leases, totaled \$295,187,000, \$249,839,000 and \$207,053,000 for fiscal 2005, 2004 and 2003, respectively.

Accrued liabilities consist of the following:

	January 28, 2006	January 29, 2005
(In Thousands)		
Payroll and related fringe benefits	\$112,508	\$ 72,521
Sales, property and use taxes	126,709	121,620
Various liabilities to customers	164,857	124,325
Accrued construction costs	113,775	140,243
Other accruals	123,786	112,048
	\$641,635	\$570,757

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

4. Accounts Receivable Financing

The Company has an agreement with Preferred Receivables Funding Corporation (PREFCO) and JP Morgan Chase, as agent, under which the Company periodically sells, generally with recourse, an undivided interest in the revolving pool of its private label credit card receivables up to a maximum of \$225 million. The agreement runs through December 14, 2006, and is renewable for one year intervals at the Company's request and the investor's option. No receivables were sold as of January 28, 2006, or January 29, 2005. For financial reporting purposes, receivables sold are treated as secured borrowings.

The cost of the current financing program is based on PREFCO's commercial paper rate, approximately 4.3% and 2.5% at January 28, 2006 and January 29, 2005, respectively, plus certain fees. The agreement is secured by interests in the receivables and contains covenants which require the Company to maintain a minimum portfolio quality and meet certain financial tests (see discussion of financial covenants in Note 5). As of January 28, 2006, the Company was in compliance with all financial tests. The average amount of borrowings during fiscal 2005 was \$55.2 million at a weighted average interest rate of 3.8%. The Company reached its highest short-term borrowing level for the year of \$225.0 million during October and November 2005.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Accounts Receivable Financing (continued)

Revenues from the Company's credit program, net of operating expenses, are summarized in the following table:

	Fiscal Year		
	2005	2004	2003
	(In Thousands)		
Finance charges and other income	\$260,966	\$214,772	\$182,525
Operating expenses:			
Provision for doubtful accounts	53,505	44,641	43,945
Other credit and collection expenses	74,205	64,397	53,936
Total operating expenses	127,710	109,038	97,881
Net revenue of credit program included in selling, general and administrative expenses	\$133,256	\$105,734	\$ 84,644

5. Debt

Long-term debt consists of the following:

Maturing	Weighted Average Effective Rate	January 28, 2006	January 29, 2005
		(\$ in Thousands)	
Notes and debentures:			
Senior debt (a)			
2006	6.70%	\$ 100,000	\$ 100,000
2011	6.59%	400,000	400,000
2029	7.36%	200,000	200,000
2033	6.05%	300,000	300,000
Total notes and debentures	6.59%	1,000,000	1,000,000
Capital lease obligations		157,316	110,256
Unamortized debt discount		(4,388)	(4,606)
Other		1,117	1,255
Less current portion		(107,941)	(3,464)
Long-term debt and capital leases		\$1,046,104	\$1,103,441

(a) Non-callable and unsecured notes and debentures.

Using discounted cash flow analyses based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements, the Company estimates the fair value of long-term debt, including current portion and excluding capital leases, to be approximately \$1,036.0 million at January 28, 2006 and \$1,124.4 million at January 29, 2005.

The Company has an unsecured revolving bank credit facility totaling \$532 million. In addition, the Company has two demand notes with availability totaling \$50 million. Depending on the type of advance under these facilities, amounts borrowed bear interest at competitive bid rates; the LIBOR plus a margin, based on the Company's long-term unsecured debt rating; or the agent bank's base rate. No amounts were outstanding on these facilities as of January 28, 2006 and January 29, 2005. Borrowings can fluctuate significantly during the

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Debt (continued)

year due to seasonal financing needs. The average amount of borrowings during fiscal 2005 was \$23.8 million at a weighted average interest rate of 4.0%. The Company reached its highest short-term borrowing level for the year of \$171.0 million on November 3, 2005.

The various debt agreements contain certain covenants that limit, among other things, additional indebtedness, as well as requiring the Company to meet certain financial tests including a minimum coverage ratio of 2.5:1.0 and a maximum leverage ratio of 0.65:1.0. The coverage ratio is basically defined as net income before interest, taxes, depreciation, amortization and rent expense to rent plus net interest and the leverage ratio is defined as included indebtedness to capitalization. As of January 28, 2006, the Company was in compliance with all financial covenants of the debt agreements. The Company achieved a coverage ratio of 5.18:1.0 and a leverage ratio of 0.16:1.0.

The Company also has outstanding letters of credit and stand-by letters of credit that total approximately \$33.2 million and \$42.5 million at January 28, 2006 and January 29, 2005, respectively.

Interest payments, net of amounts capitalized, were \$73,228,000, \$63,750,000 and \$67,785,000 in fiscal 2005, 2004 and 2003, respectively.

Annual maturities of long-term debt, excluding capital lease obligations, for the next five years are: \$100,420,000 in 2006; \$368,000 in 2007; \$329,000 in 2008; \$0 in 2009 and 2010.

6. Commitments

The Company leases certain property and equipment. The Company recognizes rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. The lease term commences on the earlier of the date when the Company becomes legally obligated for the rent payments or, in the case of buildings, the date when the Company takes possession of the building for initial setup of fixtures and merchandise. Rent expense charged to operations was \$343,594,000, \$308,608,000 and \$262,574,000 in fiscal 2005, 2004 and 2003, respectively. Rent expense includes contingent rents, based on sales, of \$3,689,000, \$3,432,000 and \$3,265,000 in fiscal 2005, 2004 and 2003, respectively. In addition, many of the store leases obligate the Company 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 the Company's option, that generally range from two additional five-year periods to eight ten-year periods.

Property under capital leases consists of the following:

	<u>January 28, 2006</u>	<u>January 29, 2005</u>
	(In Thousands)	
Buildings and improvements	\$156,976	\$118,014
Equipment	15,284	2,225
Less accumulated amortization	(29,256)	(21,621)
	\$143,004	\$ 98,618

Amortization expense related to capital leases totaled \$7,635,000, \$4,833,000 and \$3,226,000 for fiscal 2005, 2004 and 2003, respectively.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Commitments (continued)

Future minimum lease payments at January 28, 2006, are as follows:

	Capital Leases	Operating Leases
(In Thousands)		
Fiscal Year:		
2006	\$ 19,286	\$ 340,540
2007	19,761	340,648
2008	19,939	335,598
2009	18,467	331,704
2010	15,871	329,643
Thereafter	189,555	6,404,148
	282,879	\$ 8,082,281
Less amount representing interest	125,563	
Present value of minimum lease payments	\$157,316	

Included in the operating lease schedule above is \$618.9 million of minimum lease payments for stores that will open in fiscal 2006 and 2007. The operating lease schedule includes \$2,477.4 million for option periods on leases with cancelable options where failure to exercise such options would result in the recognition of accelerated depreciation expense of the related assets.

The Company recorded capital leases totaling \$52.0 million and \$31.4 million during fiscal 2005 and 2004, respectively.

In addition, as of January 28, 2006, the Company had entered into commitments totaling approximately \$292.8 million related to stores to be opened in fiscal 2006 and fiscal 2007.

7. Benefit Plans

The Company has an Employee Stock Ownership Plan (ESOP) for the benefit of its associates other than executive officers. Contributions are made at the discretion of the Board of Directors. The Company recorded expenses of \$14,733,000, \$12,583,000 and \$10,053,000 in fiscal 2005, 2004 and 2003, respectively. Shares of Company common stock held by the ESOP are included as shares outstanding for purposes of the net income per share computations.

The Company also has a defined contribution savings plan covering all full-time and certain part-time associates which provides for monthly employer contributions based on a percentage of qualifying contributions made by participating associates. The participants direct their contributions and/or their account balances among any of the Plan's eleven investment alternatives. Total expense, net of forfeitures, was \$4,055,000, \$3,743,000 and \$3,979,000 in fiscal 2005, 2004 and 2003, respectively.

The Company also made defined annual contributions to the savings plan on the behalf of all qualifying full-time and part-time associates based on a percentage of qualifying payroll earnings. The participants direct these contributions and/or their account balances among any of the Plan's eleven investment alternatives. The total contribution expense was \$10,919,000, \$9,712,000 and \$8,420,000 in fiscal 2005, 2004 and 2003, respectively.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Benefit Plans (continued)

The Company also has a non-qualified deferred compensation plan offered 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 fiscal 2005, 2004 and 2003 was immaterial.

8. Income Taxes

Deferred income taxes consist of the following:

	January 28, 2006	January 29, 2005 (Restated)
(In Thousands)		
Deferred tax liabilities:		
Property and equipment	\$368,532	\$361,695
Deferred tax assets:		
Merchandise inventories	5,143	34,320
Accrued and other liabilities	120,273	110,562
Accrued step rent liability	48,992	41,482
	174,408	186,364
Net deferred tax liability	\$194,124	\$175,331

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

	Fiscal Year		
	2005	2004 (Restated)	2003 (Restated)
(In Thousands)			
Current federal	\$436,509	\$308,766	\$249,114
Current state	48,528	40,434	28,307
Deferred federal	16,996	70,246	49,508
Deferred state	1,797	8,028	5,121
	\$503,830	\$427,474	\$332,050

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:

	Fiscal Year		
	2005	2004	2003
Provision at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.6	3.0	2.9
Other	(0.2)	(0.2)	(0.1)
Provision for income taxes	37.4%	37.8%	37.8%
Amounts paid for income taxes (in thousands)	\$481,711	\$279,547	\$253,552

The change in the fiscal 2005 effective tax rate was due to a tax adjustment of \$4.9 million due to the favorable resolution of certain state tax matters.

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

9. Preferred and Common Stock

The Company's authorized capital stock consists of 800,000,000 shares of \$0.01 par value common stock and 10,000,000 shares of \$0.01 par value preferred stock.

The Company's 1994 and 2003 Long-Term Compensation Plans provide for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of the Company's common stock, to officers and key employees. The 1997 Stock Option Plan for Outside Directors provides for granting of equity-based awards to outside directors.

The following table presents the number of options and nonvested stock initially authorized and available to grant under each of the plans:

	1994 Plan	1997 Plan	2003 Plan	Total
Options and nonvested stock initially authorized	24,000,000	400,000	15,000,000	39,400,000
Options and nonvested stock available for grant:				
January 29, 2005	—	267,000	14,208,750	14,475,750
January 28, 2006	—	244,500	11,514,544	11,759,044

The majority of options granted vest in four equal annual installments. Remaining options granted vest in five to ten year increments. The nonvested stock granted vests in three equal installments over three years. Options and nonvested stock that are surrendered or terminated without issuance of shares are available for future grants.

Annual awards of stock options to eligible associates are made in the first quarter of the subsequent fiscal year. All awards to outside directors during fiscal 2003, 2004 and 2005 were granted under the 1997 plan.

The fair value of each option award is estimated using a Black-Scholes option valuation model that requires the Company to develop estimates for assumptions used in the model. The Black-Scholes option valuation model uses the following assumptions: expected volatility, expected life of the option, risk-free interest rate and dividend yield. The Black-Scholes model was used to estimate the fair value of options at grant date based on the following assumptions:

	Fiscal Year		
	2005	2004	2003
Dividend yield	0%	0%	0%
Volatility	0.342	0.339	0.339
Risk-free interest rate	3.8%	3.5%	3.5%
Expected life in years	6.5	6.2	6.0
Weighted average fair value at grant date	\$20.16	\$19.16	\$20.49

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

SFAS No. 123R requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to adoption of SFAS No. 123 R, the Company accounted for forfeitures as they occurred as permitted under previous accounting standards. The cumulative effect of adopting the change in estimating forfeitures is not material to the Company's financial statements for the year ended January 28, 2006.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Preferred and Common Stock (continued)

The following table summarizes the Company's stock option activity from February 1, 2003 through January 28, 2006:

	Number of Options	Weighted Average Exercise Price
Balance at February 1, 2003	18,909,268	\$ 31.70
Granted	2,919,739	51.71
Surrendered	(1,094,219)	56.78
Exercised	(2,818,879)	16.41
Balance at January 31, 2004	17,915,909	35.85
Granted	2,177,589	47.84
Surrendered	(1,726,688)	47.67
Exercised	(3,203,495)	14.66
Balance at January 29, 2005	15,163,315	40.70
Granted	2,788,486	47.95
Surrendered	(631,765)	55.45
Exercised	(1,517,967)	15.37
Balance at January 28, 2006	15,802,069	\$ 43.82

The aggregate intrinsic value of the options outstanding at January 28, 2006 was \$112.7 million and the intrinsic value of the options exercisable at January 28, 2006 was \$108.4 million.

As of January 28, 2006, there was \$85.2 million of unrecognized compensation cost related to stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.0 years. The total compensation cost recognized related to options during the years ended January 28, 2006, January 29, 2005 and January 31, 2004 was \$40.4 million, \$43.4 million and \$55.4 million, respectively. These amounts were expensed and included in selling, general and administrative (SG&A) expenses in the accompanying Consolidated Statements of Income.

Options exercisable at:

	Shares	Weighted Average Exercise Price
January 28, 2006	9,856,271	\$ 40.31
January 29, 2005	9,816,584	\$ 35.26
January 31, 2004	12,012,527	\$ 29.23

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Preferred and Common Stock (continued)

Additional information related to options outstanding at January 28, 2006, segregated by grant price range, is summarized below:

	Exercise Price Range				
	\$7.14 to \$24.76	\$24.77 to \$42.38	\$42.39 to \$49.56	\$49.57 to \$60.00	\$60.01 to \$77.62
Options outstanding	2,539,120	3,393,633	3,441,033	3,169,788	3,258,495
Weighted average exercise price of options outstanding	\$ 13.41	\$ 34.06	\$ 47.35	\$ 51.91	\$ 66.10
Weighted average remaining contractual life of options outstanding (years)	3.9	8.8	13.7	12.3	10.7
Options exercisable	2,459,120	3,114,429	333,126	1,306,375	2,643,221
Weighted average exercise price of options exercisable	\$ 13.61	\$ 33.55	\$ 48.62	\$ 52.14	\$ 66.21
Weighted average remaining contractual life of options exercisable (years)	4.1	8.5	13.0	11.4	10.5

The aggregate intrinsic value of the options exercised during the years ended January 28, 2006, January 29, 2005 and January 31, 2004 was \$55.0 million, \$107.8 million and \$111.1 million, respectively.

The Company has awarded shares of nonvested common stock to eligible key employees. All awards have restriction periods tied primarily to employment and/or service. The awards vest over three years. The awards are expensed on a straight-line basis over the vesting period. The Company's nonvested stock activity during the year ended January 28, 2006 was as follows:

Nonvested Stock	Shares	Weighted-Average Grant Date Fair Value
(In thousands except per share)		
Granted during 2004 and Nonvested at January 29, 2005	100	\$ 49.27
Granted	137	48.47
Vested	(33)	49.27
Forfeited	—	—
Nonvested at January 28, 2006	204	\$ 48.82

There was \$7.9 million and \$4.8 million of unearned compensation cost related to the nonvested stock granted under the plans as of January 28, 2006 and January 29, 2005, respectively. The cost is expected to be recognized over a weighted-average period of 2.1 years. Total compensation expense recognized related to nonvested stock during the years ended January 28, 2006 and January 29, 2005 was \$3.5 million and \$0.1 million, respectively. There was no nonvested stock granted as of January 31, 2004.

10. Contingencies

The Company and its subsidiaries are not currently parties to any material legal proceedings, but are subject to certain legal proceedings and claims from time to time that are incidental to their ordinary course of business. The Company will record a liability related to its legal proceedings and claims when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that an obligation is reasonably possible, the Company will if material, disclose the nature of the loss contingency and the estimated range of possible loss, or include a statement that no estimate of loss can be made.

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

11. Quarterly Financial Information (Unaudited)

Financial Information

	Fiscal Year 2005				
	First	Second	Third	Fourth	Total
	(In Thousands, Except Per Share Data)				
Net sales	\$ 2,742,838	\$ 2,888,078	\$ 3,119,360	\$ 4,651,941	\$ 13,402,217
Gross margin	983,200	1,068,585	1,132,594	1,578,560	4,762,939
Net income	124,734	187,186	155,127	374,913	841,960
Basic shares	343,526	344,066	344,441	344,656	344,172
Basic net income per share	\$ 0.36	\$ 0.54	\$ 0.45	\$ 1.09	\$ 2.45
Diluted shares	345,906	346,772	346,778	346,590	346,772
Diluted net income per share	\$ 0.36	\$ 0.54	\$ 0.45	\$ 1.08	\$ 2.43

	Fiscal Year 2004 (Restated)				
	First	Second	Third	Fourth	Total
	(In Thousands, Except Per Share Data)				
Net sales	\$ 2,380,173	\$ 2,497,858	\$ 2,743,882	\$ 4,078,706	\$ 11,700,619
Gross margin	847,437	910,049	985,551	1,370,590	4,113,627
Net income:					
As previously reported	110,783	153,727	140,933	324,937	730,380
As restated	103,084	146,900	134,591	318,826	703,401
Basic shares	340,434	341,030	342,312	343,160	341,724
Basic net income per share:					
As previously reported	\$ 0.33	\$ 0.45	\$ 0.41	\$ 0.95	\$ 2.14
As restated	\$ 0.30	\$ 0.43	\$ 0.39	\$ 0.93	\$ 2.06
Diluted shares	343,858	344,195	344,896	345,678	344,773
Diluted net income per share:					
As previously reported	\$ 0.32	\$ 0.45	\$ 0.41	\$ 0.94	\$ 2.12
As restated	\$ 0.30	\$ 0.43	\$ 0.39	\$ 0.92	\$ 2.04

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

12. Related Party

A director of the Company is also a shareholder of a law firm which performs legal services for the Company.

The Company entered into an agreement with Blackhawk Marketing Services, Inc. (Blackhawk), in which Blackhawk distributes the Company's prepaid gift cards for sale in various retail outlets across the country. In return for its services, Blackhawk receives a fee, which is calculated as a percentage of the gift card sales volume. Blackhawk is a wholly-owned subsidiary of Safeway Stores, Inc. (Safeway) and a director of the Company is also Chairman, President and Chief Executive Officer of Safeway. The agreement between the Company and Blackhawk was entered into in the ordinary course of the Company's business.

KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Subsequent Event (Unaudited)

On March 6, 2006, the Company entered into a definitive agreement to sell its private label credit card accounts and outstanding balances associated with the accounts to JPMorgan Chase & Co. (Chase). The total purchase price is comprised of face value of the receivable balance, estimated at \$1.5 billion at the time of closing. The Company currently has no securitization liabilities and expects to receive the entire purchase price in cash. In addition, the Company entered into a multi-year agreement in which it will maintain its current credit operations and will continue to handle all customer service functions and will continue to be responsible for all advertising and marketing related to its credit card customers. In return, the Company is to receive on-going payments related to the profitability of the portfolio. The transaction is subject to customary regulatory review and closing conditions. In addition, the Company's board of directors has authorized a \$2.0 billion share repurchase program, which it expects to complete over the next two to three years.

KOHL'S CORPORATION
SCHEDULE II
Valuation and Qualifying Accounts

	Fiscal Year Ended		
	January 28, 2006	January 29, 2005	January 31, 2004
	(In Thousands)		
Accounts Receivable—Allowances:			
Balance at Beginning of Year	\$ 24,657	\$ 22,521	\$ 20,880
Charged to Costs and Expenses	53,505	44,641	43,945
Deductions—Bad Debts Written off, Net of Recoveries and Other Allowances	(51,827)	(42,505)	(42,304)
Balance at End of Year	<u>\$ 26,335</u>	<u>\$ 24,657</u>	<u>\$ 22,521</u>

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/ R. LAWRENCE MONTGOMERY

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

Dated: March 17, 2006

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 dates indicated:

/s/ R. LAWRENCE MONTGOMERY

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

/s/ WILLIAM S. KELLOGG

William S. Kellogg
Director

/s/ KEVIN MANSELL

Kevin Mansell
President and Director

/s/ ARLENE MEIER

Arlene Meier
Chief Operating Officer, Treasurer and Director

/s/ JAY H. BAKER

Jay H. Baker
Director

Steven A. Burd
Director

Wayne Embry
Director

James D. Ericson
Director

/s/ JOHN F. HERMA

John F. Herma
Director

/s/ FRANK SICA

Frank Sica
Director

Stephen E. Watson
Director

/s/ PETER M. SOMMERHAUSER

Peter M. Sommerhauser
Director

/s/ R. ELTON WHITE

R. Elton White
Director

/s/ WESLEY S. McDONALD

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

Dated: March 17, 2006

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Incorporation of the Company, as amended, 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	Bylaws of the Company, incorporated herein by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2000.
4.1	Five-Year Credit Agreement dated as of July 10, 2002 among the Company, the lenders party thereto, Bank One, NA, as Syndication Agent, U.S. Bank, National Association, Wachovia Bank, National Association and Fleet National Bank, as Co-Documentation Agents, and The Bank of New York as Issuing Bank, Swing Line Lender and Administrative Agent, incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2002.
4.2	Certain other long-term debt is described in Note 5 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 5 and not filed herewith.
10.1	Purchase and Sale Agreement dated as of March 5, 2006, by and between Kohl's Department Stores, Inc., and Chase Bank USA, National Association.
10.2	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.
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.*
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	Summary of Executive Bonus Plan, incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated February 23, 2005.*
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	2003 Long-Term Compensation Plan, incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003.*
10.11	Form of Executive Stock Option Award, incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 23, 2005.*

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- 10.12 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.*
 - 10.13 Form of Outside Director Stock Option Award, incorporated herein by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*
 - 10.14 Employment Agreement between the Company and William S. Kellogg dated April 30, 1992, incorporated herein by reference to Exhibit 10.6 of the Company's registration statement on Form S-1 (File No. 33-46883).*
 - 10.15 Employment Agreement between the Company and Jay H. Baker dated April 30, 1992, incorporated herein by reference to Exhibit 10.7 of the Company's registration statement on Form S-1 (File No. 33-46883).*
 - 10.16 Employment Agreement between the Company and John F. Herma dated April 30, 1992, incorporated herein by reference to Exhibit 10.8 of the Company's registration statement on Form S-1 (File No. 33-46883).*
 - 10.17 Employment Agreement between the Company and R. Lawrence Montgomery, incorporated herein by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.*
 - 10.18 Employment Agreement between the Company and Kevin Mansell, 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, 1999.*
 - 10.19 Amended and Restated Agreements dated December 10, 1998 between the Company and Mr. Montgomery, incorporated herein by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the Fiscal year ended January 30, 1999.*
 - 10.20 Amended and Restated Agreements dated December 10, 1998 between the Company and Mr. Mansell, incorporated herein by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1999.*
 - 10.21 First Amendment to Employment Agreement between the Company and Mr. Montgomery, dated November 15, 2000, incorporated herein by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001. *
 - 10.22 Employment Agreement between the Company and Arlene Meier dated November 15, 2000, incorporated herein by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001. *
 - 10.23 Amendment to Employment Agreement between the Company and Mr. Kellogg, dated January 31, 2004, incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *
 - 10.24 Amendment to Employment Agreement between the Company and Mr. Baker, dated January 31, 2004, incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *
 - 10.25 Amendment to Employment Agreement between the Company and Mr. Herma, dated January 31, 2004, incorporated herein by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *
 - 10.26 Second Amendment to Employment Agreement between the Company and Mr. Montgomery, dated January 31, 2004, incorporated herein by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *

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- 10.27 Amendment to Employment Agreement between the Company and Mr. Mansell, dated January 31, 2004, incorporated herein by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *
 - 10.28 Amendment to Employment Agreement between the Company and Ms. Meier, dated January 31, 2004, incorporated herein by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004. *
 - 10.29 Form of Executive Employment Agreement, incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*
 - 10.30 Form of Restricted Stock Agreement, incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*
 - 10.31 Summary of Outside Director Compensation, incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 29, 2005.*
 - 21.1 Subsidiaries of the Registrant.
 - 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.

* A management contract or compensatory plan or arrangement.

PURCHASE AND SALE AGREEMENT

By and Between

KOHL'S DEPARTMENT STORES, INC.

And

CHASE BANK USA, NATIONAL ASSOCIATION

Dated as of March 5, 2006

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Exhibit A	Form of Program Agreement
Exhibit B	Form of Instrument of Assignment and Assumption

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT is dated as of March 5, 2006 (the "Agreement") and is by and between KOHL'S DEPARTMENT STORES, INC., a Delaware corporation (the "Seller"), and CHASE BANK USA, NATIONAL ASSOCIATION, a national bank (the "Purchaser").

RECITALS

WHEREAS, the Seller is, among other things, (i) engaged in the business of selling merchandise through retail stores and by other means, and (ii) directly and indirectly engaged in the Business (as hereinafter defined);

WHEREAS, pursuant to this Agreement, the Seller desires to sell to the Purchaser, and the Purchaser desires to purchase from the Seller, certain assets used in the Business pursuant to the terms contained and in the manner described herein and in the Ancillary Agreements (as hereinafter defined);

WHEREAS, on the date hereof, the Seller and the Purchaser are entering into a Program Agreement (the "Program Agreement") in the form attached hereto as Exhibit A, that is to become effective as of the Closing under this Agreement, and that provides for, among other things, the issuance of proprietary credit cards of the Seller, the issuance of existing and new credit-related products to be developed with the Purchaser, the processing and servicing of the related accounts, and the conduct of related marketing activities, all as more fully set forth therein; and

WHEREAS, concurrently with the Closing under this Agreement, the Seller and the Purchaser desire to enter into other agreements in connection with the transactions contemplated hereby, all as more fully set forth herein.

NOW, THEREFORE, in consideration of the premises, and of the mutual representations and agreements contained in this Agreement, the parties agree as follows:

ARTICLE I DEFINITIONS

SECTION 1.1 *Definitions of Certain Terms.* In this Agreement, the following terms are used with the meanings assigned below:

"Account" means, as of the Cut-Off Time, any account identified by name and account number under which a purchase or credit transaction may be or has been made by a Cardholder by means of a Credit Card, which is recorded as an Account on the Master File and for which an Account Agreement is in effect as of the Closing Date, including any world-wide accounts.

“Accountant” has the meaning given thereto in Section 2.4(c).

“Account Agreement” means an agreement (including related disclosure) between the Seller or its Affiliates and a Person or Persons under which Accounts are established and pursuant to which Credit Cards are issued to or on behalf of such Person or Persons, as such agreement may be amended, modified or otherwise changed from time to time (including pursuant to change of terms notices).

“Accrued Interest” means the aggregate amount of all finance charges that were accrued and earned, but not posted on the Accounts as of the Cut-Off Time.

“Acquired Assets” means all right, title and interest of the Seller and its Affiliates in and to the following credit assets and properties, except to the extent they constitute Excluded Assets:

- (1) the Accounts and the Gross Receivables accrued as of the Cut-Off Time related to the Accounts;
- (2) the applications for Accounts pending and solicitations for Accounts outstanding;
- (3) the Account Agreements, the Cardholder List and the Master File;
- (4) the Assigned Contracts;
- (5) the Books and Records, subject to Section 5.10, and subject to the Seller’s right to retain a copy of the Books and Records for use in connection with servicing the Accounts;
- (6) the Credit Cards; and
- (7) rights, claims, credits, causes of action and rights of set-off against third parties relating principally to any Acquired Assets or Assumed Liabilities.

“Action” means any claim, action, complaint, investigation, petition, suit or other proceeding, whether civil, criminal or administrative, in law or in equity, or before any arbitrator or Governmental Authority.

“Affiliate” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person. For purposes of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning given thereto in the Preamble.

“Allocation Statement” has the meaning given thereto in Section 2.5(a).

“Ancillary Agreements” means the Program Agreement and the Instrument of Assignment and Assumption.

“Applicable Order” means, with respect to any Person, a judgment, injunction, writ, decree or order of any Governmental Authority, in each case legally binding on that Person or on any of its property.

“Assigned Contracts” means the Contracts listed on Schedule 4.1(i), and specifically excludes any contracts relating to servicing of the Accounts and any intercompany Contracts between the Seller and any of its Affiliates.

“Assumed Liabilities” mean the following Liabilities of the Seller and its Affiliates, except to the extent they constitute Excluded Liabilities:

- (1) all obligations to Cardholders from and after the Closing Date in respect of Accounts to perform under Account Agreements, including payment of credit balances as of the Cut-Off Time;
- (2) all fees, normal operating assessments and other charges relating to the Accounts that are incurred or accrue on or after the Closing Date;
- (3) all obligations of the Seller arising under the Assigned Contracts from and after the Closing Date;
- (4) all Liabilities for Taxes relating to the Acquired Assets to the extent set forth in Sections 6.1(d) and 6.1(e).

“Books and Records” means books, records, original documents, files and papers maintained by or for the Seller, whether in hard copy or electronic format, in each case to the extent within the Seller’s control and/or possession and primarily used with respect to the Acquired Assets, other than any relating principally to the Excluded Assets and other than Tax returns or Tax workpapers.

“Business” means the proprietary Credit Card business of the Seller relating to the Accounts, including the extension of credit to Cardholders, the servicing of the Accounts, billings, collections, processing of Account transactions and the administration of the Accounts and Gross Receivables.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banks located in Wisconsin or New York generally are required or authorized by law or executive order to close.

“Cardholder” means a Person or Persons to whom a Credit Card is or has been issued and in whose name(s) an Account, in connection with which the Credit Card may be used, has been established pursuant to an Account Agreement.

“Cardholder List” means a list of the names, addresses, telephone numbers, taxpayer identification numbers, social security numbers and e-mail addresses of all Cardholders as of the Cut-Off Time if and to the extent such information is within the possession or control of the Seller or its Affiliates.

“Closing” has the meaning set forth in Section 3.1(a).

“Closing Date” has the meaning set forth in Section 3.1(a).

“Code” means the Internal Revenue Code of 1986, as amended.

“Confidentiality Agreement” means that certain Confidentiality Agreement dated October 17, 2005, by and between the Seller and the Purchaser.

“Constituent Documents” means the articles of association, articles of incorporation, certificate of incorporation, by-laws and/or other organizational documents, as appropriate, of any Person.

“Contract” means, with respect to any Person, any agreement, undertaking, contract, indenture, deed of trust or other instrument, document or agreement by which that Person, or any amount of its properties, is bound and/or subject.

“Credit Card” means a proprietary card that may be used by the related Cardholder to purchase goods and/or services from the Seller or other Persons authorized by the Seller through open-end revolving credit, commonly known as credit, store or Kohl’s charge card, commonly referred to as “Kohl’s Charge.”

“Cut-Off Time” means 11:59 PM Pacific time on the date immediately preceding the Closing Date.

“Deductible Amount” has the meaning given thereto on Schedule 9.2.

“De Minimis Claim Amount” has the meaning given thereto on Schedule 9.2.

“Disclosure Schedule” means, with respect to the Seller or the Purchaser, a schedule delivered to the other party on or before the date of this Agreement setting forth, among other things, items the disclosure of which is required under this Agreement either in response to an express disclosure requirement contained in a provision of this Agreement or as an exception to one or more of the representations or covenants contained in this Agreement; provided, however, that, unless the terms of the applicable representation provide otherwise, the mere inclusion of an item in a Disclosure Schedule as an exception to a representation will not be considered an admission by the disclosing party that such item (or any non-disclosed item or information of comparable or greater significance) represents a material exception or fact, event or circumstance or that such item has had or would reasonably be expected to have a Material Adverse Effect with respect to the disclosing party or the Acquired Assets.

“Eligible Receivables” means all Gross Receivables other than receivables under Written-Off Accounts.

“Estimated Closing Statement” means a statement prepared by the Seller substantially in the form of Schedule 2.4, showing in reasonable detail the calculation of the Estimated Purchase Price, based on data available as of the close of business on the fifth Business Day preceding the Closing Date.

“Estimated Purchase Price” means the amount payable by the Purchaser on the Closing Date in accordance with the Estimated Closing Statement.

“Exchange Act” has the meaning given thereto in Section 4.1(e).

“Excluded Assets” means the assets of the Seller and its Affiliates not being acquired by the Purchaser hereunder, including the following:

- (1) cash and cash equivalents on hand and cash and cash equivalents in bank accounts maintained by the Seller or any of its Affiliates;
- (2) insurance policies maintained by or for the benefit of the Seller and all claims accrued thereunder, and all amounts for insurance billed with respect to Accounts prior to the Closing;
- (3) Intellectual Property Rights other than rights to the Cardholder List or the Master File and other than any Intellectual Property Rights explicitly licensed or otherwise granted to the Purchaser under any Ancillary Agreement;
- (4) assets of the Seller or any of its Affiliates sold or otherwise disposed of, or otherwise becoming no longer a part of the Acquired Assets, without violation of this Agreement during the period prior to the Closing Date;
- (5) assets relating to the Seller’s employee benefit agreements, plans or other arrangements;
- (6) rights, claims, credits, causes of action, or rights of set-off against third parties not relating principally to the Acquired Assets or which relate principally to an Excluded Liability;
- (7) all licenses, permits or other authorizations of any Governmental Authorities held or used by the Seller;
- (8) interests in real property;
- (9) Personal Property of the Seller;
- (10) all right, title and interest of the Seller in and to any and all other assets and properties, of any kind whatsoever, that are not primarily used in connection with the Acquired Assets as of the Closing Date;

(11) all customer data relating to customers of the Seller and its Affiliates (whether or not duplicated in the Cardholder List, the Master File and the Books and Records (all of which constitute Acquired Assets));

(12) prepaid Taxes, Tax payments due from any of the Seller's Affiliates, and entitlements to refunds, credits, offsets or other benefits for overpayment of Taxes relating to any period (or portion thereof) prior to the Closing Date;

(13) Loan loss reserves;

(14) Intercompany Contracts between the Seller and any of its Affiliates;

(15) The Scoring Models;

(16) Any gift card, debit card, or other stored-value card, and any program related thereto;

(17) All Written-Off Accounts; and

(18) All rights, privileges, and benefits of acting as servicer of the Accounts or any account created in the future, including all servicing fees and other compensation payable to the servicer with respect to all periods from and after the Closing.

"Excluded Liabilities" means Liabilities of the Seller (or any of its respective predecessors) and its Affiliates, other than the Assumed Liabilities, of any kind whatsoever, whether presently in existence or arising hereafter, including:

(1) Except as provided in Sections 6.1(d) and (e), (A) all Liabilities for Taxes with respect to the Business or the Acquired Assets for any period (or portion thereof) prior to the Closing Date and (B) all Liabilities for Taxes with respect to the Business or the Acquired Assets that accrue on the Closing Date in connection with the sale of the Acquired Assets;

(2) Liabilities that result from an act, or failure to act, by the Seller or any of its Affiliates prior to the Closing Date that relate to any claims by any current, former or putative employee thereof, whether or not such claims are brought prior to, on or after the Closing Date, and Liabilities relating to employee benefits (including any accrued vacation benefits) or compensation arrangements existing prior to the Closing Date;

(3) Any Liability principally related to an Excluded Asset; and

(4) Any Liability of the Seller (or any of its Affiliates) relating to or arising from the operation of the Business at or prior to the Cut-Off Time or from any facts, circumstances or events existing or occurring at or prior to the Cut-Off Time.

"Federal Funds Rate" means the offered rate as reported in *The Wall Street Journal* in the "Money Rates" section for reserves traded among commercial banks for overnight use in amounts of one million dollars or more or, if no such rate is published for a day, the rate published for the preceding Business Day.

“Final Closing Statement” means a statement prepared by the Seller, substantially in the form of Schedule 2.4, showing in reasonable detail the Seller’s calculation of the Purchase Price, based on the Accounts and the Acquired Assets as of the Cut-Off Time.

“GAAP” means generally accepted accounting principles as in effect in the United States.

“Governmental Authority” means any domestic or foreign governmental, regulatory or self-regulatory authority, agency, court, tribunal, commission or other governmental, regulatory or self-regulatory entity exercising legislative, judicial, regulatory or administrative functions.

“Gross Receivables” means all amounts owing (after deduction of credit balances scheduled as of the Cut-Off Time and unapplied cash) to the Seller from Cardholders with respect to Accounts (including outstanding loans, cash advances and other extensions of credit; billed or posted but unbilled finance charges and late charges; Accrued Interest; and any other fees, charges and interest assessed on the Accounts) as of the Cut-Off Time (or, solely with respect to the Estimated Closing Statement, as of the close of business on the fifth Business Day preceding the Closing Date).

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

“Indemnified Party” has the meaning given thereto in Section 9.4(a).

“Indemnifying Party” has the meaning given thereto in Section 9.4(a).

“Indemnity Cap Amount” has the meaning given thereto on Schedule 9.2.

“Instrument of Assignment and Assumption” means the Instrument of Assignment and Assumption in the form attached as Exhibit B, to be entered into at Closing.

“Intellectual Property Right” means any intellectual property right, including any trademark, service mark or other source indicator, invention, patent, copyright, trade secret, know-how, and any registration or application for registration of any of the foregoing.

“Knowledge” means, with respect to the Seller, the actual knowledge of the officers of the Seller who are listed on Schedule 1.1, and, with respect to the Purchaser, the actual knowledge of the officers of the Purchaser who are listed on Schedule 1.1.

“Liability” means any debt, liability, commitment or obligation, of any kind whatsoever, whether due or to become due, known or unknown, accrued or fixed, absolute or contingent, or otherwise.

“Lien” means, with respect to any property, any lien, security interest, mortgage, pledge, charge or encumbrance, whether consensual or statutory, relating to that property, including the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such property.

“Losses” has the meaning given thereto in Section 9.2.

“Master File” means the master file maintained by the Seller and the Service Provider with respect to the Accounts, including the information listed on Schedule 1.2.

“Material Adverse Effect” means:

(a) With respect to the Acquired Assets, a material adverse change in, or a material adverse effect upon, the Acquired Assets taken as a whole, excluding any effect or change attributable to or resulting from (i) events, conditions or occurrences in economic, business or financial conditions generally effecting the credit card services, consumer credit business, or banking industry, to the extent such that such events, conditions or occurrences do not disproportionately effect the Acquired Assets, (ii) financial market conditions, including interest rates or changes therein, (iii) changes in Requirements of Law, GAAP or regulatory accounting principles after the date hereof, (iv) any action, omission, change, effect, circumstance or condition contemplated by this Agreement, or attributable to the signing and announcement of this Agreement or the transactions contemplated by this Agreement and the Ancillary Agreements, or (v) any actions or omissions required by the terms of this Agreement or the Ancillary Agreements; and

(b) With respect to the Seller or the Purchaser, a material impairment of the ability of the relevant Person or Persons to perform its or their material obligations under this Agreement.

“Permissible Liens” means (a) with respect to those Acquired Assets that are Personal Property, restrictions or imperfections of title that do not materially detract from the value or impair the use of any Acquired Asset and (b) Liens for taxes, assessments and other governmental charges or levies not yet due or which are being contested in good faith by appropriate action.

“Person” means any individual, corporation, business trust, partnership, association, limited liability company or similar organization, or any Governmental Authority.

“Personal Property” means the tangible assets of the Seller.

“Program Agreement” has the meaning given thereto in the Recitals.

“Purchase and Assumption” has the meaning given thereto in Section 3.1(a).

“Purchaser” has the meaning given thereto in the Preamble.

“Purchase Price” means the purchase price payable in accordance with the Final Closing Statement, as finally determined in accordance with Section 2.4.

“Purchaser Indemnified Parties” has the meaning given thereto in Section 9.2.

“Requirement of Law” means all federal, state and local laws, statutes, regulations, written regulatory guidance, orders or directives, opinions and interpretations of any Governmental Authority as may be amended and in effect from time to time, including: (i) the Truth in Lending Act and Regulation Z; (ii) the Equal Credit Opportunity Act and Regulation B; (iii) the Fair Debt Collection Practices Act; (iv) the Fair Credit Reporting Act; (v) the Gramm-Leach-Bliley Act and its implementing regulations; and (vi) the Federal Trade Commission Act.

“Schedule” shall mean any Disclosure Schedule hereto.

“SEC” has the meaning given thereto in Section 4.1(e).

“SEC Documents” has the meaning given thereto in Section 4.1(e).

“Securities Act” shall have the meaning given thereto in Section 4.1(e).

“Seller” has the meaning given thereto in the Preamble.

“Seller Indemnified Parties” has the meaning given thereto in Section 9.3.

“Scoring Models” means the customer underwriting scorecard and the customer behavioral scorecard developed on behalf of the Seller relating to the Accounts.

“Service Provider” means any data processing service provider used by the Seller in connection with the Accounts.

“Tax Return” means any return, declaration, report or similar statement required to be filed with respect to any Taxes (including any attached schedules) including any information return, claim for refund, amended return and declaration of estimated Tax.

“Taxes” means (A) any income, alternative or add-on minimum tax, gross receipts, sales, use, transfer, gains, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge, together with any interest or any penalty, addition to tax or additional amount imposed by any Governmental Authority responsible for the imposition of any such tax (domestic or foreign), and (B) any Liability of the Seller for the payment of any amounts of the type described in clause (A) above as a result of being a member of an affiliated, consolidated, combined or unitary group for any period.

“Written-Off Accounts” means all Accounts that (i) have been charged-off or written-off as of the Cut-Off Time, or (ii) are eligible for charge off or write-off as of the Cut-Off Time in accordance with the write-off policy attached hereto as Schedule 4.1(f).

SECTION 1.2 *Interpretation.* (a) In this Agreement, unless the context otherwise requires, references to:

(i) the Preamble or the Recitals, Sections, Exhibits, or Schedules refer to the Preamble or a Recital or Section of, or Exhibit or Schedule to, this Agreement;

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- (ii) any Contract (including this Agreement) refer to the Contract as amended, modified, supplemented or replaced from time to time;
 - (iii) any statute or regulation refer to the statute or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute or regulation include any successor to the section;
 - (iv) any Governmental Authority includes any successor to the Governmental Authority;
 - (v) this Agreement refers to this Agreement, the Schedules, the Disclosure Schedule and the Exhibits hereto; and
 - (vi) any Schedule refer to a Disclosure Schedule.

(b) The table of contents and headings contained in this Agreement are for reference purposes only and do not limit or otherwise effect any of the provisions of this Agreement.

(c) Whenever the word “include,” “includes” or “including” is used in this Agreement, it will be deemed to be followed by the words “without limitation.”

(d) Any time period specified herein, including the period during or after which a payment is due, shall be deemed to exclude the day on which the period commences and include the day on which the period ends.

(e) This Agreement is the product of negotiation by the parties having the assistance of counsel and other advisers. It is the intention of the parties that this Agreement not be construed more strictly with regard to one party than with regard to the other.

ARTICLE II PURCHASE, SALE AND ASSUMPTION

SECTION 2.1 *Purchase and Sale of Assets.* On the terms and subject to the conditions of this Agreement, at the time of the Closing, and effective from and after the Closing Date, the Seller shall sell, convey and assign (or cause its Subsidiaries to sell, convey and assign) to the Purchaser, free and clear of all Liens, except Permissible Liens, the Acquired Assets, and the Purchaser agrees to purchase all such Acquired Assets.

SECTION 2.2 *Assumption of Liabilities*. On the terms and subject to the conditions set forth in this Agreement, from and after the Closing Date, the Purchaser agrees to assume, pay, defend, discharge and perform as and when due the Assumed Liabilities.

SECTION 2.3 *Excluded Liabilities*. Notwithstanding any provision in this Agreement or any other writing to the contrary, the Purchaser is assuming only the Assumed Liabilities and not any Excluded Liabilities. The Excluded Liabilities will be retained by the Seller.

SECTION 2.4 *Purchase Price; Purchase Price Adjustment*. (a) On the second Business Day before the Closing, the Seller will deliver to the Purchaser the Estimated Closing Statement reflecting the Seller's calculation of the Estimated Purchase Price to be paid by the Purchaser at the Closing.

(b) Within 60 Business Days after the Closing, the Seller will deliver to the Purchaser (i) the Final Closing Statement (A) prepared in accordance with the Seller's normal operating procedures in effect as of the Cut-Off Time, and (B) based on the information in the Master File and the other Acquired Assets as of the Cut-Off Time and (ii) copies of the Master File as of the Cut-Off Time and all material working papers relating to the Final Closing Statement.

(c) The Purchaser shall, within 30 Business Days after receipt of the Final Closing Statement, advise the Seller in writing and in reasonable detail of any inaccuracies it believes are reflected in the Final Closing Statement. In the event no such objection to the Final Closing Statement is delivered to the Seller within such time period, the Final Closing Statement, as delivered to the Purchaser, shall be final and binding upon the parties. In the event the Purchaser delivers such an objection, the Seller and the Purchaser shall attempt in good faith to resolve any differences. In the event all differences are not resolved within 30 Business Days following delivery to the Seller of any objections, then the issues remaining unresolved shall be determined by an independent nationally-recognized public accounting firm mutually acceptable to the Seller and the Purchaser (the "Accountant"). The Accountant shall resolve all disputed items in accordance with the provisions of this Agreement. In making its determination, the Accountant may only consider those items and amounts as to which the Purchaser and the Seller have disagreed within the time periods and the permitted grounds specified. The Accountant's determination will be conclusive and binding on the Purchaser and the Seller absent manifest error. The fees of the Accountant will be shared by the Purchaser and the Seller in proportion to the relative differences between their respective calculations of the Purchase Price and the amount determined by the Accountant.

(d) If the Estimated Purchase Price exceeds the Purchase Price, then the Seller shall, within five Business Days after the Purchase Price has been finally determined pursuant to Section 2.4(c), pay such excess amount to the Purchaser, together with interest on such excess amount for the period from and including the Closing Date to but excluding the date of such payment at a rate per annum equal to the Federal Funds Rate. If the Estimated Purchase Price is less than the Purchase Price, then the Purchaser shall, within five Business Days after the Purchase Price has been finally determined pursuant to Section 2.4(c), pay such deficiency to the Seller, together with interest on such deficiency for the period from and including the Closing Date to but excluding the date of such payment at a rate per annum equal to the Federal Funds

Rate. Each party to this Agreement will make available to the other party, and to the Accountant, its and its accountant's work papers, schedules and other supporting data as may be reasonably requested by such party to enable it to verify the amounts set forth in the Final Closing Statement.

SECTION 2.5 *Allocation of Purchase Price.* (a) The Seller shall prepare an allocation of the Purchase Price (as determined for federal income tax purposes) among the Acquired Assets (the "Allocation Statement") and, within 90 days after the Closing Date, shall deliver to the Purchaser a copy of the Allocation Statement, together with any appropriate supporting documentation. The Purchaser and the Seller shall endeavor in good faith to agree on the Allocation Statement. If the Purchaser and the Seller have not agreed on the Allocation Statement within 30 days after delivery of the Allocation Statement by the Seller to the Purchaser, each of the Purchaser and the Seller may use its own allocation. The Seller will consult with the Purchaser regarding the preparation of the Allocation Statement and will respond to any reasonable request or inquiry of the Purchaser in connection therewith. The Allocation Statement shall be prepared in accordance with Section 1060 of the Code and the rules and regulations promulgated thereunder.

(b) The Purchaser and the Seller shall report the allocation of the total consideration among the Acquired Assets in a manner consistent with the Allocation Statement and shall act in accordance with the Allocation Statement in the preparation and filing of all Tax Returns (including filing Form 8594 with their respective Federal income tax returns for the taxable year that includes the Closing Date and any other forms or statements required by the Code, Treasury regulations, the Internal Revenue Service or any applicable state or local taxing authority) and in the course of any Tax audit, Tax review or Tax litigation relating thereto; provided, however, that neither the Seller nor the Purchaser will be obligated to litigate any challenge to such allocation of the Purchase Price by a Governmental Authority.

(c) The Purchaser and the Seller will promptly inform each other of any challenge by any Governmental Authority to any allocation made pursuant to this Section 2.5 and shall consult with and keep each other informed with respect to the status of, and any discussion, proposal or submission with respect to, such challenge.

SECTION 2.6 *Third-Party Consents.*

(a) To the extent that any consent needed to assign to the Purchaser any Assigned Contract has not been obtained on or prior to the Closing Date, this Agreement and any document delivered pursuant hereto will not constitute an assignment or attempted assignment thereof if such assignment or attempted assignment would constitute a material breach of such Assigned Contract or would give rise to a valid right of termination thereof. If any such third-party consent will not be obtained on or prior to the Closing Date, then the applicable Contract shall be withheld from sale pursuant to this Agreement and the parties shall enter into an agreement reasonably acceptable to the Purchaser and the Seller to provide for the transfer thereto of all the economic rights and benefits related to such Contract.

(b) The Seller and the Purchaser will use commercially reasonable efforts (which for purposes of this Section 2.6 shall not require any payment of money by the Seller or

the Purchaser, except as agreed between them in writing) to seek any required consents to the assignment of the Assigned Contracts that have not been obtained as of the Closing Date, and promptly upon receipt of such consents will effect such assignments.

SECTION 2.7 *Intention of the Parties.* The Seller and the Purchaser intend that the transfer of the Acquired Assets by the Seller to the Purchaser pursuant to this Agreement be a sale of the ownership interest in such assets to the Purchaser and that, following such sale, the Acquired Assets shall not be part of the Seller's estate in the event of the filing of a bankruptcy petition by or against the Seller under any bankruptcy law. The Seller and the Purchaser intend to treat such transfer as a sale for accounting and tax purposes. In the event that, notwithstanding the intent of the Seller and the Purchaser, the transfer contemplated hereby is held not to be a sale, this Agreement shall constitute a security agreement under applicable law, and the Seller hereby grants to the Purchaser a first priority continuing security interest in and to all of the Seller's right, title and interest now owned or hereafter arising in, to and under the Acquired Assets.

ARTICLE III CLOSING; ASSIGNMENT

SECTION 3.1 *The Closing.* (a) The closing (the "Closing") of the purchase and sale of the Acquired Assets and assumption of the Assumed Liabilities hereunder (collectively, the "Purchase and Assumption") will take place at the offices of Sidley Austin LLP, 1787 7th Avenue, New York, New York, on the second Business Day after the last of the conditions set forth in Sections 7.1, 7.2 and 7.3 (other than conditions relating solely to the delivery of documents to be dated the Closing Date) has been satisfied or waived in accordance with the terms of this Agreement or at such other place or on such other date as the parties hereto jointly designate in writing (the "Closing Date").

(b) At the Closing, the Seller and the Purchaser will deliver or cause to be delivered to each other the Instrument of Assignment and Assumption in substantially the form set forth in Exhibit B and, if necessary, such other instruments as are necessary or appropriate to reflect any alternative arrangements described in Section 2.6, appropriately executed by the Seller and the Purchaser.

(c) At the Closing, the Purchaser will pay the Estimated Purchase Price by initiating a wire transfer of immediately available funds (in U.S. dollars) prior to 11:00 a.m. Eastern time on the Closing Date to an account or accounts specified by the Seller at least one Business Day prior to the Closing Date.

(d) All of the actions described in subsections (b) and (c) of this Section 3.1 shall be deemed to occur simultaneously.

**ARTICLE IV
REPRESENTATIONS OF THE PARTIES**

SECTION 4.1 *Representations of the Seller.* The Seller represents to the Purchaser as follows:

(a) Corporate Existence. The Seller (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation, and (ii) is duly licensed or qualified to do business as a corporation and is in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted or proposed to be conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary to perform its obligations required hereunder except to the extent that its non-compliance would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller.

(b) Capacity; Authorization; Validity. The Seller has all necessary corporate power and authority to (i) own the Acquired Assets and to carry on the Business as currently conducted, (ii) execute and enter into this Agreement and each of the Ancillary Agreements, and (iii) perform the obligations required of the Seller hereunder and under each of the Ancillary Agreements. The execution and delivery by the Seller of this Agreement and each of the Ancillary Agreements, and the consummation by the Seller of the transactions specified herein have been duly and validly authorized and approved by all necessary corporate action of the Seller. This Agreement (i) has been duly executed and delivered by the Seller, (ii) constitutes the valid and legally binding obligation of the Seller, and (iii) is enforceable against the Seller in accordance with its terms (subject to applicable bankruptcy, insolvency, reorganization, receivership or other laws effecting the rights of creditors generally and by general equity principles including those respecting the availability of specific performance).

(c) Governmental and Third-Party Consents. Except as set forth on Schedule 4.1(c), the Seller has all necessary licenses, permits, consents and approvals from or by, and has made all necessary notices to, any Governmental Authority having jurisdiction, or any other third party, in connection with the execution, delivery or performance of this Agreement and the Ancillary Agreements by the Seller or the consummation by the Seller of the transactions contemplated by this Agreement and the Ancillary Agreements, except to the extent that the failure to obtain such licenses, permits, consents or approvals or to provide such notices would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller.

(d) Conflicts; Defaults; Etc. The execution, delivery and performance of this Agreement and the Ancillary Agreements by the Seller, its compliance with the terms hereof and thereof, and its consummation of the transactions specified herein and therein do not, and (subject to obtaining the governmental and third-party consents referred to in Section 4.1(c)) the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements will not, (i) conflict with, violate, result in the breach of, constitute an event which would, or with the lapse of time or action by a third party or both would, result in a default under, or accelerate the performance required by, the terms of any Contract to which the Seller is a party or by which it is bound, or by which the Seller's assets are bound; (ii) conflict with or

violate the Constituent Documents of the Seller; (iii) violate any Requirements of Law or conflict with, or require any consent or approval under any Applicable Order, permit or license, to which the Seller is a party or by which it is bound or effected; (iv) require the consent or approval of any other party to any Contract to which the Seller is a party or by which it is bound; or (v) require any filing with, notice to, consent or approval of, or any other action to be taken with respect to, any Governmental Authority, except any filings required under the HSR Act; except in each case described in clause (i), (iii), (iv) or (v) of this Section 4.1(d), for any conflict, violation, breach, default, termination, or cancellation that would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller.

(e) SEC Reports. The Seller has filed with the Securities and Exchange Commission (the “SEC”) all forms, reports and other documents (including all prospectuses and registration statements) required to be filed by it with respect to all periods commencing on or after January 1, 2002 (the “SEC Documents”). As of their respective filing dates (or effective dates, in the case of prospectuses and registration statements), the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the “Securities Act”) or the Securities Exchange Act of 1934 (the “Exchange Act”), as applicable, and the rules and regulations of the SEC promulgated thereunder.

(f) Absence of Certain Changes.

(i) Between November 1, 2005 and the date hereof, the Business has been conducted in the ordinary course and there has not been any change in the financial condition or results of operations of the Business that has had or would reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller.

(ii) Set forth on Schedule 4.1(f) hereto is a true and complete copy of the write-off policy of the Seller as in effect on November 1, 2005. Since that date, (A) the Accounts and Gross Receivables have been underwritten, established, administered, serviced, collected, terminated and charged-off in the ordinary course consistent with the Seller’s past practice, and (B) the Seller has not materially amended, modified or supplemented or otherwise made any material changes to the policies and procedures as in effect on such date.

(g) Title to Properties; Encumbrances. The Seller has good title to or a valid leasehold interest in, or is licensed or otherwise entitled to use, all of the Acquired Assets (other than the Accounts to which Section 4.1(1) applies), free and clear of all Liens other than Permissible Liens.

(h) Litigation. No Action is pending or, to Seller’s Knowledge, threatened against the Seller or its Affiliates with respect to the Business or the Acquired Assets, at law, in equity or otherwise, before any Governmental Authority or before any arbitrator or panel of arbitrators, to which the Seller is a party, which, if adversely determined, would reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller. There is no outstanding judgment, order, decree, or award that would reasonably be expected to have such a Material Adverse Effect. To the Seller’s Knowledge, there has been no adverse finding of any audit, investigation, or inspection of any Governmental Authority concerning or Business within the past two years that would reasonably be expected to have such a Material Adverse Effect.

(i) Contracts. Except to the extent that any of the following would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller, each Assigned Contract is a valid, legally binding agreement of the Seller, enforceable against Seller in accordance with its terms, and neither the Seller nor, to the Seller's Knowledge, any other party thereto is in default under the terms of any such Contract. Schedule 4.1(i) sets forth a complete list of the Assigned Contracts.

(j) Books and Records. All of the Seller's Books and Records are in all material respects complete and correct and are maintained in accordance with all Requirements of Law.

(k) Compliance with Laws. Except to the extent that the following would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller:

- (i) the Seller is in compliance with all Requirements of Law relating to the Business and the Acquired Assets; and
- (ii) the Seller is not subject to any capital plan or supervisory agreement, order or memorandum between any of them and any Governmental Authority.

(l) Account Agreements; Accounts; Gross Receivables. Except to the extent that any of the following would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets or the Seller:

(i) The Seller is the sole owner of and has good title to the Accounts and the Gross Receivables. This Agreement shall, following the Closing Date, and subject to the filing of appropriate financing statements and all required continuations, amendments and replacements thereof, vest in the Purchaser all right, title and interest of the Seller in and to the Accounts and the Gross Receivables, free and clear of all Liens other than Permissible Liens.

(ii) Each Account Agreement (other than any Account Agreement with respect to any Written-Off Account) is a valid and legally binding obligation of each obligor thereunder, including any co-signer, guarantor or surety, in the full amount thereof set forth in the Master File or the Books and Records, and is enforceable against such obligors in accordance with its terms, subject to (A) claims and defenses on disputed card transactions asserted by a Cardholder as indicated on the Master File or the Books and Records, (B) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws relating to or effecting creditors' rights generally and the effect of general equitable principles, and (C) the Soldiers' and Sailors' Civil Relief Act of 1940, as amended. Representative forms of Cardholder Agreements are set forth in Schedule 4.1(1), and those forms contain all material terms of the Cardholder Agreements as in effect as of the date of this Agreement; provided, however, that

no representation or warranty is hereby given as to the capacity, authority or any other factor relating to the identity or status of the obligor that may effect the enforceability of the Account Agreements to which it is party.

(iii) Each Gross Receivable is not subject to offset, refund, recoupment, reversal, adjustment or any claim or defense by any Person (other than claims or defenses on disputed card transactions and refunds of credit balances, as indicated on the Master File).

(iv) Other than the Written-Off Accounts, each Account complies in all material respects with the applicable Account Agreement.

(v) All Account applications have been taken and evaluated and applicants notified in a manner that complied with all applicable Requirements of Law.

(vi) All Accounts have been solicited, originated, maintained and serviced in all material respects in compliance with all applicable Requirements of Law.

(vii) All disclosures made in connection with the Accounts complied in all material respects with all applicable Requirements of Law.

(m) No Brokers or Finders. The Assumed Liabilities do not include, and the Seller is solely responsible for and shall pay, any Liability incurred by it for any financial advisory fees, brokerage fees, commissions or finder's fees directly or indirectly in connection with this Agreement or the transactions contemplated hereby or by the Ancillary Agreements.

(n) Accuracy of Information. The information contained in the Master File, the Books and Records, and the Cardholder List delivered to the Purchaser prior to the date hereof was, and the information contained in the Master File, the Cardholder List and the Books and Records delivered to the Purchaser on the Closing Date will be, complete and accurate in all material respects as of the date of delivery and the Cut-Off Time, respectively.

SECTION 4.2 *Representations of the Purchaser*. The Purchaser represents to the Seller as follows:

(a) Corporate Existence. The Purchaser (i) is a national bank organized, validly existing, and in good standing under the laws of the United States; and (ii) is duly licensed or qualified to do business as a banking corporation and is in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted or proposed to be conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary to perform its obligations hereunder, except to the extent that its non-compliance would not reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date.

(b) Capacity; Authorization; Validity. The Purchaser has all necessary power and authority to (i) execute and enter into this Agreement and each of the Ancillary Agreements,

and (ii) perform the obligations required of the Purchaser hereunder and under each of the Ancillary Agreements. The execution and delivery by the Purchaser of this Agreement and each of the Ancillary Agreements, and the consummation by the Purchaser of the transactions specified herein, have been duly and validly authorized and approved by all necessary corporate action of the Purchaser. This Agreement (i) has been duly executed and delivered by the Purchaser, (ii) constitutes the valid and legally binding obligation of the Purchaser, and (iii) is enforceable against the Purchaser in accordance with its terms (subject to applicable bankruptcy, insolvency, reorganization, receivership or other laws effecting the rights of creditors generally and financial institutions in particular and by general equity principles including those respecting the availability of specific performance).

(c) Governmental and Third-Party Consents. The Purchaser has all necessary licenses, permits, consents, and approvals from or by, and has made all necessary notices to, any Governmental Authority having jurisdiction or any third party, in connection with the execution, delivery or performance of this Agreement and the Ancillary Agreements by the Purchaser and the consummation by the Purchaser of the transactions contemplated by this Agreement and the Ancillary Agreements, except to the extent that the failure to obtain such licenses, permits, consents, or approvals or to provide such notices would not reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date.

(d) Conflicts; Defaults; Etc. The execution, delivery and performance of this Agreement and the Ancillary Agreements by the Purchaser, its compliance with the terms hereof and thereof, and its consummation of the transactions specified herein and therein do not and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements will not (i) conflict with, violate, result in the breach of, constitute an event which would, or with the lapse of time or action by a third party or both would, result in a default under, or accelerate the performance required by, the terms of any Contract to which the Purchaser is a party or by which it is bound; (ii) conflict with or violate the Constituent Documents of the Purchaser; (iii) violate any Requirement of Law or conflict with, or require any consent or approval under any Applicable Order, permit or license, to which the Purchaser is a party or by which it is bound or effected; (iv) require the consent or approval of any other party to any Contract to which the Purchaser is a party or by which it is bound; or (v) require any filing with, notice to, consent or approval of, or any other action to be taken with respect to, any Governmental Authority, except any filings required under the HSR Act; and except in each case described in clause (i), (iii), (iv) or (v) of this Section 4.2(d), for any conflict, violation, breach, default, termination, or cancellation that would not reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date.

(e) Absence of Certain Changes. Since November 1, 2005, there has not been any change in the financial condition or results of operations of the Purchaser that has had or would reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date.

(f) Compliance with Laws. Except to the extent that the following would not reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date:

- (i) the Purchaser is in compliance with all Requirements of Law relating to its credit card business; and

(ii) the Purchaser is not subject to any capital plan or supervisory agreement, order or memorandum between it and any Governmental Authority.

(g) Financing. The Purchaser has sufficient cash, available lines of credit or other sources of immediately available funds to enable it to pay the Estimated Purchase Price as required by Section 3.1(c) and to timely pay any other amounts to be paid by it under this Agreement. The Purchaser is not subject to any capital plan or supervisory agreement, order or memorandum between it and any Governmental Authority with jurisdiction over it that could reasonably be expected to effect its ability to consummate the purchase of the Acquired Assets from the Seller and fulfill its obligations under this Agreement and the Ancillary Agreements.

(h) Litigation. No Action is pending or, to the Purchaser's Knowledge, threatened against the Purchaser or its Affiliates with respect to any of their respective assets, at law, in equity or otherwise, before any Governmental Authority or before any arbitrator or panel of arbitrators, to which the Purchaser is a party, which, if adversely determined, would reasonably be expected to have a Material Adverse Effect on the Purchaser or on the Acquired Assets following the Closing Date. There is no outstanding judgment, order, decree, or award that would reasonably be expected to have such a Material Adverse Effect. To the Purchaser's Knowledge, there has been no adverse finding of any audit, investigation, or inspection of any Governmental Authority concerning the Purchaser's credit card business within the past two years that would reasonably be expected to have such a Material Adverse Effect.

(i) No Brokers or Finders. Any Liability incurred by the Purchaser or its Affiliates for any financial advisory fees, brokerage fees, commissions or finder's fees directly or indirectly in connection with this Agreement or the transactions contemplated hereby or by the Ancillary Agreements will be borne by the Purchaser.

SECTION 4.3 *No Other Representations or Warranties*. Except as expressly set forth in this Article IV and Article VI or in any of the Ancillary Agreements, neither the Seller nor the Purchaser has made or make any other express or implied representations, or any express or implied warranty, either written or oral, with respect to the Acquired Assets, the Assumed Liabilities or the Seller, the Business or the Purchaser, respectively.

ARTICLE V COVENANTS

SECTION 5.1 *Conduct of Business*. (a) Except as otherwise contemplated hereby or by the Ancillary Agreements, and except for transactions in the ordinary course of business, until the Closing Date, the Seller will use its commercially reasonable efforts to preserve intact the business organizations and relationships with third parties relating to the Business, to keep available the services of required employees of the Business and to preserve beneficial relationships with customers in connection with the Business, following substantially the same material practices and standards, including collection practices and accounting practices for charge-offs and reserves, as in effect on November 1, 2005.

(b) Except as otherwise contemplated hereby or by the Ancillary Agreements, and except for transactions in the ordinary course of business, until the Closing Date, the Purchaser will use its commercially reasonable efforts to preserve intact the business organizations and relationships with third parties relating to its credit card business, to keep available the services of required employees of its credit card business and to preserve beneficial relationships with customers in connection with its credit card business, following substantially the same material practices and standards, including collection practices and accounting practices for charge-offs and reserves, as in effect on the date hereof.

SECTION 5.2 *Certain Changes*. Without limiting Section 5.1, and except as otherwise contemplated hereby or by the Ancillary Agreements or required by applicable Requirements of Law, from the date hereof until the Closing Date, without the prior written consent of the Purchaser (which consent shall not be unreasonably withheld or delayed), the Seller will not:

(a) Enter into, terminate, or amend any Contract except in the ordinary course of business consistent with past practice and only to the extent such entry or amendment would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets;

(b) Acquire, except in the course of collection, a material amount of assets from any other Person or all or substantially all of the business or assets of any Person if such business or assets would constitute Acquired Assets;

(c) Change in any material respect its credit and underwriting, posting, collection, charge-off or operating policies and procedures (or the manner of application thereof) with respect to the Business as in effect on November 1, 2005;

(d) Sell, lease or otherwise dispose of any of the Acquired Assets except (i) in the ordinary course of business consistent with past practice and in transactions that individually or in the aggregate with all such other dispositions would not reasonably be expected to have a Material Adverse Effect on the Seller or the Acquired Assets or (ii) pursuant to the terms of Contracts or commitments existing as of the date hereof, or (iii) as disclosed by Seller on Schedule 5.2(d);

(e) Change any of the Cardholder Agreements; or

(f) Engage in any transaction or incur any obligation or liability with respect to the Acquired Assets, except in the ordinary course consistent with past practice;

(g) Impair or encumber the Purchaser's rights in the Acquired Assets or the ability of the Purchaser to collect the Acquired Assets, other than Permitted Liens and Liens that will be removed on or before the Closing Date; or

(h) Agree with any Person or otherwise commit to do any of the foregoing.

SECTION 5.3 *Access and Confidentiality.*

(a) Until the Closing Date, upon reasonable prior notice and subject to applicable Requirements of Law relating to the exchange of information, the Seller will permit the Purchaser and its authorized representatives to have reasonable access, during regular business hours for purposes consistent with this Agreement (including reasonable access to the servicing reports, systems and procedures of the Seller), to the personnel (including the Employees), properties and financial Books and Records, to the extent that such access does not interfere with the business of the Seller; provided, however, that the Purchaser and such representatives comply with the confidentiality obligations contained herein and in the Confidentiality Agreement; and provided, further that the foregoing shall not (i) require the Seller to permit any inspection, or to disclose any information, that in its reasonable judgment would result in the disclosure of any trade secrets of third parties or trade secrets of the Seller or its Affiliates unrelated to the Business or violate any obligations of the Seller to any third party with respect to confidentiality if the Seller shall have used commercially reasonable efforts to obtain the consent of such third party to such inspection or disclosure, or (ii) require any disclosure by the Seller that could, as a result of such disclosure, have the effect of causing the waiver of any attorney-client privilege.

(b) If this Agreement is terminated, the Purchaser, at its own expense, will promptly deliver (without retaining any copies) to the Seller or (at the Seller's option) confirm in writing to the Seller that it has completely destroyed, all information furnished to the Purchaser or its representatives by the Seller or any of its agents, employees or representatives in connection with this Agreement, whether so obtained before or after the execution hereof, and all analyses, compilations, forecasts, studies or other documents prepared by the Purchaser or its representatives that contain or reflect any such information. The Purchaser will cause any information so obtained to be kept confidential and will not use, or permit the use of, such information in its business or in any other manner or for any other purpose except as contemplated by this Agreement.

(c) In addition to the confidentiality arrangements contained herein, all information provided or obtained in connection with the transactions contemplated by this Agreement and by the Ancillary Agreements (including pursuant to Section 5.3(a)) will be held by each party in accordance with the Confidentiality Agreement. In the event of a conflict or inconsistency between the terms of this Agreement and the Confidentiality Agreement, the terms of this Agreement will govern; and in the event of a conflict or inconsistency between the terms of this Agreement and the Program Agreement, the terms of the Program Agreement will govern.

(d) Each party and its Affiliates shall be entitled to specific performance of the foregoing provisions of this Section 5.3 and the provisions of the Confidentiality Agreement, in addition to any other remedies that they may have at law or in equity.

SECTION 5.4 *Reasonable Efforts; Other Filings.* (a) Subject to the terms and conditions of this Agreement, the Purchaser and the Seller will use commercially reasonable efforts to take, or cause to be taken, all actions and will do, or cause to be done, all things necessary, proper or advisable under applicable Requirements of Law, so as to permit consummation of the Purchase and Assumption as promptly as reasonably practicable and otherwise to enable consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, and will cooperate fully to that end.

(b) Without limiting Section 5.4(a), the Seller and the Purchaser will use commercially reasonable efforts to prepare all documentation, to effect all filings and to obtain all permits, consents, approvals and authorizations of all Governmental Authorities necessary to consummate the transactions contemplated by this Agreement and the Ancillary Agreements, including taking any action necessary to defend vigorously, lift, mitigate or rescind the effect of any litigation or administrative proceeding involving any Governmental Authority adversely effecting the transactions contemplated by this Agreement or this Agreement, including promptly appealing any adverse court or administrative decision. The Seller and the Purchaser shall consult with the other with respect to the obtaining of such permits, consents, approvals and authorizations and to keep the other apprised of the status thereof. Subject to appropriate confidentiality protections, the Seller and the Purchaser shall each furnish to the other such necessary information and reasonable assistance as such parties may request in connection with the foregoing and shall each provide counsel for the other party with copies of all filings made by such party, and all correspondence between such party (and its advisors) with any Governmental Authority and any other information supplied by such party and such party's Affiliates to a Governmental Authority in connection with this Agreement and the transactions contemplated hereby. Each party shall, subject to applicable Requirements of Law, permit counsel for the other party to review in advance any such proposed written communication to any Governmental Authority.

(c) Without limiting the foregoing, the Seller and the Purchaser will use commercially reasonable efforts to obtain all consents and approvals required pursuant to Article VII in time to permit the Closing Date to occur on or before April 15, 2006 or, if the Closing Date has not occurred, as promptly thereafter after April 15, 2006 as reasonably practicable. Each of the Seller and the Purchaser further agrees, without any request or demand by the other, to complete all filings required pursuant to Article VII no later than 10 Business Days from the execution and delivery of this Agreement and to prosecute actively all such filings and pursue the receipt of any related consent or approval.

(d) The Purchaser will promptly notify the Seller in writing, and the Seller will promptly notify the Purchaser in writing, upon (i) becoming aware of any order or decree or any complaint praying for an order or decree restraining or enjoining the execution of this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereunder and thereunder, or (ii) receiving any notice from any Governmental Authority of its intention to (A) institute an Action to restrain or enjoin the execution of this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereunder and thereunder, or (B) nullify or render ineffective this Agreement or the Ancillary Agreements if such transactions are consummated.

(e) The filing fees under the HSR Act shall be borne by the Purchaser.

SECTION 5.5 *Additional Instruments.* At the reasonable request of the Seller or the Purchaser at or after the Closing, the Person receiving such request will promptly execute and deliver, or cause to be executed and delivered, to the requesting party such assignments, bills of

sale, assumption agreements, consents and other similar instruments in addition to those specifically required by this Agreement, in form and substance satisfactory to the requesting party, as may be reasonably necessary to carry out or implement any provision of this Agreement or any Ancillary Agreement.

SECTION 5.6 *Non-Solicitation*. The Purchaser shall not recruit, solicit for employment, or hire any employees of the Seller or its Affiliates during the period between the date of this Agreement and the Closing Date, and thereafter in accordance with the Program Agreement. The Seller and its Affiliates shall be entitled to specific performance of such provisions in addition to any other remedies that they may have at law or in equity.

SECTION 5.7 *Notice to Cardholders*. From and after the date of this Agreement and until the Closing, the Purchaser and its Affiliates shall not communicate with the Cardholders (whether by mail, by telephone or otherwise) without the prior written consent of the Seller.

SECTION 5.8 *Post-Closing Access*. Upon reasonable prior notice, subject to applicable Requirements of Law relating to the exchange of information, and to the extent such access does not interfere with the business of the Purchaser, the Purchaser will permit the Seller, its Affiliates and their representatives reasonable access (including the right to copy), without charge, during normal business hours, to the Acquired Assets, the Books and Records conveyed hereunder, and any third party who maintains or controls any of the foregoing for the Purchaser or its Subsidiaries, all as may be reasonably requested by the Seller or any Affiliate in order to enable the Seller to (i) perform any covenants required to be performed under this Agreement and the Ancillary Agreements after the Closing Date by them; (ii) permit the preparation of any Tax Return or other document required to be filed with any Governmental Authority; (iii) respond to any Action by any Governmental Authority or any other Person, including any Cardholder with respect to matters that may constitute Excluded Liabilities; and (iv) permit the processing of or response to any claim made under this Agreement or the Ancillary Agreements, and the Purchaser shall reasonably cooperate with the Seller and any such Affiliates, if requested, in connection with the foregoing; provided, however that the foregoing shall not (a) require the Purchaser to permit any inspection, or to disclose any information, that in its reasonable judgment would result in the disclosure of any trade secrets of third parties or trade secrets of the Purchaser or its Affiliates unrelated to the Acquired Assets or violate any obligations of the Purchaser to any third party with respect to confidentiality if the Purchaser shall have used commercially reasonable efforts to obtain the consent of such third party to such inspection or disclosure, or (b) require any disclosure by the Purchaser that could, as a result of such disclosure, have the effect of causing the waiver of any attorney-client privilege.

SECTION 5.9 *Cooperation in Actions*. (a) The Purchaser agrees to take commercially reasonable actions necessary to make employees who are then employed by the Purchaser and knowledgeable with respect to any matter in question available to the Seller and its representatives after the Closing Date with respect to any Action to which the Seller is or becomes a party or is otherwise involved with regard to the Business, commenced after the Closing Date. The Purchaser agrees to use commercially reasonable efforts to provide that any such employees who terminate their employment with the Purchaser or any of its Affiliates and enter into termination agreements or similar agreements, arrangements or understandings, will be obligated to continue to assist the Seller in the investigation, evaluation or defense of any such

matters, whether as consultants, expert witnesses, or otherwise. The Seller will reimburse the Purchaser for reasonable out-of-pocket expenses incurred by the Purchaser in connection with requests by the Seller pursuant to this Section 5.9 (excluding salary and fringe benefits paid to such employees and related direct or indirect overhead).

(b) The Seller and the Purchaser shall cooperate, to the extent reasonably requested by the other, in the handling and disposition of any Actions, whether or not listed on the Disclosure Schedules and whether or not pending or threatened prior to the Closing, that arise out of or are related to any event or occurrence with respect to the Business prior to the Closing; provided, however, that the party ultimately responsible for discharging such Action shall have the authority to take such actions as it deems necessary or advisable, in its sole discretion, to discharge such Action, subject, however, to the provisions of this Agreement.

(c) The Seller shall be entitled to keep copies of all filings relating to Actions, correspondence, Books and Records, the Cardholder List, the Master File, and other documentation of any kind that the Seller reasonably determines are necessary or desirable in connection with its handling and disposition of Actions.

SECTION 5.10 *Preservation of Books and Records*. The Purchaser shall preserve and keep the Cardholder List, the Master File, all Books and Records of the Acquired Assets and all information transferred by the Seller to the Purchaser relating to the accounting, business, financial and Tax affairs of the Acquired Assets in existence on the Closing Date or that come into existence after the Closing Date but relate to the Acquired Assets prior to the Closing Date for a period of seven years thereafter, or for any longer period (i) as may be required by any federal, state, local or foreign governmental body or agency, (ii) as may be reasonably necessary with respect to the prosecution or defense of any audit or other Action that is then pending or threatened, or (iii) that is equivalent to the period established by any applicable statute of limitations (or any extension or waiver thereof) with respect to matters pertaining to Taxes. For a period of four years following the seven year period specified above, if the Purchaser wishes to destroy such records, the Purchaser shall first provide the Seller the opportunity to take possession of the same. The Purchaser shall further afford the Seller reasonable access during normal business hours and upon reasonable notice to the Books and Records in order for the Seller to perform its duties and obligations as servicer of the Accounts.

SECTION 5.11 *Bulk Sales Law*. The Purchaser hereby acknowledges that the Seller does not intend to comply, in connection with the transactions contemplated hereby, with the provisions of any applicable bulk sale or similar Requirement of Law.

ARTICLE VI TAX AND EMPLOYEE MATTERS

SECTION 6.1 *Taxes*. (a) The Seller hereby represents and warrants to the Purchaser that the Seller has timely filed all Tax Returns relating to the Business or the Acquired Assets that it was required to file on or before the date hereof (taking into account all applicable extensions), and has timely paid all Taxes shown thereon as due and owing. There are no Liens with respect to Taxes upon any of the Acquired Assets other than with respect to Taxes not yet due and payable or that are being contested in good faith by appropriate action.

(b) At the requesting party's expense, the parties hereto shall furnish or cause to be furnished to each other, promptly upon reasonable request, any information and assistance relating to the Acquired Assets or the Business as the requesting party deems reasonably necessary in connection with the filing of any Tax Returns, the preparation for any audit by any taxing authority, the response to any inquiry by a taxing authority, the mailing or filing of any notice and the prosecution or defense of any claim, suit or proceeding relating to any Tax Returns or any other filing required to be made with any Taxing authority or any other matter related to Taxes. The Seller and the Purchaser will cooperate with each other in the conduct of any audit or other proceeding related to Taxes involving the Acquired Assets or the Business prior to the Closing Date.

(c) Notwithstanding anything in this Agreement to the contrary, all Tax Returns filed by the Seller for periods ending on or before the Closing Date shall remain the property of the Seller.

(d) Notwithstanding anything in this Agreement to the contrary, all excise, sales, use, transfer, documentary, stamp or similar Taxes that are payable or that arise as a result of the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements and any recording or filing fees with respect thereto will be borne equally by the Seller and by the Purchaser, and such Taxes shall not be considered Excluded Liabilities.

(e) For all purposes of this Agreement, all property and ad valorem Tax liabilities with respect to the Acquired Assets for taxable periods that begin on or before the Closing Date and end after the Closing Date shall be allocated to the Seller, on the one hand, and to the Purchaser, on the other hand, on a per diem basis. For Tax Returns with respect to such property and ad valorem Taxes that are due on or prior to the Closing Date, the Seller will file or cause to be filed such Tax Returns. For Tax Returns with respect to such property and ad valorem Taxes that are due after the Closing Date, the Purchaser will file or cause to be filed such Tax Returns. The non-filing party shall promptly remit to the party filing such property or ad valorem Tax Returns the portion of such Taxes allocated to such non-filing party.

(f) The Purchaser shall, if the Seller so requests and at the Seller's expense (for reasonable out-of-pocket costs and expenses), cooperate with the Seller to file for and obtain any Tax refund that relates to any period prior to the Closing Date.

SECTION 6.2 *Employees*. All employees of the Seller and any of its Affiliates involved with the Business shall remain with the Seller and the Purchaser shall have no obligations with respect thereto.

**ARTICLE VII
CONDITIONS**

SECTION 7.1 *Conditions to Each Party's Obligations to Effect the Purchase and Assumption.* The respective obligations of the Seller and the Purchaser to effect the Purchase and Assumption are subject to the fulfillment or written waiver, at or prior to the Closing Date, of the following conditions:

(a) Governmental and Regulatory Approvals. (i) The HSR waiting period shall have expired or have been earlier terminated, and (ii) all other authorizations of, filings and registrations with, and notifications to, all Governmental Authorities required to effect the transactions contemplated by this Agreement shall have been obtained or made and shall be in full force and effect and all waiting periods required by applicable Requirements of Law in connection therewith shall have expired or been terminated except to the extent that the failure to obtain any such other approvals or authorizations would not reasonably be expected to have a Material Adverse Effect on the Acquired Assets, the Purchaser or the Seller.

(b) Third Party Consents. The consents and approvals of third Persons set forth in Schedule 4.1(c) shall have been obtained and shall be in full force and effect.

(c) No Injunction or Prohibition. No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, by-law, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and prohibits or makes illegal consummation of the transactions contemplated by this Agreement or any of the Ancillary Agreements.

(d) Program Agreement. The Program Agreement shall have been duly executed and delivered by the other party thereto.

(e) Instrument of Assignment and Assumption. The Instrument of Assignment and Assumption shall have been duly executed and delivered by the other party thereto.

(f) Financing Statements. The Purchaser shall have prepared and delivered and the Seller shall have executed UCC-1 financing statements to be filed by the Purchaser in the Offices of the Secretaries of State of those states necessary to perfect the sale of the Gross Receivables purchased pursuant to the terms and conditions hereof.

SECTION 7.2 *Conditions to Obligations of the Purchaser.* The obligations of the Purchaser to effect the Purchase and Assumption are subject to the fulfillment or written waiver, at or prior to the Closing Date, of the following additional conditions:

(a) Performance of Obligations. The Seller shall have performed in all material respects all of its covenants and agreements set forth in this Agreement, to the extent required at or prior to the Closing Date.

(b) Representations. The representations of the Seller set forth in this Agreement shall be true and correct as of (i) the date of this Agreement, and (ii) the Closing

Date, except that representations that by their terms speak as of the date of this Agreement or some other date shall be true and correct only as of such date (in each case, without giving any effect to any qualifications or limitations as to materiality or Material Adverse Effect contained therein), except to the extent that any failure to be so true and correct has not had, or would not reasonably be expected to have, a Material Adverse Effect on the Seller or the Acquired Assets.

(c) Certificate. The Purchaser shall have received a certificate signed on the Seller's behalf by an executive officer of the Seller, dated the Closing Date, to the effect that the conditions set forth in Sections 7.2(a) and 7.2(b) have been satisfied.

SECTION 7.3 *Conditions to Obligations of the Seller*. The obligations of the Seller to effect the Purchase and Assumption are subject to the fulfillment or waiver in writing, at or prior to the Closing Date, of the following additional conditions:

(a) Performance of Obligations. The Purchaser shall have performed in all material respects all of its covenants and agreements set forth in this Agreement, to the extent required at or prior to the Closing Date.

(b) Representations. The representations of the Purchaser set forth in this Agreement shall be true and correct as of (i) the date of this Agreement, and (ii) the Closing Date, except that any representations that by their terms speak as of the date of this Agreement or some other date shall be true and correct only as of such date (in each case, without giving any effect to any qualifications or limitations as to materiality or Material Adverse Effect contained therein), except to the extent that any failure to be so true and correct has not had, or would not reasonably be expected to have, a Material Adverse Effect on the Purchaser or the Acquired Assets.

(c) Certificate. The Seller shall have received a certificate signed on the Purchaser's behalf by an executive officer of the Purchaser, dated the Closing Date, to the effect that the conditions set forth in Sections 7.3(a) and 7.3(b) have been satisfied.

ARTICLE VIII TERMINATION

SECTION 8.1 *Termination*. This Agreement may be terminated and the transactions contemplated by this Agreement and the Ancillary Agreements may be abandoned at any time before the Closing Date only:

(a) By the written consent of each of the parties hereto;

(b) By the Seller or the Purchaser if (i) any approval of a Governmental Authority, the lack of which would result in the failure to satisfy the condition set forth in Section 7.1(a), has been denied by the Governmental Authority, and (ii) in each case such party has no opportunity to cure the fault giving rise to such denial, including through reapplication or appeal;

(c) By the Seller or the Purchaser if (i) any permanent injunction or Action by any Governmental Authority of competent jurisdiction prohibiting consummation of the transactions contemplated by this Agreement or the Ancillary Agreements becomes final and nonappealable, (ii) any law or regulation makes consummation of the transactions contemplated by this Agreement or the Ancillary Agreements illegal or otherwise prohibited, or (iii) consummation of the transactions contemplated by this Agreement or the Ancillary Agreements would violate any nonappealable final order, decree or judgment of any Governmental Authority having competent jurisdiction;

(d) By the Seller or the Purchaser if the transactions contemplated by this Agreement and the Ancillary Agreements are not consummated by June 1, 2006; provided, however, that neither the Seller nor the Purchaser may terminate this Agreement pursuant to this Section 8.1(d) if its (or one of its Affiliate's) breach of any representation, warranty or covenant contained herein has been the cause of or resulted in the failure to consummate such transactions by such date; provided, however, that if the failure to consummate the transactions contemplated hereby by such date is caused by a delay in satisfying the conditions referenced in Section 7.1(a), no party shall have the right to terminate this Agreement pursuant to this Section 8.1(d) until the date that is three months after such date; or

(e) By the Seller or the Purchaser in the event of a breach or default in the performance by the other party of any representation, warranty, covenant or agreement hereunder, which breach or default (i) would, individually or in the aggregate with all other uncured breaches and defaults of such other party, constitute grounds for the conditions set forth in Section 7.2(a) or (b) or Section 7.3(a) or (b), as the case may be, not to be satisfied at the Closing Date, and (ii) has not been, or cannot be, cured within 30 days after written notice, describing such breach or default in reasonable detail, is given by the terminating party to the breaching or defaulting party.

SECTION 8.2 *Effect of Termination.* If this Agreement is terminated in accordance with the terms of this Agreement, no party hereto (or any of its Affiliates, directors, officers, representatives or agents) will have any Liability or further obligation to any other party to this Agreement, except for (i) obligations that survive termination as expressly provided for in Section 9.1, Section 5.3 and Article X, and (ii) liabilities or obligations arising out of or related to any knowing, willful or intentional breach of this Agreement prior to such termination.

ARTICLE IX SURVIVAL; INDEMNIFICATION

SECTION 9.1 *Survival.* (a) The representations or warranties of the parties in this Agreement will survive the Closing until the date that is 12 months after the Closing; provided, however, that the representations and warranties set forth in the following provisions will survive until the expiration of the applicable statute of limitations (including any extensions thereof): Section 4.1(g), Section 4.1(l)(i), and Section 6.1(a).

(b) No agreement or covenant in this Agreement will survive the Closing Date, other than the covenants in any agreement or covenant that by their terms survive for a

period after the Closing; provided, however, that the agreements and covenants set forth in the following provisions will survive until the expiration of the applicable statute of limitations (including any extensions thereof): Sections 6.1(b)-(f), Section 8.2, and this Article IX. In addition, the last sentence of Section 2.5(a) will survive until the expiration of the applicable statute of limitations (including any extensions thereof).

(c) No claim for indemnification pursuant to this Article IX for breach of any representation, warranty or covenant may be brought after the date on which such representation, warranty or covenant no longer survives; provided, however, that if any reasonably specific indemnification claim is validly made prior to the termination of the applicable survival period, the indemnifying party's obligation hereunder with respect to such indemnification claim shall survive until such claim has been finally resolved.

(d) If a Purchaser employee listed on Schedule 1.1 determines prior to Closing that the Seller is in breach of any of the Seller's representations or warranties contained herein, or of any of the Seller's covenants contained herein that are to be performed by the Seller at or prior to Closing, and that such breach would have a Material Adverse Effect on the Acquired Assets, the Purchaser shall notify the Seller of the same as promptly as reasonably practicable. However, no such notice shall constitute a waiver of any claim by the Purchaser, and if the Seller has Knowledge of such breach, Purchaser shall be relieved of its notice obligation under this Section.

SECTION 9.2 Indemnification by the Seller. The Seller agrees to indemnify the Purchaser and each of its Affiliates and their respective officers, directors and employers (collectively, the "Purchaser Indemnified Parties") against, and agrees to hold each of them harmless from, any and all damage, loss, liability, expense, judgment, settlement, claim, cost or penalty (including reasonable expenses of investigation and reasonable attorneys' fees and expenses in connection with any Action and enforcement of any rights of indemnification against any Indemnifying Party or with respect to any appeal) (collectively, "Losses") incurred or suffered by the Purchaser Indemnified Parties arising out of or resulting from, without duplication, (i) any breach of a representation or warranty of the Seller contained in this Agreement or in any certificate delivered by the Seller pursuant to this Agreement, (ii) any breach of an agreement or covenant made by the Seller in this Agreement, (iii) any failure of the Seller or any of its Affiliates to comply with any applicable "bulk sales" or similar Requirement of Law in connection with the consummation of the transactions contemplated hereby, or (iv) any Excluded Liability. Notwithstanding the foregoing, the Purchaser Indemnified Parties will not be entitled to indemnity pursuant to clause (i) of this Section 9.2: (x) in respect of any individual Action or individual claim, fact or occurrence or any series of related Actions, claims, facts or occurrences (including any class action), until Losses in respect of such individual or related Actions, claims, facts or occurrences are greater than the De Minimis Claim Amount; or (y) for any Losses, until the aggregate amount of all such Losses incurred or suffered by the Purchaser Indemnified Parties exceeds the Deductible Amount, in which case the Purchaser Indemnified Parties be entitled to indemnification for the full amount of such Losses in excess of such threshold; provided, however, that in no event will the Purchaser Indemnified Parties be entitled to indemnity for Losses pursuant to clause (i) of this Section 9.2 to the extent that the amount of Losses, in the aggregate, incurred or suffered by the Purchaser Indemnified Parties exceeds the Indemnity Cap Amount, except with respect to Losses arising from the breach of Section 4.1(g), Section 4.1(l)(i), or Section 6.1.

SECTION 9.3 *Indemnification by the Purchaser.* The Purchaser agrees to indemnify the Seller and each of its Affiliates and their respective officers, directors and employers (collectively, the “Seller Indemnified Parties”) against, and agree to hold each of them harmless from, any and all Losses incurred or suffered by the Seller Indemnified Parties arising out of or resulting from without duplication, (i) any breach of a representation or warranty of the Purchaser contained in this Agreement or in any certificate delivered by the Purchaser pursuant to this Agreement, (ii) any breach of an agreement or covenant made by the Purchaser in this Agreement, (iii) any Assumed Liability, or (iv) the operation of the Acquired Assets from and after the Closing. Notwithstanding the foregoing, the Seller Indemnified Parties will not be entitled to indemnity pursuant to clause (i) of this Section 9.3: (x) in respect of any individual Action or individual claim, fact or occurrence or any series of related Actions, claims, facts or occurrences (including any class action), until Losses in respect of such individual or related Actions, claims, facts or occurrences are greater than the De Minimis Claim Amount; or (y) for any Losses, until the aggregate amount of all such Losses incurred or suffered by the Seller Indemnified Parties exceeds the Deductible Amount, in which case the Seller Indemnified Parties shall be entitled to indemnification for the full amount of Losses in excess of such threshold; provided, however, that in no event will the Seller Indemnified Parties be entitled to indemnity for Losses pursuant to clause (i) of this Section 9.3 to the extent that the amount of such Losses, in the aggregate, incurred or suffered by the Seller Indemnified Parties exceeds the Indemnity Cap Amount, except with respect to Losses arising from the breach of Section 6.1.

SECTION 9.4 *Notice, Settlements and Other Matters.* (a) A party seeking indemnification pursuant to Section 9.2 or Section 9.3 (the “Indemnified Party”) must give prompt written notice to the party from whom such indemnification is sought (the “Indemnifying Party”) of the assertion or commencement of any Action, in respect of which indemnity may be sought hereunder specifying in reasonable detail the individual items of such Losses including the amount, the date each such item was paid, or properly accrued or arose, and the specific details of the breach of representation, warranty or covenant or other claim or matter to which such item is related. Notwithstanding the foregoing, the failure of the Indemnified Party to furnish the written notice referred to in the preceding sentence in a prompt manner shall not effect its right to indemnification to the extent the Indemnifying Party’s right to defend the matter is not materially prejudiced by such failure to give prompt notice. In the event that any third party Action is made against the Indemnified Party and the Indemnified Party notifies the Indemnifying Party of the commencement thereof, the Indemnifying Party may elect at any time to negotiate a settlement or a compromise of such Action or to defend such Action, in each case at its sole cost and expense (subject to the limitations set forth in Section 9.2, if the Seller is the Indemnifying Party, or Section 9.3, if the Purchaser is the Indemnifying Party) and with its own counsel. If, within 30 days of receipt from an Indemnified Party of the notice referred to above the Indemnifying Party (i) advises the Indemnified Party in writing that it will not elect to defend, settle or otherwise compromise or pay such Action, or (ii) fails to make such an election in writing within such time-frame, the Indemnified Party may (subject to the Indemnifying Party’s continuing right of election in the preceding sentence), at its option, defend, settle, compromise or pay such Action; provided, however, that any such settlement or compromise shall be permitted hereunder only with the written consent of the Indemnifying Party. Unless

and until the Indemnifying Party makes an election in accordance with this Section to defend, settle, compromise or pay such Action, all of the Indemnified Party's reasonable costs arising out of the defense, settlement, compromise or payment thereof will be Losses subject to indemnification by the Indemnifying Party (subject to the provisions and limitations of Section 9.2 and Section 9.3, as applicable). Each Indemnified Party shall make available to the Indemnifying Party all information reasonably available to such Indemnified Party relating to such Action. If the Indemnifying Party elects to defend any such Action, the Indemnified Party may participate in such defense with counsel of its choice at the Indemnified Party's sole cost and expense. If the Indemnifying Party elects to assume the defense of (or otherwise elects to negotiate, settle or compromise) any Action as described above, the Indemnified Party will reimburse the Indemnifying Party for all costs and expenses incurred by the Indemnifying Party in connection with such defense to the extent such costs and expenses do not total an amount indemnifiable pursuant to Section 9.2 or Section 9.3, as applicable.

(b) The Indemnified Party will have the right to reject any settlement approved by the Indemnifying Party if the Indemnified Party is not fully and unconditionally released from any Liability resulting from that Action. The Indemnified Party will not have the right to settle any third party Action without the written consent of the Indemnifying Party if the Indemnifying Party is contesting such Action in good faith and has assumed the defense of such Action from the Indemnified Party or if the period for determining whether or not to assume the defense of such Action from the Indemnified Party has not expired.

(c) In calculating the amount of any Losses of an Indemnified Party under this Article IX, there will be subtracted from such amount the amount of any (i) insurance proceeds (net of Taxes actually incurred), and other than proceeds received through self-insurance or insurance provided by Affiliates of such Indemnified Party) actually received by the Indemnified Party with respect to such Losses, and (ii) third-party payments actually received by the Indemnified Party with respect to such Losses. In the event that the Indemnifying Party reimburses the Indemnified Party for any Losses prior to the occurrence of any events contemplated by clauses (i) or (ii) of this Section 9.4(c), the Indemnified Party will remit to the Indemnifying Party any such amounts that the Indemnified Party subsequently receives or realizes with respect to such Losses. Upon the payment in full of any claim hereunder, the Indemnifying Party will be subrogated to the rights of the Indemnified Party against any Person with respect to the subject matter of such claim and any amount paid by the Indemnifying Party under this Article IX. The Indemnified Party shall cooperate with the Indemnifying Party in the assertion by the Indemnifying Party of any such claim against such other Persons.

(d) Without limitation of their respective rights and obligations as set forth elsewhere in this Article IX, and subject to the procedures for indemnification claims set forth in this Article IX, the Indemnified Party will act in good faith, will use commercially reasonable efforts to mitigate any Losses, will use similar discretion in the use of personnel and the incurring of expenses as the Indemnifying Party would use if they were engaged and acting entirely at their own cost and for their own account, and will consult regularly with the Indemnifying Party regarding the conduct of any Actions or the taking of any action for which indemnification may be sought. In the event that an Indemnified Party shall fail to make such commercially reasonable efforts to mitigate any such Losses, then notwithstanding anything else to the contrary contained herein, neither the Seller nor the Purchaser, as the case may be, shall be required to indemnify any Indemnified Party for that portion of any Losses that could reasonably be expected to have been avoided if the Indemnified Party had made such efforts.

(e) The Seller and the Purchaser agree to treat and report all indemnity payments as additional adjustments to the amount of the total consideration paid for the Acquired Assets for all Tax purposes unless required by applicable Requirements of Law.

(f) For purposes of this Article IX, all representations and warranties continued in this Agreement shall be read to exclude any materiality or "Material Adverse Effect" qualifiers appearing therein.

(g) Notwithstanding anything to the contrary contained herein, the indemnification provided for herein shall not cover, and in no event shall any party hereto be liable for, any indirect damages, including consequential, incidental, exemplary or special damages, or punitive damages.

(h) After the Closing Date, other than as provided in Section 2.4 and except with respect to claims based on fraud and/or claims seeking equitable remedies, this Article IX will constitute the Seller's and the Purchaser's exclusive remedy for any of the matters addressed herein or other claim arising out of or relating to this Agreement.

ARTICLE X MISCELLANEOUS

SECTION 10.1 *Notices*. All notices and other communications by the Purchaser or the Seller hereunder will be in writing to the other party and will be deemed to have been duly given when delivered in person, when received via facsimile or overnight courier, or when posted by United States registered or certified mail, with postage prepaid, addressed as follows:

if to the Purchaser to:

Chase Bank USA, N.A.
3 Christina Center
201 North Walnut Street
Wilmington, DE 19801
Attention: Chief Executive Officer
Facsimile: (212) 230-8881

with a copy to:

Chase Bank USA, N.A.
3 Christina Center
201 North Walnut Street
Wilmington, DE 19801
Attention: General Counsel Chase Card Services
Facsimile: (212) 230-8881

if to the Seller to:

Kohl's Department Stores, Inc.
N56 W17000 Ridgewood Drive
Menomonee Falls, WI 53051
Attention: Chief Operating Officer
Facsimile: (262) 703-6796

with a copy to:

Kohl's Department Stores, Inc.
N56 W17000 Ridgewood Drive
Menomonee Falls, WI 53051
Attention: General Counsel
Facsimile: (262) 703-7274

Notices and other communications may also be sent to such other address or addresses as the Purchaser or the Seller may from time to time designate by notice as provided herein, except that notices of change of address will be effective only upon receipt.

SECTION 10.2 *Expenses*. (a) Except as otherwise provided herein, all legal and any other third-party costs and expenses incurred in connection herewith and the transactions contemplated by this Agreement and the Ancillary Agreements will be paid by the party incurring such expenses, except that all fees or other amounts payable to any Governmental Authority in connection with any consent or approval required by Article VII shall be paid by the Purchaser.

(b) Collection efforts and related expenses on all Accounts made or incurred by the Seller prior to the Closing Date will be the responsibility of the Seller, and all monies collected thereon prior to the Closing Date (and all monies collected on Written-Off Accounts prior to the Closing Date) shall be retained by the Seller.

SECTION 10.3 *Successors and Assigns*. This Agreement will be binding upon and will inure to the benefit of the parties and their respective successors and permitted assigns. This Agreement and the rights and obligations hereunder may not be assigned by any party to any Person without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void.

SECTION 10.4 *Entire Agreement; Amendment; Waiver*. This Agreement and the Ancillary Agreements, including the Exhibits and Schedules hereto and thereto, embody the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all prior agreements with respect thereto, other than the Confidentiality Agreement. No representation, warranty, inducement, promise, understanding or condition not set forth in this Agreement (or the other documents referred to in the preceding sentence) has been made or relied on by any party in entering into this Agreement. This Agreement may be amended, and any provision hereof waived, but only in a writing signed by the parties hereto.

SECTION 10.5 *Counterparts*. This Agreement may be executed in two or more counterparts any of which may be delivered by facsimile transmission and all of which will together constitute one and the same instrument.

SECTION 10.6 *Governing Law*. This Agreement and all rights and obligations hereunder, including matters of construction, validity and performance, shall be governed by and construed in accordance with the laws of the State of New York, without regard to internal principles of conflict of laws, and applicable federal law.

SECTION 10.7 *Waiver of Jury Trial and Venue*. The parties hereto waive all right to trial by jury in any action or proceeding to enforce or defend any rights under this Agreement. Any lawsuit brought by either party against the other shall be brought in the United States District Court for the Eastern District of Wisconsin in Milwaukee, Wisconsin.

SECTION 10.8 *Severability*. In case any one or more of the provisions contained herein is found by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions contained herein will not in any way be effected or impaired thereby.

SECTION 10.9 *Public Announcement*. Except for any notice that is required by law or regulation, each of the Purchaser and the Seller agrees that it will not issue a press release or make any other public statement with respect to the transactions contemplated by this Agreement or the Ancillary Agreements without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed. Each of the Purchaser and the Seller, agrees to notify and consult with the other at least one Business Day in advance of filing any notice required by law or regulation.

SECTION 10.10 *Third-Party Beneficiaries*. Nothing in this Agreement, expressed or implied, will confer on any Person, other than the parties hereto and their respective successors and permitted assign, any rights, remedies, obligations or liabilities; provided that the provisions of Article IX will inure to the benefit of the Indemnified Parties.

SECTION 10.11 *Credit Bureau Reporting*. Upon the Closing, with the cooperation of the Purchaser, the Seller will notify the three major credit reporting bureaus that the designation on all Accounts purchased hereunder shall reflect that such Accounts have been transferred.

SECTION 10.12 *Further Assurances*. Each of the parties hereto shall, whenever and as often as reasonably requested to do so by the other party hereto, execute, acknowledge and deliver any and all such other and further acts, assignments, endorsements, transfers and any instruments of further assurance, approvals and consents as are necessary or proper in order to complete, ensure and perfect (i) the Purchase and Assumption contemplated hereby, and (ii) the consummation of the other transactions contemplated hereby.

[Signature Page Follows]

IN WITNESS WHEREOF, this Agreement has been executed on behalf of each of the parties hereto as of the day and year first above written.

KOHL'S DEPARTMENT STORES, INC.

By: /s/ Arlene Meier

Name: Arlene Meier

Title: Chief Operating Officer

CHASE BANK USA, NATIONAL
ASSOCIATION

By: /s/ David Hoyt

Name: David Hoyt

Title: Senior Vice President

Signature Page to Purchase and Sale Agreement

PRIVATE LABEL CREDIT CARD PROGRAM AGREEMENT

by and between

KOHL'S DEPARTMENT STORES, INC.

and

CHASE BANK USA, NATIONAL ASSOCIATION

March 5, 2006

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This Private Label Credit Card Program Agreement is made as of the 5th day of March, 2006, by and between KOHL'S DEPARTMENT STORES, INC. ("Kohl's"), a Delaware corporation with its principal offices at Menomonee Falls, Wisconsin, and Chase Bank USA, National Association ("Bank"), a national bank with an office at 3 Christina Center 201 North Walnut Street Wilmington, DE, 19801.

WITNESSETH:

WHEREAS, Bank has established programs to extend private label card credit to qualified customers for the purchase of goods and services;

WHEREAS, Kohl's is engaged, among other activities, in operating retail department stores and a Private Label Credit Card Business;

WHEREAS, concurrently with the execution of this Agreement, Bank and Kohl's are entering into a purchase and sale agreement (the "Purchase Agreement") pursuant to which Bank shall purchase Kohl's Private Label Credit Card Business, including certain credit card accounts and associated receivables ("Purchased Accounts");

WHEREAS, it is a condition precedent to the obligations of Kohl's under the Purchase Agreement that Kohl's and Bank enter into this Agreement;

WHEREAS, Kohl's has requested that Bank establish a program pursuant to which Bank shall issue Private Label Credit Cards, which shall be accepted only by Kohl's Channels; and

WHEREAS, the parties agree that the goodwill associated with the "Kohl's" mark contemplated for use hereunder is of substantial value which is dependent upon the maintenance of high quality services and appropriate use of the mark pursuant to this Agreement;

NOW, THEREFORE, in consideration of the terms, conditions and mutual covenants contained herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Kohl's and Bank agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Generally.

The following terms shall have the following meanings when used in this Agreement:

"Account" means a Private Label Credit Card-accessed open-end credit account established in favor of a Cardholder, pursuant to which such Cardholder may finance the purchase of Goods and/or Services from Kohl's Channels, subject to the terms of a Credit Card Agreement. The term Account includes Purchased Accounts.

“Account Documentation” means, with respect to an Account, any and all documentation relating to that Account, including Credit Card Documentation, checks or other forms of payment with respect to an Account, credit bureau reports (to the extent not prohibited from transfer by contract with the credit bureau), adverse action notices, change in terms notices, other notices, correspondence, memoranda, documents, stubs, instruments, certificates, agreements, magnetic tapes, disks, hard copy formats or other computer-readable data transmissions, any microfilm, electronic or other copy of any of the foregoing, and any other written, electronic or other records or materials of whatever form or nature, whether tangible or intangible, including information arising from or relating or pertaining to any of the foregoing to the extent related to the Program; provided that Account Documentation shall not include Kohl’s register tapes, invoices, sales or shipping slips, delivery and other receipts or other indicia of the sale of Goods and/or Services.

“Account Terms” has the meaning set forth in Section 2.3.

“Accrued Interest” means the aggregate amount of all finance charges that were accrued and earned, but not posted on the Accounts as of the end of the month or other relevant time period.

“Acquisition Price” has the meaning set forth in Schedule 1.1.

“Affiliate” means, with respect to any Person, each Person that controls, is controlled by, or is under common control with, such Person. For purposes of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” means this Private Label Credit Card Program Agreement, together with all of its schedules and exhibits, and, if modified, altered, supplemented, amended and/or restated, as the same may be so modified, altered, supplemented, amended and/or restated from time to time.

“Applicable Law” means all applicable federal, state and local laws, statutes, regulations, written regulatory guidance, orders or directives, opinions and interpretations of any Governmental Authority, as may be amended and in effect from time to time during the Term of this Agreement, including: (i) the Truth in Lending Act and Regulation Z; (ii) the Equal Credit Opportunity Act and Regulation B; (iii) the Fair Debt Collection Practices Act; (iv) the Fair Credit Reporting Act; (v) the Gramm-Leach-Bliley Act and its implementing regulations (“GLBA”); (vii) the USA PATRIOT Act and its implementing regulations; and (vii) the Federal Trade Commission Act.

“Bank” has the meaning set forth on page 1.

“Bank Event of Default” means the occurrence of any one of the events listed in Section 14.2 hereof or an Event of Default of Bank.

“Bank Licensed Marks” means the trademarks, tradenames, service marks, logos and other proprietary designations of Bank listed on **Schedule B** and licensed to Kohl’s under Section 10.2.

“Bank Nominees” shall have the meaning set forth in Section 3.3.

“Bankruptcy Code” means Title 11 of the United States Code, as amended, or any other applicable state or federal bankruptcy, insolvency, moratorium or other similar law and all laws relating thereto.

“Billing Cycle” means the interval of time between regular periodic Billing Dates for an Account.

“Billing Date” means, for any Account, the last day of each regular period when the Account is billed.

“Billing Statement” means a summary of Account credit and debit transactions for a Billing Cycle including a descriptive statement covering purchases of Goods and/or Services and a statement with only past-due account information.

“Business Day” means any day, other than a Saturday, Sunday or legal holiday, on which Kohl’s and Bank both are open for business.

“Cardholder” means any Person who has been issued a Credit Card regardless of the Person’s place of residency or incorporation.

“Cardholder Indebtedness” means all amounts owing (after deduction of credit balances and unapplied cash) to Bank from Cardholders with respect to Accounts (including outstanding loans, cash advances and other extensions of credit; billed or posted but unbilled finance charges and late charges; Accrued Interest; and any other fees, charges and interest assessed on the Accounts).

“Cardholder Data” means all personally identifiable information about a Cardholder received by or on behalf of Bank (including by Kohl’s as servicer) in connection with the Cardholder’s application for or use of a Private Label Credit Card or Account or otherwise obtained by or on behalf of Bank (including by Kohl’s as servicer) for inclusion in a database of Cardholder information but shall not include Kohl’s Shopper Data.

“Cardholder List” means any list in electronic form that identifies or provides a means of differentiating Cardholders, including any such electronic listing that includes the names, addresses, email addresses (as available), telephone numbers or social security numbers of any or all Cardholders.

“Charge Transaction Data” means the transaction information with regard to each purchase of Goods and/or Services by a Cardholder on credit and each return of Goods and/or Services or other adjustment for credit in the form of electronic information as more particularly set forth in the Operating Procedures.

“Club Plans” has the meaning set forth in Section 5.5.

“Co-Branded Credit Card” means a credit card that bears a Kohl’s Licensed Mark and the trademarks, tradenames, service marks, logos and other proprietary designations of VISA U.S.A., Inc., MasterCard International Inc. or any other mutually agreed upon payment system.

“Confidential Information” has the meaning set forth in Section 12.1(a).

“Conversion Date” means the date mutually agreed between Kohl’s and Bank on which the Account Terms will first be changed pursuant to Section 2.4(a).

“Credit Card Agreement” means the credit card agreement between Bank and a Cardholder (and any replacement of such agreement), governing the use of an Account, together with any amendments, modifications or supplements which now or hereafter may be made to such Credit Card Agreement (and any replacement of such agreement).

“Credit Card Application” means Bank’s credit application which must be completed and submitted for review to Bank by individuals who wish to become Cardholders.

“Credit Card Documentation” means, with respect to Accounts, all Credit Card Applications, Credit Card Agreements, Credit Cards, Value Proposition Agreements, the Program Privacy Policy and Billing Statements relating to such Accounts.

“Disclosing Party” has the meaning set forth in Section 12.1(d).

“Effective Date” means the Closing Date, as that term is defined in the Purchase Agreement. If the Purchase Agreement terminates without consummation of the Closing, this Agreement shall be null and void.

“Enhancement Products” means the Credit Card enhancement products listed in Exhibit B to **Schedule 6.3**, or such other products as shall be approved by Kohl’s from time to time.

“Event of Default” means the occurrence of any one of the events listed in Section 14.1.

“Federal Funds Rate” means the offered rate as reported in The Wall Street Journal in the “Money Rates” section for reserves traded among commercial banks for overnight use in amounts of one million dollars or more, as published in the most recent Friday edition prior to any required payment or settlement date in which such offered rate is reported, and if such rate is not so reported in any Friday edition of The Wall Street Journal during the thirty day period preceding such required payment or settlement date, such offered rate as reported in another publication reasonably acceptable to parties.

“Financing Income” has the meaning set forth in **Schedule 1.1**.

“Full File Reissue” shall mean the re-issuance of Credit Cards to Cardholders with charging privileges who have used their Account within the past twenty-four (24) months.

“GAAP” means generally accepted accounting principles, consistently applied.

“Goods and/or Services” means the products and services sold by or through Kohl’s Channels, including for personal, family, household or business purposes.

“Governmental Authority” means any federal, state or local domestic, foreign or supranational governmental, regulatory or self-regulatory authority, agency, court, tribunal, commission or other governmental, regulatory or self-regulatory entity.

“Indemnified Party” has the meaning set forth in Section 17.3(a).

“Indemnifying Party” has the meaning set forth in Section 17.3(a).

“Initial Term” has the meaning set forth in Section 15.1.

“Inserts” has the meaning set forth in Section 5.3(a).

“In-Store Payment” means any payment on an Account made in a Kohl’s Channel by a Cardholder or a person acting on behalf of a Cardholder.

“Intellectual Property” means, on a worldwide basis, other than with respect to Kohl’s Licensed Marks or Bank Licensed Marks, any and all: (i) rights associated with works of authorship, including copyrights, moral rights and mask-works; (ii) trade marks and service marks and the goodwill associated therewith; (iii) trade secret rights; (iv) patents, designs, algorithms and other industrial property rights; (v) other intellectual and industrial property rights of every kind and nature, however designated, whether arising by operation of law, contract, license or otherwise; and (vi) applications, registrations, renewals, extensions, continuations, divisions or reissues thereof now or hereafter in force (including any rights in any of the foregoing).

“Knowledge” means, with respect to either Kohl’s or the Bank, the actual knowledge of each respective party’s Manager.

“Kohl’s” has the meaning set forth on page 1.

“Kohl’s Channels” means all retail establishments owned or operated by Kohl’s or its Affiliates in the United States (including Licensee departments therein) and all mail order, catalog, Internet outlets (including websites operated by Kohl’s or its Licensees) and other direct access media within the United States that are owned or operated by Kohl’s, its Affiliates or its Licensees.

“Kohl’s Core Systems” has the meaning set forth in Section 4.10(a).

“Kohl’s Event of Default” means the occurrence of any one of the events listed in Section 14.3 or an Event of Default of Kohl’s.

“Kohl’s Licensed Marks” means the trademarks, tradenames, service marks, logos and other proprietary designations of Kohl’s or its Affiliates listed on **Schedule A** and licensed to Bank by Kohl’s or its Affiliates under Section 10.1.

“Kohl’s Nominees” has the meaning set forth in Section 3.3.

“Kohl’s Operating Procedures” shall mean the operating procedures employed by Kohl’s prior to the Effective Date.

“Kohl’s Shopper” shall mean any Person who makes purchases of Goods and/or Services.

“Kohl’s Shopper Data” shall mean all personally identifiable information regarding a Kohl’s Shopper that is obtained by Kohl’s in connection with the Kohl’s Shopper making a credit purchase of Goods and/or Services including all transaction and experience information collected by Kohl’s with regard to each purchase made by a Kohl’s Shopper, including the item-specific transaction information collected about Cardholders.

“Licensee(s)” means any person(s) authorized by Kohl’s to operate in and sell goods and/or services from Kohl’s Channels under the Kohl’s Licensed Marks.

“Management Committee” shall mean the committee established pursuant to Section 3.3.

“Manager” has the meaning set forth in Section 3.2(a).

“Monthly Settlement Sheet” has the meaning set forth in Section 9.1.

“New Mark” has the meaning set forth in Sections 10.1(b) and 10.2(b).

“Nominated Purchaser” has the meaning set forth in **Schedule 16.2**.

“Operating Procedures” has the meaning set forth in Section 4.1(a).

“Parent” shall mean JPMorgan Chase & Co.

“Person” means and includes any individual, partnership, joint venture, corporation, company, bank, trust, unincorporated organization, government or any department, agency or instrumentality thereof.

“POS” means point of sale.

“Private Label Credit Card” or “Credit Card” means a proprietary card that may be used by the related Cardholder to purchase Goods and/or Services from Kohl’s or other Persons authorized by Kohl’s through open-end revolving credit, commonly known as credit, store or Kohl’s charge card, commonly referred to as “Kohl’s Charge.”

“Private Label Credit Card Business” means the Business, as that term is defined in the Purchase Agreement.

“Program” means the private label credit card program established by Kohl’s and Bank and made available to Cardholders and qualified applicants for the purchase of Goods and/or Services through Kohl’s Channels, including the extension of credit, billings, collections, customer service, accounting between the parties and all other aspects of the customized credit plan specified herein and in Credit Card Agreements.

“Program Assets” has the meaning set forth in **Schedule 1.1**.

“Program Net Losses” has the meaning set forth in **Schedule 1.1**.

“Program Privacy Policy” shall mean the privacy policy and associated disclosures to be provided by Bank to Cardholders in connection with the Program.

“Program Purchase Date” has the meaning set forth in **Schedule 16.2**.

“Program Website” has the meaning set forth in Section 4.8(a).

“Purchase Agreement” has the meaning set forth on page 1.

“Purchase Notice” has the meaning set forth in **Schedule 16.2**.

“Purchased Accounts” has the meaning set forth on page 1.

“Qualified Kohl’s Customer” shall mean customers of Kohl’s that Kohl’s determines are available to be solicited for Accounts under the Program.

“Qualified Kohl’s Customer List” means the list of Qualified Kohl’s Customers provided from time to time by Kohl’s to Bank for purposes of soliciting such Persons for the Program.

“Receiving Party” has the meaning set forth in Section 12.1(d).

“Renewal Term” has the meaning set forth in Section 15.1.

“Risk Adjusted Yield” has the meaning set forth in **Schedule 1.1**.

“Risk Management Policies” has the meaning set forth in Section 4.6(a).

“Solicitation Materials” means documentation, materials, artwork, copy, trademarks (excluding the Kohl’s Licensed Marks and the Bank Licensed Marks), copyrights and any protectible items, in any format or media (including television and radio), used to promote or identify the Program to Cardholders and potential Cardholders, including direct mail solicitation materials and coupons.

“Term” means the Initial Term and each Renewal Term.

“Termination Period” means the period beginning with the date of any notice of termination pursuant to Article 15 and ending on the Program Purchase Date, if Kohl’s or its designee purchases the Program Assets or, if Kohl’s does not exercise its purchase option, the later of termination of this Agreement, Kohl’s written notice that it will not exercise its purchase option or expiration of the purchase option.

“Trademark Style Guide” means any rules governing the manner of usage of trademarks, tradenames, service marks, logos and other proprietary designations.

“Transaction” means any purchase of Goods and/or Services through a Kohl’s Channel using a Private Label Credit Card or Account number.

“Value Proposition” means Kohl’s new account opening discounts, coupons, promotional card event discounts, and any other card-related promotional or rewards programs as may be established by Kohl’s from time to time.

1.2 Miscellaneous.

As used herein,

- (a) all references to the plural number shall include the singular number (and vice versa),
- (b) unless otherwise specified, all references to days, months or years shall be deemed to be preceded by the word “calendar,”
- (c) all references to “herein,” “hereunder,” “hereinabove” or like words shall refer to this Agreement as a whole and not to any particular section, subsection or clause contained in this Agreement, and
- (d) all references to “include,” “includes” or “including” shall be deemed to be followed by the words “without limitation.”

ARTICLE 2

ESTABLISHMENT OF THE PROGRAM

2.1 Generally.

Pursuant to the terms and conditions of this Agreement, Kohl’s and Bank shall establish and participate in the Program commencing on the Effective Date.

2.2 Credit Program.

Beginning as of the Effective Date, Bank shall offer Private Label Credit Cards to qualified customers in accordance with this Agreement and the Credit Card Agreement.

2.3 Account Terms.

- (a) Beginning as of the Effective Date, or such later date as shall be agreed by the parties, the terms and conditions for the Accounts (“Account Terms”) shall be those specified in **Schedule 2.3(a)** for the period(s) set forth in **Schedule 2.3(a)**.

(b) The parties agree as set forth in **Schedule 2.3(b)** with respect to changes to Account Terms and change in terms notices.

2.4 Conversion of Purchased Accounts.

- (a) On the Conversion Date, Bank shall begin to convert all of the Purchased Accounts to the Account Terms as specified in **Schedule 2.3(a)** hereto, provided that Bank shall only increase, decrease or eliminate existing credit line assignments in accordance with the Risk Management Policies. Bank shall utilize Kohl's existing Account numbers and data structure on the Accounts.
- (b) After the Effective Date, Kohl's, as servicer for Bank, shall prepare and send via mail or e-mail, in cases where Cardholders have opted to receive e-mail notifications and such method of notification is permissible under Applicable Law, a change in terms notice as required by Applicable Law to each Person obligated on a Purchased Account. Descriptions of the terms and conditions of the Account shall be included as part of such notices to the extent required by Applicable Law. All such notices and descriptions shall be reviewed and approved by both parties; provided, that, if the parties cannot agree, Bank, in its reasonable discretion, shall have ultimate decision-making authority with respect to changes that are required by Applicable Law and Kohl's shall have ultimate decision-making authority with respect to all other aspects of such notices and descriptions. Kohl's, as servicer for Bank, shall also destroy and replace any necessary documentation such as Solicitation Materials, Credit Card Applications and any other Account Documentation.
- (c) Kohl's, as servicer for Bank, shall perform a Full File Reissuance of all Private Label Credit Cards at least twice during the Initial Term. For each additional twenty-four (24) month period beyond the Initial Term, Kohl's, as servicer for Bank, shall conduct one complete Full File Reissuance of the Private Label Credit Cards. Kohl's shall, in its sole discretion, determine the manner and timing for reissuing the Private Label Credit Cards including whether a reissuance should occur in phases.
- (d) The parties agree as set forth in **Schedule 2.4(d)** with respect to the costs of conversion and Full File Reissuances.

2.5 Exclusivity.

The parties agree as set forth in **Schedule 2.5** with respect to exclusivity.

2.6 Non-Solicitation.

Bank shall not recruit or directly solicit for employment any employees of Kohl's or its Affiliates during the Term and for a two-year period following the end of the Term. Kohl's and its Affiliates shall be entitled to specific performance of such provisions in addition to any other remedies that they may have at law or in equity. For the avoidance of doubt, nothing herein shall prohibit Bank from hiring Kohl's employees who respond to advertisements in the media or job postings that are not targeted to Kohl's employees.

ARTICLE 3
PROGRAM MANAGEMENT

3.1 Program Objectives.

In performing its responsibilities with respect to the management and administration of the Program, each party shall be guided by the following Program objectives:

- (a) To enhance the experience of Kohl's Shoppers;
- (b) To increase retail sales of Kohl's;
- (c) To maximize Program economics while minimizing operational costs and complexity; and
- (d) To leverage the Program to identify existing and potential Kohl's Shoppers, develop and deepen relationships with Kohl's Shoppers and finance retail sales growth.

3.2 Program Managers; Program Team.

- (a) Kohl's and Bank shall each appoint one Program manager (each, a "Manager"). The Managers shall exercise day-to-day operational oversight of the Program and coordinate the efforts between Kohl's and Bank. Kohl's and Bank shall endeavor to provide stability and continuity in the Manager positions and each party's other Program personnel. The initial Manager for Kohl's and Bank is set forth on **Schedule 3.2(a)**. Each Manager shall sign a confidentiality agreement to ensure compliance with Article 12.
- (b) Bank's Manager shall report directly to the Private Label Executive, who shall be Harry S. DiSimone as of the Effective Date. Kohl's, acting reasonably, shall have the right to require replacement of the Bank Manager in the event that such Bank Manager's performance is unsatisfactory. The appointment of a new Manager by Bank is subject to the prior approval of Kohl's. Each Bank Manager shall have substantial relevant experience, including experience with the department store industry, comparable customer demographics and loyalty programs. Bank shall not reassign the Bank Manager for a period of at least two (2) years from the date the Manager is no longer employed in connection with the Program to any other retail department store program operated by Bank or any of its Affiliates. The Bank Manager shall work full-time in the greater metropolitan Milwaukee, Wisconsin area but shall not work in a Kohl's office.
- (c) Bank shall make available to Kohl's without additional cost the services of employees of the Bank to support the Program. Such employees are identified on **Schedule 3.2(c)** and shall have the functions, qualifications and availability identified on **Schedule 3.2(c)**.

3.3 Management Committee.

The parties hereby establish a committee (the "Management Committee") to review the conduct of the Program pursuant to this Agreement and to perform any other action that, pursuant to any express provision of this Agreement, requires its action. The Management Committee shall consist of at least six (6) members, at least three (3) of whom shall be nominated by Kohl's ("Kohl's Nominees") and at least three (3) of whom shall be nominated by Bank ("Bank Nominees"). The initial Kohl's Nominees and Bank Nominees will be nominated prior to the Effective Date. Each party shall nominate its Manager to serve as one of its nominees on the Management Committee. At least one nominee from each party shall be the individual with overall responsibility for the performance of the Program within his or her respective corporate organization, which, in the case of Bank, shall be the chief financial officer or chief operating officer of the private label credit card business of Bank and, in the case of Kohl's shall be the vice president of credit. Each party may substitute its nominees to the Management Committee from time to time so long as their nominees continue to satisfy the above requirements; provided that each party shall provide the other party with as much prior notice of any such substitution as is reasonably practicable under the circumstances.

3.4 Functions of the Management Committee.

The Management Committee shall primarily serve as a forum for the parties to discuss and recommend initiatives to improve the Program. The Management Committee shall have no decision-making authority and any decision-making authority regarding various aspects of the Program is as set forth throughout this Agreement. Specifically the Management Committee shall:

- (a) Monitor and review Program activities;
- (b) Monitor activities of competitive programs, identify implications of market trends and develop initiatives to present to Kohl's to ensure that the Program remains competitive;
- (c) Review marketing initiatives presented by Bank under Section 5.2 and develop recommendations for Kohl's approval;
- (d) Review and recommend Enhancement Products, changes to the Account Terms, etc.; and
- (e) Carry out such other tasks as are assigned to it by this Agreement or jointly by the parties.

3.5 Management Committee Meetings.

- (a) The Management Committee will meet from time to time as its members consider necessary, but in no event less than once per quarter. Meetings may be held in person or wholly or partly by way of telephone or video conference.
- (b) The Management Committee shall determine the frequency, place and agenda for its meetings, the manner in which meetings will be called and all procedural matters not set forth herein.

ARTICLE 4
PROGRAM OPERATION

4.1 Operating Procedures: Operation of the Program.

- (a) Except as modified by mutual agreement of the parties from time to time, the Operating Procedures shall be the Kohl's Operating Procedures set forth on **Schedule 4.1** (including **Exhibit A** thereto). The parties shall cooperate to review and update Operating Procedures as appropriate.
- (b) Bank shall be responsible for monitoring and updating the Operating Procedures to comply with changes in Applicable Law; provided that Bank may only update the Operating Procedures to comply with Applicable Law if Bank is making such change across its entire credit card portfolio and after Kohl's prior review.
- (c) Bank and Kohl's shall provide, either directly or indirectly, the services, materials and personnel necessary to operate the Program in accordance herewith and in accordance with the Operating Procedures.

4.2 Certain Responsibilities of Kohl's.

In addition to its other obligations set forth elsewhere in this Agreement, the parties agree that during the Term, Kohl's shall, as servicer for Bank:

- (a) maintain a system to process Credit Card Applications, establish new Accounts, assign, increase and decrease credit lines, and authorize Transactions;
- (b) maintain a call center or call centers to respond to inquiries from Cardholders and to deal with billing related claims and adjustments (including making finance charge and late fee reversals in accordance with past practices or as the parties mutually agree);
- (c) provide Account monitoring services, including identifying delinquencies, identifying collection efforts required, implementing credit-line adjustments, over limit authorizations and Account reactivation, deactivation or cancellation;

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- (d) handle collection and recovery efforts with respect to Accounts;
 - (e) be responsible for Credit Card Application processing, customer service, statementing, payment processing, Transaction authorization and processing, Value Proposition administration, collections and risk management;
 - (f) prepare, process and mail Billing Statements, Inserts, Program Privacy Policy notices, change in terms notices and other communications to Cardholders;
 - (g) produce and issue all new, replacement and reissued credit card plates related to the Private Label Credit Cards;
 - (h) in its capacity as servicer, operate in accordance with the Risk Management Policies and Operating Procedures; and
 - (i) have ultimate decision-making authority with respect to any aspect of the Program except for the Account Terms which are governed by Section 2.3, the change in terms notices which are governed by Section 2.4(b), the Operating Procedures which are governed by Section 4.1, the Risk Management Policies which are governed by Section 4.6 and Bank's right to make changes to documents and materials to ensure compliance with Applicable Law which is governed by Section 4.5.

4.3 Certain Responsibilities of Bank.

In addition to its other obligations set forth elsewhere in this Agreement, the parties agree that during the Term, Bank shall:

- (a) extend credit on newly originated and existing Accounts in accordance with the Risk Management Policies and Operating Procedures;
- (b) comply with the terms of the Cardholder Agreements, the Program Privacy Policy and all Cardholder opt-outs;
- (c) monitor and notify Kohl's of changes in Applicable Law that will affect the Program and ensure that the Program complies in all material respects with Applicable Law at all times;
- (d) fulfill its obligations as set forth in **Schedule 4.3(d)**;
- (e) provide Kohl's compliance staff and counsel reasonable access to Bank's compliance staff and counsel in order to address issues relating to compliance with Applicable Law; and
- (f) as directed by Kohl's, score Kohl's Shoppers using Bank's or Kohl's systems and deliver such information to Kohl's to the extent permitted by Applicable Law.

4.4 Ownership of Accounts.

- (a) Except to the extent of Kohl's ownership of the Kohl's Licensed Marks and its option to purchase the Program Assets under Section 16.2, Bank shall be the sole and exclusive owner of all Accounts and Account Documentation and shall have all rights, powers, and privileges with respect thereto as such owner; provided that Bank shall exercise such rights consistent with its obligations under this Agreement and the Operating Procedures and in no event in a manner less favorable than its exercise of similar rights in connection with its other private label credit card portfolios. All purchases of Goods and/or Services in connection with the Accounts and the Cardholder Indebtedness shall create the relationship of debtor and creditor between the Cardholder and Bank, respectively. Kohl's acknowledges and agrees that (i) it has no right, title or interest (except for its right, title and interest in the Kohl's Licensed Marks and its option to purchase the Program Assets under Section 16.2) in or to, any of the Accounts or Account Documentation or any proceeds of the foregoing, and (ii) Bank extends credit directly to Cardholders.
- (b) Except as expressly provided herein, Bank shall be entitled to (i) receive all payments made by Cardholders on Accounts, and (ii) retain for its account all Cardholder Indebtedness and such other fees and income authorized by the Credit Card Agreements and collected by Bank with respect to the Accounts and Cardholder Indebtedness.
- (c) Bank shall fund all Cardholder Indebtedness on the Accounts.
- (d) Bank shall have the exclusive right to effect collection of Cardholder Indebtedness, subject to Section 7.2, and shall notify Cardholders to make payment directly to it in accordance with its instructions; provided, however, that Bank shall make all collections for its account using the phrase "Kohl's Charge" to identify the Account and shall direct all checks to be made payable to "Kohl's" or, with Kohl's approval, another name. Kohl's grants to Bank a limited power of attorney (coupled with an interest) to sign and endorse Kohl's name upon any form of payment that may have been issued in Kohl's name in respect of any Account.
- (e) Notwithstanding the foregoing, in addition to payments made by mail, Kohl's shall accept payments made with respect to an Account (i) in a Kohl's store as provided in Section 8.3, (ii) online, and (iii) by telephone through the call center.
- (f) With respect to all Account Documentation, and notwithstanding the purchase of such Account Documentation by Bank as of the Effective Date for so long as Kohl's is the servicer of the Accounts, Kohl's shall continue to hold and retain the Account Documentation following the Effective Date as bailee for the sole benefit of Bank.

4.5 Documents Developed and Used in Connection with the Program.

- (a) The content, design and format of all documents and materials used in connection with the Program including the Credit Card Documentation, Solicitation Materials and Private Label Credit Cards (both front and back) shall be as proposed by Kohl's and modified by Kohl's from time to time (except for the Account Terms which are governed by Section 2.3, the change in terms notices which are governed by Section 2.4(b), the Operating Procedures which are governed by Section 4.1 and the Risk Management Policies which are governed by Section 4.6); provided that Bank shall be responsible for ensuring that all such documents and materials comply in all material respects with Applicable Law and, subject to Kohl's prior review, Bank may make changes to such documents and materials to ensure compliance with Applicable Law. Bank may also propose other changes to the Program documents and materials which Kohl's may approve in its discretion. Kohl's shall provide Bank an opportunity to review all such documents and materials for compliance with Applicable Law and Bank shall review and approve such documents and materials in a timely manner and in accordance with Kohl's production calendar. Kohl's shall have no obligation to provide an opportunity for legal review if Bank has previously approved such document, text or template unless Bank has notified Kohl's of a change in Applicable Law that has occurred since the prior review or the document, text, or template is intended to be used in a manner or context that differs from the manner or context for which the prior approval was provided.
- (b) The parties agree as set forth in **Schedule 4.5(b)** with respect to Program documents.
- (c) Kohl's Licensed Marks shall appear prominently on the face of the Private Label Credit Cards. The front of the Private Label Credit Cards shall not bear Bank's Licensed Marks or Bank's name.

4.6 Risk Management/Credit Standards.

Bank and Kohl's agree regarding risk management and credit standards as set forth in **Schedule 4.6**.

4.7 Exception Accounts.

- (a) Notwithstanding the foregoing, Bank shall, upon request by Kohl's, offer a Private Label Credit Card and Account to any customer that does not satisfy Bank's credit standards; provided that Bank shall have no obligation to issue such a Private Label Credit Card and Account if, at the time Kohl's makes such a request to Bank, the aggregate Cardholder Indebtedness associated with Accounts approved under this section exceeds the percentage set forth in **Schedule 4.7(a)**.
- (b) Notwithstanding the foregoing, Bank shall, upon request by Kohl's, work with Kohl's to develop a program whereby any Kohl's employee that does not satisfy

Bank's credit standards may receive an Account. The parties shall work together in good faith to develop the terms of such a program including whether such Accounts should be secured or prepaid.

4.8 Program Website.

- (a) Kohl's shall maintain a Kohl's-branded website for Cardholders and potential Cardholders ("Program Website"). The Program Website shall be accessed solely by means of links from the Kohl's website and shall contain or otherwise be associated with only such material and links as Kohl's shall determine in its discretion, subject to Applicable Law. Kohl's will provide links to the Program Website on (i) its home page, (ii) its check-out pages, and (iii) such other pages as Kohl's shall determine from time to time. Kohl's shall ensure that the Program Privacy Policy is clearly and prominently posted on the pages of the Program Website. There shall be hyperlinks from the Bank's websites to Kohl's website and, at Kohl's discretion, from Kohl's websites to the Bank's website.
- (b) The Program Website shall permit Cardholders to (i) view the Cardholder's Account information and Billing Statements, and (ii) make payments on the Cardholder's Account via automated clearing house transfer or other payment mechanism approved by the parties. In addition, the Program Website shall include any other functions as may be approved by the Managers from time to time.
- (c) Pursuant to Section 4.10(b), Bank shall provide to Kohl's a real-time online credit application system including the hardware, software, licenses and other support necessary in order to augment Kohl's credit processing system to enable the Program Website to permit potential Cardholders to access a Credit Card Application, complete and submit the Credit Card Application online and receive an immediate approval or denial.

4.9 Sales Taxes.

The parties agree as set forth in **Schedule 4.9** with respect to sales taxes.

4.10 Systems.

The parties agree as set forth in **Schedule 4.10** with respect to systems.

ARTICLE 5
MARKETING OF THE PROGRAM

5.1 Kohl's Responsibility to Market the Program.

- (a) Kohl's shall bear primary responsibility for marketing the Program and shall make all marketing decisions in its discretion.

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- (b) Kohl's may, in its discretion, choose and implement marketing initiatives including offering the Value Proposition to Cardholders. Kohl's may, in its discretion, offer a different Value Proposition through a rewards program to certain Cardholders who spend a certain amount on their Accounts.
 - (c) In addition, the parties agree as set forth in Schedule 5.1(c) with respect to the Value Proposition and Kohl's marketing initiatives.

5.2 Bank's Responsibility to Market the Program.

In March and September of each year and from time to time, Bank shall present to the Management Committee a list of possible marketing initiatives and the associated budget for each marketing initiative. In addition, the parties agree as set forth in Schedule 5.2 with respect to Bank's marketing initiatives.

5.3 Communications with Cardholders.

- (a) Kohl's Inserts. Kohl's shall have the exclusive right to communicate with Cardholders, except for any message required by Applicable Law, through use of inserts, fillers and bangtails (collectively, "Inserts"), including Inserts selectively targeted for particular classes of Cardholders, in any and all Billing Statements, subject to Applicable Law. Notwithstanding the foregoing, subject to Kohl's prior written approval, Bank may communicate with Cardholders through Inserts. Bank shall be responsible for the content of, and the cost of preparing and printing Inserts required by Applicable Law and Bank Inserts which have been approved by Kohl's, and Kohl's shall be responsible for the content of, and the cost of preparing and printing, any other Inserts. If the insertion of any Bank Inserts approved by Kohl's in particular Billing Statements would increase postage costs for such Billing Statements, Bank agrees to pay for the incremental postage cost of such Inserts. Notwithstanding anything contained herein to the contrary, any inserts required by Applicable Law shall be given priority for inclusion in a Billing Statement over other Inserts described herein.
- (b) Billing Statement Messages. Kohl's shall have the exclusive right to use Billing Statement messages and Billing Statement envelope messages in each Billing Cycle to communicate with Cardholders, subject to Applicable Law. Notwithstanding the foregoing, the following messages shall take precedence over any Kohl's messages: (i) any message required by Applicable Law, and (ii) collection and/or customer service messages. Notwithstanding the first sentence in this Section 5.3(b), subject to Kohl's prior written approval, Bank may communicate with Cardholders through Billing Statement messages. Bank shall be responsible for the content of any message required by Applicable Law and any message which has been approved by Kohl's, and Kohl's shall be responsible for the content of any other Billing Statement message. Bank shall provide Kohl's reasonable advance notice of all messages that are required to comply with Applicable Law to allow Kohl's to coordinate the timing and content of all statement messages.

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- (c) Other Communications. Kohl's shall have the exclusive right to communicate with Cardholders through direct mail (including through books, invitations, newsletters and postcards), e-mail, telephone messaging, text messaging and any other communication channel that Kohl's deems appropriate. Kohl's may communicate with Cardholders through these channels about any aspect of the Program, including the Value Proposition, and any other Goods and/or Services, in Kohl's discretion, subject to Applicable Law. Notwithstanding the first sentence in this Section 5.3(c), subject to Kohl's prior review, Bank may communicate with Cardholders through any of the foregoing communication channels to carry out its obligations as may be required by Applicable Law. Bank shall be responsible for the content of, and the cost of preparing, printing, mailing or sending any such communication required by Applicable Law.

5.4 Access to Bank Marketing Resources.

- (a) The parties agree as set forth in Schedule 5.4(a) with respect to use of certain Bank marketing resources.
- (b) Bank and Kohl's agree as set forth in Schedule 5.4(b) with respect to certain other marketing matters.

5.5 Club Plans.

The parties agree as set forth in Schedule 5.5 with respect to Club Plans.

ARTICLE 6

CARDHOLDER AND CUSTOMER INFORMATION

6.1 Customer Information.

- (a) All sharing, use and disclosure of information regarding Cardholders, Qualified Kohl's Customers and Kohl's Shoppers shall be subject to the provisions of Sections 6.1, 6.2, 6.3 and 6.4. The parties acknowledge that the same or similar information may be contained in Cardholder Data, the Qualified Kohl's Customer List and Kohl's Shopper Data, and that each such pool of data will therefore be considered separate information subject to the specific provisions applicable to that data hereunder. By way of example and not limitation: (i) if a Qualified Kohl's Customer receives a Private Label Credit Card, the Bank may use and disclose the Cardholder Data for all purposes permitted with respect to Cardholder Data hereunder, notwithstanding that the Cardholder originated as a Qualified Kohl's Customer; and (ii) if a Cardholder makes a purchase of Goods and/or Services with a Private Label Credit Card, Kohl's may use and disclose the Kohl's Shopper Data relating to that purchase for all purposes permitted with respect to Kohl's Shopper Data hereunder, notwithstanding that such information may also constitute Cardholder Data.

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- (b) Kohl's and Bank will each establish and maintain appropriate administrative, technical and physical safeguards to protect the security, confidentiality and integrity of the Cardholder Data, the Qualified Kohl's Customer List and Kohl's Shopper Data. These safeguards will be designed to ensure against any anticipated threats or hazards to its security and integrity, and protect against unauthorized access to or use of such information or associated records which could result in substantial harm or inconvenience to any Cardholder or applicant. Kohl's and Bank will each ensure that any third party to whom it transfers or discloses Cardholder Data, the Qualified Kohl's Customer List or Kohl's Shopper Data signs a written contract with the transferor in which such third party agrees to substantively the same privacy and security provisions as those in this Agreement. Information transferred by one party on behalf or at the direction of the other will be considered information transferred by the party requesting or directing the transfer. Each party shall use the same degree of care in protecting Cardholder Data, the Qualified Kohl's Customer List and Kohl's Shopper Data against unauthorized disclosure as it accords to its own confidential customer information, but in no event less than a reasonable standard of care.

6.2 Qualified Kohl's Customer List.

- (a) Subject to compliance with Applicable Law, Kohl's privacy policy and such criteria (including format) as may be mutually agreed from time to time, Kohl's shall make available to Bank, free of any charge, the Qualified Kohl's Customer List in electronic form. As between Kohl's and Bank, the Qualified Kohl's Customer List will be owned exclusively by Kohl's. Bank acknowledges and agrees that it has no proprietary interest in the Qualified Kohl's Customer List.
- (b) Bank shall not use, or permit to be used, directly or indirectly, the Qualified Kohl's Customer List, except as provided in this Section 6.2. Subject to Kohl's prior written approval, Bank may use the Qualified Kohl's Customer List in compliance with Applicable Law solely for purposes of soliciting customers listed in the Qualified Kohl's Customer List for Private Label Credit Cards including on a pre-screened basis. Such solicitations may occur through direct mail, at POS terminals or through any other marketing channels as determined by Kohl's.
- (c) Bank shall not disclose, or permit to be disclosed, the Qualified Kohl's Customer List, except as provided in this Section 6.2. Bank may disclose the Qualified Kohl's Customer List in compliance with Applicable Law solely:
- (i) to its subcontractors in connection with a permitted use of such Qualified Kohl's Customer List under this Section 6.2; provided that (A) each such subcontractor agrees to be bound by this Section 6.2, or a comparable contractual commitment with the same effect, and (B) Bank shall be responsible for the compliance of each such subcontractor with the terms of this Section.

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- (ii) to its Affiliates and its Affiliates' employees, agents, attorneys and accountants with a need to know such Qualified Kohl's Customer List in connection with a permitted use of such Qualified Kohl's Customer List under this Section; provided that (A) any such Person is bound by terms substantially similar to this Section as a condition of employment, of access to Qualified Kohl's Customer List or by professional obligations imposing comparable terms; and (B) Bank shall be responsible for the compliance of each such Person with the terms of this Section; or
 - (iii) to any Governmental Authority with authority over Bank (A) in connection with an examination of Bank; or (B) pursuant to a specific requirement to provide such Qualified Kohl's Customer List by such Governmental Authority or pursuant to compulsory legal process; provided that Bank seeks the full protection of confidential treatment for any disclosed Qualified Kohl's Customer List to the extent available under Applicable Law governing such disclosure, and with respect to clause (B), to the extent permitted by Applicable Law, Bank (1) provides at least ten (10) Business Days' prior notice of such proposed disclosure to Kohl's if reasonably possible under the circumstances, and (2) seeks to redact Qualified Kohl's Customer List to the fullest extent possible under Applicable Law governing such disclosure.
 - (d) Upon the termination of this Agreement, Bank's rights to use and disclose the Qualified Kohl's Customer List shall terminate. Promptly following such termination, Bank shall return or destroy all Qualified Kohl's Customer List and shall certify such return or destruction to Kohl's upon request.

6.3 Cardholder Data.

The parties agree as set forth in **Schedule 6.3** with respect to Cardholder Data.

6.4 Kohl's Shopper Data.

The parties agree as set forth in **Schedule 6.4** with respect to Kohl's Shopper Data.

6.5 Data Security.

- (a) Kohl's and Bank will each establish and maintain an information security program that is designed to meet the objectives of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information including, at a minimum, maintenance of an information security program that is designed to: (i) ensure the security and confidentiality of the Cardholder Data or Kohl's Shopper Data; (ii) protect against any anticipated threats or hazards to the security or integrity of such Cardholder Data or Kohl's Shopper Data; (iii) protect against unauthorized access to or use of such Cardholder Data or Kohl's Shopper Data that could result in substantial harm or inconvenience to any Cardholder or applicant for a Credit Card; (iv) ensure the proper disposal of such Cardholder Data or Kohl's Shopper Data; and (v) ensure compliance with the standards and requirements set forth in Section 4.10(h).

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- (b) Kohl's and Bank shall notify the other party promptly following discovery or notification of any actual breach of security of the information systems maintained by Kohl's and Bank, respectively. The party that suffers the breach of security (the "Affected Party") agrees to take action promptly, at its own expense, to investigate the actual breach, to identify and mitigate the effects of any such breach and to implement reasonable and appropriate measures in response to such breach. The Affected Party also will provide the other party with all available information regarding such breach to assist that other party in implementing its information security response program and, if applicable, in notifying affected Cardholders or applicants. The Affected Party shall pay for the costs of any such notification, which notification shall be mutually agreed upon by the parties, such agreement not to be unreasonably withheld, or other remediation necessary. For the purposes of this subsection (b), the term "breach of security" or "breach" means the unauthorized access to or acquisition of any record containing personally identifiable information relating to a Cardholder or Credit Card applicant, whether in paper, electronic, or other form, in a manner that renders misuse of the information reasonably possible or that otherwise compromises the security, confidentiality, or integrity of the information.
- (c) Kohl's and Bank will each ensure that any third party to whom it transfers or discloses Cardholder Data or Kohl's Shopper Data, except for purchasers of charged off Accounts, signs a written contract with the transferor in which such third party agrees in writing to substantively the same privacy and security provisions of this Agreement, including the requirement to maintain an information security program that is designed to meet the objectives of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information including, at a minimum, maintenance of an information security program that is designed to: (i) ensure the security and confidentiality of the Cardholder Data or Kohl's Shopper Data; (ii) protect against any anticipated threats or hazards to the security or integrity of such Cardholder Data or Kohl's Shopper Data; (iii) protect against unauthorized access to or use of such Cardholder Data or Kohl's Shopper Data that could result in substantial harm or inconvenience to any Cardholder or applicant for a Credit Card; and (iv) ensure the proper disposal of such Cardholder Data or Kohl's Shopper Data.
- (d) Kohl's and Bank, respectively, will use reasonable measures designed to properly dispose of all records containing personally identifiable information relating to Cardholders or applicants, whether in paper, electronic, or other form, including adhering to policies and procedures that require the destruction or erasure of electronic media containing such personally identifiable information so that the information cannot practicably be read or reconstructed.

ARTICLE 7
OPERATING STANDARDS

7.1 Reports.

Within thirty (30) days after the end of each month to begin after the Effective Date, Bank shall provide to Kohl's the reports specified in Schedule 7.1. To the extent that Kohl's, as servicer to Bank, has access to the information needed to produce such reports, Kohl's, as servicer, shall provide such information and reports to itself and Bank on Bank's behalf. The parties shall also provide to each other such other data and reports as are mutually agreed to by the parties from time to time.

7.2 Servicing.

Kohl's, on behalf of Bank, shall service all Accounts under the Program in accordance with the terms and conditions of this Agreement.

7.3 Customer Service.

- (a) Kohl's shall be responsible for customer service for the Program in accordance with this Agreement, including the service level standards set forth in Schedule 7.3 as attached hereto.
- (b) Kohl's shall maintain a separate toll-free customer service telephone number for the Program, which toll-free number shall be provided by and remain the property of Kohl's. Any publication of the toll-free number shall be approved by Kohl's.
- (c) Customer service shall be Kohl's branded to the extent legally permissible. Notwithstanding the foregoing, Bank shall have the right in its reasonable discretion to take or direct Kohl's to take reasonable steps and make such disclosures it believes are necessary to ensure that at all times the Bank is considered the creditor on the Accounts; provided that Bank shall not direct Kohl's to take steps which would cause Kohl's to pay any out-of-pocket costs and expenses unless Bank agrees to pay such out-of-pocket costs and expenses.
- (d) If Bank receives any Cardholder complaint or inquiry, Bank shall refer such complaint to Kohl's in accordance with the Operating Procedures and Kohl's shall respond directly to the Cardholder. If Bank receives an inquiry from a Governmental Authority, Bank shall notify Kohl's and the parties shall mutually agree on how to respond to such inquiry; provided that if the parties cannot agree, Bank may directly respond to such inquiry as long as Bank provides Kohl's a copy of such response and considers Kohl's best interests in all cases.
- (e) Kohl's and Bank (or their respective subcontractors, as applicable), may jointly observe and score inbound/outbound telephone customer contacts that Kohl's has with Cardholders, provided, that, Bank may conduct and score observations alone

if a representative of Kohl's does not join in the observation. Kohl's will make arrangements to allow Bank to observe customer service operations remotely at any time and without prior notice. Customer service observations may be conducted by Bank on any day and at any time during the day or night, provided that such observations shall not unreasonably interfere with Kohl's normal business operations.

7.4 Transfer of Servicing to Bank.

- (a) Kohl's may elect at any time during the Term to transfer some or all of its servicing obligations to Bank upon reasonable prior written notice. If Kohl's elects to transfer its servicing to Bank, the parties shall mutually agree on the terms and conditions that will govern Bank's servicing of the Accounts, including appropriate service level standards and penalties and the financial terms.
- (b) If Kohl's does not exercise its option to purchase the Program Assets under Section 16.2, Kohl's shall transfer its servicing to Bank; provided that the parties shall mutually agree on the terms and conditions that will govern the transfer of servicing.
- (c) In addition, the parties agree as set forth in **Schedule 7.4(c)** with respect to transfer of servicing.

7.5 Access.

In addition to access as provided in Section 7.3(e), each party will permit the other party to visit its facilities related to the Program during normal business hours with reasonable advance notice. Each party will also permit the other party to review and obtain copies of the books and records relating to the Program; provided that Bank shall not have access to books and records relating to the expenses or cost structure of servicing the Accounts.

7.6 Disaster Recovery Plans.

Kohl's and Bank will each maintain in effect during the Term an appropriate disaster recovery and business continuity plan. Each party shall notify the other party of any material changes to its disaster recovery and business continuity plan. Each party will test such plan annually and will promptly initiate such plan upon the occurrence of a disaster or business interruption. Bank shall give the Program no less priority in its recovery efforts than is given to similarly situated Bank credit card programs. In addition, the parties agree as set forth in **Schedule 7.6** with respect to disaster recovery.

7.7 Sarbanes-Oxley Compliance.

Bank and Kohl's acknowledge that: (a) Kohl's management and Bank's management are now and/or in the future may be required under the Sarbanes-Oxley Act of 2002 and related regulations (the "**SOX Laws**") to, among other things, assess the effectiveness of its internal controls over financial reporting and state in its annual report whether such internal controls are

effective; (b) Kohl's and Bank's independent auditors are now and/or in the future may be required to evaluate the process used by management to make such assessment to determine whether that process provides an appropriate basis for management's conclusions; and (c) because Kohl's and Bank have entered into a significant transaction as described in this Agreement, the controls used by Bank and Kohl's (including controls that restrict unauthorized access to systems, data and programs) are relevant to Kohl's and Bank's evaluation of its internal controls. Having acknowledged the foregoing, and subject to the terms of this Section 7.7, Bank and Kohl's agree to cooperate with one another and their respective independent auditors as reasonably necessary to facilitate each party's ability to comply with its obligations under the SOX Laws including by each party providing a copy of its annual SAS 70 Type II Audit and by delivering and implementing a corrective plan if the SAS 70 Type II Audit reveals any deficiencies. In addition, the parties agree as set forth in Schedule 7.7 with respect to compliance with SOX Laws.

ARTICLE 8 MERCHANT SERVICES

8.1 Transmittal and Authorization of Charge Transaction Data.

- (a) Kohl's will accept the Private Label Credit Cards for Transactions. Kohl's will transmit Charge Transaction Data for authorization of Transactions as provided in the Operating Procedures. If Kohl's is unable to communicate with the authorization system for any reason, Kohl's may complete Transactions without receipt of further authorization as provided in the Operating Procedures.
- (b) Bank, through Kohl's as servicer, shall authorize or decline Transactions on a real time basis as provided in the Operating Procedures, including transactions involving split-tender (i.e., a portion of the total transaction amount is billed to a Private Label Credit Card and the remainder is paid through one or more other forms of payment).

8.2 POS Terminals.

Kohl's shall maintain POS terminals capable of processing Private Label Credit Card Transactions. To the extent that Bank requires other equipment or changes to such terminals for transmission of Charge Transaction Data under this Agreement, Bank shall provide, or pay for the purchase, installation and maintenance of, such other equipment or required changes to Kohl's POS credit card terminals.

8.3 In-Store Payments.

Kohl's may accept In-Store Payments from Cardholders on their Accounts in accordance with the Operating Procedures, which payments shall be deemed to be held in trust for Bank. Kohl's shall, as necessary, provide proper endorsements on such items. Bank grants to Kohl's a limited power of attorney (coupled with an interest) to sign and endorse Bank's name upon any

form of payment that may have been issued in Bank's name in respect of any Account. The Operating Procedures shall specify the manner in which such In-Store Payments shall be processed. Kohl's shall notify Bank upon receipt of In-Store Payments and Bank shall include the Charge Transaction Data related to such In-Store Payments in the net settlement in respect of the day immediately following such receipt on the same basis as other Charge Transaction Data. Kohl's shall issue receipts for such payments in compliance with Applicable Law.

8.4 Settlement Procedures.

- (a) Kohl's will transmit Charge Transaction Data (including Charge Transaction Data arising in connection with sales by Licensees) in the form set forth in **Schedule 8.4(a)** to Bank in accordance with the Operating Procedures. If Charge Transaction Data is received by Bank's processing center before 11:30 a.m. (CST) on any Business Day, Bank will process the Charge Transaction Data for payment on the same Business Day. If the Charge Transaction Data is received after 11:31 a.m. (CST) on any Business Day, or at any time on a day other than a Business Day, Bank will process the Charge Transaction Data for payment on the following Business Day.
- (b) Bank will remit to Kohl's on each Business Day, for itself and any Licensees, an amount equal to: the sum of the total of charges identified in such Charge Transaction Data less the sum of (i) the total amount of any credits included in such Charge Transaction Data for returns of Goods and/or Services in accordance with Section 8.5, and (ii) the total amount of any Cardholder payments received by Kohl's. Kohl's shall be responsible for allocating such remittances among all Kohl's Channels as appropriate and Bank shall have no responsibility or liability in connection therewith (it being agreed that Bank has no obligation to accept Charge Transaction Data directly from, or make remittances to, any person other than Kohl's).

8.5 Returns of Kohl's Goods and/or Services.

If a Cardholder purchases Goods and/or Services on an Account and Kohl's processes a return of such Goods and/or Services in accordance with Kohl's return policy or makes another adjustment such as a price reduction, Kohl's shall provide a credit to such Cardholder's Account. Kohl's will transmit the relevant information in the Charge Transaction Data for inclusion in the daily settlement process.

8.6 No Merchant Discount.

None of Kohl's, its Affiliates or its Licensees shall be required to pay any merchant discount, interchange fees, or other transaction fees on any Transaction. Bank shall directly process the Transactions such that none of Kohl's, its Affiliates or its Licensees incur any merchant acquirer/processor or similar fees.

ARTICLE 9
PROGRAM ECONOMICS

9.1 Monthly Statement to Kohl's.

Within five (5) days after the end of each Month, Bank shall deliver to Kohl's a statement setting forth, in a mutually agreed format,

- (a) the total amount owed to Kohl's for the month pursuant to Section 9.2, with line item specificity; and
- (b) any other amounts owed to or by Kohl's as explicitly provided for herein or as otherwise agreed by the parties in writing with line item specificity, which amounts shall be netted.

Each such statement, including supporting documentation, shall be known as a "Monthly Settlement Sheet."

9.2 Compensation.

The parties agree as set forth in Schedule 9.2 with respect to compensation.

ARTICLE 10
LICENSING OF TRADEMARKS; INTELLECTUAL PROPERTY

10.1 The Kohl's Licensed Marks.

- (a) Grant of License to Use the Kohl's Licensed Marks. Kohl's and its Affiliates hereby grant to Bank a non-exclusive, royalty-free, non-transferable right and license to use the Kohl's Licensed Marks in the United States solely in connection with the creation, establishment, marketing and administration of, and the provision of services related to, the Program, all pursuant to, and in accordance with, this Agreement and any applicable Trademark Style Guide. Those services shall include the solicitation of Cardholders and potential Cardholders, acceptance of Credit Card Applications, the issuance and reissuance of Credit Cards, the provision of accounting services to Cardholders, the provision of Billing Statements and other correspondence relating to Accounts to Cardholders, the extension of credit to Cardholders, and the advertisement or promotion of the Program. All use of the Kohl's Licensed Marks shall be approved by Kohl's. The license hereby granted is solely for the use of Bank and may be used as necessary to permit the exercise by Bank of any of its rights under this Agreement to (i) delegate its obligations to Affiliate(s) and/or third party subcontractors, and (ii) sell the Accounts and Cardholder Indebtedness to third parties for liquidation. The licenses granted hereby may not be sublicensed in connection with the sale of any goods or services without the prior written approval of Kohl's. Any

subcontractor or third party shall agree to comply with all of the standards specified herein and the limitations on the use of the Kohl's Licensed Marks contained in this Section.

- (b) New Marks. If Kohl's or its Affiliates adopt a trademark, trade name, service mark logo or other proprietary mark which is used by Kohl's or its Affiliates in connection with the Program but which is not listed on Schedule A hereto (a "New Mark"), Bank may request that Kohl's add such New Mark to Schedule A hereto and license its use hereunder, Kohl's shall not unreasonably fail to do so, and such New Mark shall be added to Schedule A by amendment of this Agreement.
- (c) Termination of License. The license granted in this Section shall terminate six (6) months after the later of (i) the Program Purchase Date, (ii) termination of this Agreement, or (iii) Kohl's gives written notice that it will not exercise its purchase option or the purchase option expires. Upon such termination of this license, as provided in this subsection (c), all rights in the Kohl's Licensed Marks shall revert to Kohl's and its Affiliates, the goodwill connected therewith shall remain the property of Kohl's and its Affiliates, and Bank shall: (i) discontinue promptly all use of the Kohl's Licensed Marks, or any of them, and any colorable imitation thereof; and (ii) at Bank's option, delete the Kohl's Licensed Marks from or destroy all unused Credit Cards, Credit Card Applications, Account Documentation, periodic statements, materials, displays, advertising and sales literature and any other items bearing any of the Kohl's Licensed Marks.
- (d) Ownership of the Kohl's Licensed Marks. Bank acknowledges that (i) the Kohl's Licensed Marks, all rights therein, and the goodwill associated therewith, are, and shall remain, the exclusive property of Kohl's and its Affiliates, (ii) it shall take no action which will adversely affect Kohl's and its Affiliates exclusive ownership of the Kohl's Licensed Marks, or the goodwill associated with the Kohl's Licensed Marks (it being understood that the collection of Accounts, adverse action letters, and changes in terms of Accounts as required by Applicable Law do not adversely affect goodwill, if done in accordance with the terms of this Agreement), and (iii) any and all goodwill arising from use of the Kohl's Licensed Marks by Bank shall inure to the benefit of Kohl's and its Affiliates. Nothing herein shall give Bank any proprietary interest in or to the Kohl's Licensed Marks, except the right to use the Kohl's Licensed Marks in accordance with this Agreement, and Bank shall not contest Kohl's or its Affiliates' title in and to the Kohl's Licensed Marks.
- (e) Infringement by Third Parties. Bank shall use reasonable efforts to notify Kohl's, in writing, in the event that it has Knowledge of any infringing use of any of the Kohl's Licensed Marks by any third party. If any of the Kohl's Licensed Marks is infringed, Kohl's alone has the right, in its sole discretion, to take whatever action it deems necessary to prevent such infringing use; provided, however, that if Kohl's fails to take reasonable steps to prevent infringement of the Kohl's Licensed Marks by any retail department store and such infringement has an

adverse effect upon the Program or the rights of Bank hereunder, Bank may request that Kohl's take action necessary to alleviate such adverse impact. Bank shall reasonably cooperate with and assist Kohl's, at Kohl's expense, in the prosecution of those actions that Kohl's determines, in its sole discretion, are necessary or desirable to prevent the infringing use of any of the Kohl's Licensed Marks.

10.2 The Bank Licensed Marks.

- (a) Grant of License to Use the Bank Licensed Marks. Bank hereby grants to Kohl's a non-exclusive, royalty-free, non-transferable right and license to use the Bank Licensed Marks in the United States solely in connection with the creation, establishment, marketing and administration of, and the provision of services related to, the Program, all pursuant to, and in accordance with, this Agreement and any applicable Trademark Style Guide. Those services shall include the solicitation of Cardholders and the advertisement or promotion of the Program. All use of the Bank Licensed Marks shall be approved by Bank. The license hereby granted is solely for the use of Kohl's and may be used as necessary to permit the exercise by Kohl's of any of its rights under this Agreement to delegate obligations to Affiliate(s) and/or third party contractors. The license granted hereby may not be sublicensed in connection with the sale of Goods and/or Services without the prior written approval of Bank. Any subcontractor or third party shall agree to comply with all of the standards specified herein and the limitations on the use of the Bank Licensed Marks contained in this Section.
- (b) New Marks. If Bank adopts a trademark, trade name, service mark logo or other proprietary mark which is used by Bank in connection with its extension of bank card credit to customers but which is not listed on **Schedule B** hereto (a "New Mark"), Kohl's may request that Bank add such New Mark to **Schedule B** hereto and license its use hereunder, Bank shall not unreasonably fail to do so, and such New Mark shall be added to **Schedule B** by amendment of this Agreement. The foregoing notwithstanding, it is understood and agreed that Bank shall not be required to add a New Mark to **Schedule B** if such New Mark was developed by Bank primarily for another charge, credit or debit program.
- (c) Termination of License. The license granted in this Section shall terminate six (6) months after the later of (i) the Program Purchase Date, (ii) termination of this Agreement, or (iii) Kohl's gives written notice that it will not exercise its purchase option or the purchase option expires. Upon such termination of this license, as provided in this subsection (c), all rights in the Bank Licensed Marks shall revert to Bank, the goodwill connected therewith shall remain the property of Bank, and Kohl's shall: (i) discontinue promptly all use of the Bank Licensed Marks, or any of them, and any colorable imitation thereof; and (ii) at Kohl's option, delete the Bank Licensed Marks from or destroy all unused Credit Card Applications, Account Documentation, periodic statements, materials, displays, advertising and sales literature and any other items bearing any of the Bank Licensed Marks.

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- (d) Ownership of the Bank Licensed Marks. Kohl's acknowledges that (i) the Bank Licensed Marks, all rights therein, and the goodwill associated therewith, are, and shall remain, the exclusive property of Bank, (ii) it shall take no action which will adversely affect Bank's exclusive ownership of the Bank Licensed Marks or the goodwill associated with the Bank Licensed Marks, and (iii) any and all goodwill arising from use of the Bank Licensed Marks by Kohl's shall inure to the benefit of Bank. Nothing herein shall give Kohl's any proprietary interest in or to the Bank Licensed Marks, except the right to use the Bank Licensed Marks in accordance with this Agreement, and Kohl's shall not contest Bank's title in and to the Bank Licensed Marks.
 - (e) Infringement by Third Parties. Kohl's shall use reasonable efforts to notify Bank, in writing, in the event that it has Knowledge of any infringing use of any of the Bank Licensed Marks by any third party. If any of the Bank Licensed Marks is infringed, Bank alone has the right, in its sole discretion, to take whatever action it deems necessary to prevent such infringing use; provided, however, that if Bank fails to take reasonable steps to prevent infringement of the Bank Licensed Marks by any credit provider and such infringement has an adverse effect upon the Program or the rights of Kohl's hereunder, Kohl's may request that Bank take action necessary to alleviate such adverse impact. Kohl's shall reasonably cooperate with and assist Bank, at Bank's expense, in the prosecution of those actions that Bank determines, in its sole discretion, are necessary or desirable to prevent the infringing use of any of the Bank Licensed Marks.

10.3 Ownership of Intellectual Property.

- (a) Ownership of Intellectual Property. Each party shall continue to own all of its Intellectual Property that existed as of the Effective Date. Each party also shall own all right, title and interest in the Intellectual Property it develops independently of the other party during the Term.
- (b) Joint Intellectual Property. Any Intellectual Property developed through the combined efforts of the parties during the Term of this Agreement shall be owned jointly by the parties. Each party shall have the right to use, license and otherwise exploit jointly owned Intellectual Property without any restriction or obligation to account to the other party; provided that Bank shall not use jointly owned Intellectual Property in connection with another retail department store during the Term and for an eighteen (18) month period following the end of the Term. Patents and inventions shall be deemed to be developed jointly only if employees or contractors of each party who have assigned all such patent rights to such party are deemed co-inventors under the patent law. Software and other works of authorship and associated copyrights shall be deemed to be jointly developed only if the parties are deemed co-authors of such software or other work of authorship under the copyright law or otherwise deemed co-owners of such copyright. Otherwise, all patents, patentable inventions, software, other works of authorship and related copyrights shall be deemed to be developed solely by one party. Thus, to the extent that a work created by one party is based on or incorporates

Intellectual Property of the other party but the parties are not joint inventors or joint authors under the patent or copyright law, respectively, then one party shall be the sole owner of the Intellectual Property in the underlying work and the other party shall be the sole owner of the Intellectual Property in the new work.

ARTICLE 11

REPRESENTATIONS, WARRANTIES AND COVENANTS

11.1 General Representations and Warranties of Kohl's.

To induce Bank to establish and administer the Program, Kohl's makes the following representations and warranties to Bank, each and all of which shall survive the execution and delivery of this Agreement, and each and all of which shall be deemed to be restated and remade with the same force and effect on each day of the Term.

- (a) Corporate Existence. Kohl's (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation; (ii) is duly licensed or qualified to do business as a corporation and is in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted or proposed to be conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary to perform its obligations required hereunder except to the extent that its non-compliance would not have a material and adverse effect on Kohl's ability to perform its obligations hereunder; and (iii) has all necessary licenses, permits, consents or approvals from or by, and has made all necessary notices to, all governmental authorities having jurisdiction, to the extent required for Kohl's current ownership, lease or conduct and operation, except to the extent that the failure to obtain such licenses, permits, consents or approvals or to provide such notices would not have a material and adverse effect on Kohl's ability to perform its obligations required hereunder.
- (b) Capacity; Authorization; Validity. Kohl's has all necessary corporate power and authority to (i) execute and enter into this Agreement, and (ii) perform the obligations required of Kohl's hereunder and the other documents, instruments and agreements relating to the Program and this Agreement executed by Kohl's pursuant hereto. The execution and delivery by Kohl's of this Agreement and all documents, instruments and agreements executed and delivered by Kohl's pursuant hereto, and the consummation by Kohl's of the transactions specified herein have been duly and validly authorized and approved by all necessary corporate action of Kohl's. This Agreement (i) has been duly executed and delivered by Kohl's, (ii) constitutes the valid and legally binding obligation of Kohl's, and (iii) is enforceable in accordance with its terms (subject to applicable bankruptcy, insolvency, reorganization, receivership or other laws affecting the rights of creditors generally and by general equity principles including those respecting the availability of specific performance).

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- (c) Conflicts; Defaults; Etc. The execution, delivery and performance of this Agreement by Kohl's, its compliance with the terms hereof, and its consummation of the transactions specified herein will not (i) conflict with, violate, result in the breach of, constitute an event which would, or with the lapse of time or action by a third party or both would, result in a default under, or accelerate the performance required by, the terms of any material contract, instrument or agreement to which Kohl's is a party or by which it is bound, or by which Kohl's assets are bound, except for conflicts, breaches and defaults which would not have a material and adverse effect upon Kohl's ability to perform its obligations under this Agreement; (ii) conflict with or violate the articles of incorporation or by-laws, or any other equivalent organizational document(s), of Kohl's; (iii) violate any Applicable Law or conflict with, or require any consent or approval under any judgment, order, writ, decree, permit or license, to which Kohl's is a party or by which it is bound or affected, except to the extent that such violation or the failure to obtain such consent or approval would not have a material and adverse effect upon Kohl's ability to perform its obligations under this Agreement; (iv) require the consent or approval of any other party to any contract, instrument or commitment to which Kohl's is a party or by which it is bound, except to the extent that the failure to obtain such consent or approval would not have a material and adverse effect upon Kohl's ability to perform its obligations under this Agreement; or (v) require any filing with, notice to, consent or approval of, or any other action to be taken with respect to, any regulatory authority, except to the extent that the failure to make such filing or obtain such consent or approval would not have a material and adverse effect upon Kohl's ability to perform its obligations under this Agreement.
- (d) Solvency. Kohl's is solvent.
- (e) No Default. Neither Kohl's nor, to the best of its Knowledge, its Affiliates are in default with respect to any contract, agreement, lease, or other instrument to which it is a party or by which it is bound, except for defaults which would not have a material and adverse effect upon Kohl's ability to perform its obligations under this Agreement, nor has Kohl's received any notice of default under any contract, agreement, lease or other instrument which default or notice of default would materially and adversely affect the performance by Kohl's of its obligations under this Agreement. No Kohl's Event of Default has occurred and is continuing.
- (f) Books and Records. All of Kohl's and, to the best of its Knowledge, its Affiliates' records, files and books of account relating to the Program, including records provided to the Bank regarding Kohl's Account activities, are in all material respects complete and correct and are maintained in accordance with Applicable Law.
- (g) No Litigation. No action, claim or any litigation, proceeding, arbitration, investigation or controversy is pending or, to the best of Kohl's Knowledge, threatened against Kohl's or its Affiliates, at law, in equity or otherwise, before

any court, board, commission, agency or instrumentality of any federal, state, or local government or of any agency or subdivision thereof or before any arbitrator or panel of arbitrators, to which Kohl's is a party, which, if adversely determined, could have a material and adverse effect on Kohl's ability to perform its obligations under this Agreement.

- (h) Kohl's Licensed Marks. Kohl's is the owner of the Kohl's Licensed Marks and Kohl's has the right, power and authority to license to Bank and authorized designees the use of the Kohl's Licensed Marks in connection with the Program and the use of the Kohl's Licensed Marks by said licensees in a manner approved (or deemed approved) by Kohl's shall not (i) violate any Applicable Law or (ii) infringe upon the right(s) of any third party.

11.2 General Representations and Warranties of Bank.

To induce Kohl's to enter into this Agreement and participate in the Program, Bank makes the following representations and warranties to Kohl's, each and all of which shall survive the execution and delivery of this Agreement, and each and all of which shall be deemed to be restated and remade with the same force and effect on each day of the Term.

- (a) Corporate Existence. Bank (i) is a banking corporation duly organized, validly existing, and in good standing under the laws of the United States with its home office as indicated in the first paragraph of this Agreement; (ii) is duly licensed or qualified to do business as a banking corporation and is in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted or proposed to be conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary to perform its obligations hereunder except to the extent that its non-compliance would not have a material and adverse effect on Bank, the Program, the Accounts, Cardholder Indebtedness or Bank's ability to perform its obligations hereunder; and has all necessary licenses, permits, consents, or approvals from or by, and has made all necessary notices to, all governmental authorities having jurisdiction, to the extent required for Bank's current ownership, lease or conduct and operation, except to the extent that the failure to obtain such licenses, permits, consents, approvals or to provide such notices would not have a material and adverse effect on Bank, the Program, the Accounts, Cardholder Indebtedness or Bank's ability to perform its obligations under this Agreement.
- (b) Capacity; Authorization; Validity. Bank has all necessary power and authority to (i) execute and enter into this Agreement, and (ii) perform all of the obligations required of Bank hereunder and the other documents, instruments and agreements relating to the Program and this Agreement executed by Bank pursuant hereto. The execution and delivery by Bank of this Agreement and all documents, instruments and agreements executed and delivered by Bank pursuant hereto, and the consummation by Bank of the transactions specified herein, have been duly and validly authorized and approved by all necessary corporate action of Bank. This Agreement (i) has been duly executed and delivered by Bank, (ii) constitutes

the valid and legally binding obligations of Bank, and (iii) is enforceable in accordance with its respective terms (subject to applicable bankruptcy, insolvency, reorganization, receivership or other laws affecting the rights of creditors generally and financial institutions in particular and by general equity principles including those respecting the availability of specific performance).

- (c) Conflicts; Defaults; Etc. The execution, delivery and performance of this Agreement by Bank, its compliance with the terms hereof, and the consummation of the transactions specified herein will not (i) conflict with, violate, result in the breach of, constitute an event which would, or with the lapse of time or action by a third party or both would, result in a default under, or accelerate the performance required by, the terms of any material contract, instrument or agreement to which Bank is a party or by which it is bound, except for conflicts, breaches and defaults which would not have a material and adverse effect upon Bank, the Program, the Accounts, Cardholder Indebtedness or Bank's ability to perform its obligations under this Agreement; (ii) conflict with or violate the articles of incorporation or by-laws, or any other equivalent organizational document(s) of Bank; (iii) violate any Applicable Law or conflict with, or require any consent or approval under any judgment, order, writ, decree, permit or license, to which Bank is a party or by which it is bound or affected, except to the extent that such violation or the failure to obtain such consent or approval would not have a material and adverse effect upon Bank, the Program, the Accounts, the Cardholder Indebtedness or Bank's ability to perform its obligations under this Agreement; (iv) require the consent or approval of any other party to any contract, instrument or commitment to which Bank is a party or by which it is bound, except to the extent that the failure to obtain such consent or approval would not have a material and adverse effect upon Bank's ability to perform its obligations under this Agreement; or (v) require any filing with, notice to, consent or approval of, or any other action to be taken with respect to, any regulatory authority, except to the extent that the failure to make such filing or obtain such consent or approval would not have a material and adverse effect upon Bank's ability to perform its obligations under this Agreement.
- (d) Solvency. Bank is solvent.
- (e) No Default. Neither Bank nor, to the best of its Knowledge, its Affiliates are in default with respect to any contract, agreement, lease, or other instrument to which it is a party or by which it is bound, except for defaults which would not have a material and adverse effect upon Bank, the Program, the Accounts, Cardholder Indebtedness or Bank's ability to perform its obligations under this Agreement, nor has Bank received any notice of default under any such contract, agreement, lease or other instrument which default or notice of default would materially and adversely affect the performance by Bank of its obligations under this Agreement. No Bank Event of Default has occurred and is continuing.
- (f) Books and Records. All of Bank's and, to the best of its Knowledge, its Affiliates' records, files and books of account relating to the Program are in all material respects complete and correct and are maintained in accordance with Applicable Law.

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- (g) No Litigation. No action, claim, or any litigation, proceeding, arbitration, investigation or controversy is pending or, to the best of Bank's Knowledge, threatened against Bank or its Affiliates, at law, in equity or otherwise, before any court, board, commission, agency or instrumentality of any federal, state, or local government or of any agency or subdivision thereof or before any arbitrator or panel of arbitrators, to which Bank is a party, which, if adversely determined, could have a material and adverse effect on Bank, the Program, the Accounts, Cardholder Indebtedness or Bank's ability to perform its obligations under this Agreement, nor, to the best of Bank's Knowledge, do facts exist which might give rise to any such proceedings. Bank, further, is not the subject of any action by a regulatory authority; and is not subject to any agreement, orders or directives with any regulatory authority with respect to its operations affecting the Accounts, Cardholder Indebtedness and the Program, any other aspect of Bank's business that relates to the Program or the ability of Bank to consummate the transactions specified herein.
 - (h) FDIC Insurance. Bank is FDIC-insured, and to the best of Bank's Knowledge, no proceeding is contemplated to revoke such insurance.
 - (i) The Bank Licensed Marks. Bank is the owner of the Bank Licensed Marks and has the right, power and authority to license to Kohl's the use of the Bank Licensed Marks in connection with the Program and the use of the Bank Licensed Marks by Kohl's in a manner approved (or deemed approved) by Bank shall not (i) violate any Applicable Law or (ii) infringe upon the right(s) of any third party.

11.3 General Covenants of Kohl's

Kohl's makes the following covenants to Bank, each and all of which shall survive the execution and delivery of this Agreement:

- (a) Maintenance of Existence and Conduct of Business. Kohl's shall preserve and keep in full force and effect its corporate existence, other than in the event of a change in control, merger or consolidation in which Kohl's is not the surviving entity.
- (b) Litigation. Kohl's promptly shall notify Bank in writing if it receives written notice of any litigation that, if adversely determined, would have a material and adverse effect on the Program, the Accounts in the aggregate or Kohl's ability to perform its obligations hereunder.
- (c) Enforcement of Rights. Except as otherwise specified herein, Kohl's shall enforce its rights against third parties to the extent that a failure to enforce such rights could reasonably be expected to materially and adversely affect the Program, Accounts in the aggregate or Kohl's ability to perform its obligations

hereunder. Kohl's shall not enter into any agreement which, at the time such agreement is executed, could reasonably be expected to have a material and adverse effect on the Program, the Accounts in the aggregate or Kohl's ability to perform its obligations hereunder.

- (d) Reports and Notices. Kohl's will provide Bank with a telephonic or telefacsimile notice specifying the nature of any Event of Default where Kohl's is the defaulting party or Kohl's Event of Default, or any event which, with the giving of notice or passage of time or both, would constitute a Kohl's Event of Default or any Event of Default where Kohl's is the defaulting party or any development or other information which is likely to have a material and adverse effect on the Program, the Accounts in the aggregate or Kohl's ability to perform its obligations pursuant to this Agreement. Notices pursuant to this Section 11.3(d) relating to Kohl's Events of Default or any Event of Default where Kohl's is the defaulting party shall be provided within two (2) Business Days after Kohl's has Knowledge of the existence of such default. Notices relating to all other events or developments described in this Section 11.3(d) shall be provided (i) within two (2) Business Days after Kohl's becomes aware of the existence of such event or development if such event or development has already occurred, and (ii) with respect to events or developments that have yet to occur, as early as reasonably practicable under the circumstances. Any notice provided under this section shall be confirmed in writing to Kohl's within five (5) Business Days after the transmission of the initial notice.
- (e) Applicable Law/Operating Procedures. Kohl's shall at all times during the Term of this Agreement comply in all material respects with Applicable Law affecting obligations under this Agreement and the Operating Procedures.
- (f) Disputes with Cardholders. Kohl's shall cooperate with Bank in a timely manner (but in no event less promptly than required by Applicable Law) to resolve all disputes with Cardholders.
- (g) Affiliate Compliance. Kohl's shall, to the extent necessary, cause its Affiliates to comply with the terms of this Agreement.

11.4 General Covenants of Bank.

Bank makes the following covenants to Kohl's, each and all of which shall survive the execution and delivery of this Agreement:

- (a) Maintenance of Existence and Conduct of Business. Bank shall preserve and keep in full force and effect its corporate existence other than in the event of a change in control, merger or consolidation in which Bank is not the surviving entity.
- (b) Litigation. Bank promptly shall notify Kohl's in writing if it receives written notice of any litigation that, if adversely determined, would have a material and adverse effect on the Program, the Accounts in the aggregate or Bank's ability to perform its obligations hereunder.

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- (c) Enforcement of Rights. Except as otherwise specified herein, Bank shall enforce its rights against third parties to the extent that a failure to enforce such rights could reasonably be expected to materially and adversely affect the Program, Kohl's or Bank's ability to perform its obligations hereunder. Bank shall not enter into any agreement which, at the time such agreement is executed, could reasonably be expected to have a material and adverse effect on Kohl's, the Program or Bank's ability to perform its obligations hereunder.
- (d) Reports and Notices. Bank will provide Kohl's with a telephonic or telefacsimile notice specifying the nature of any Event or Default where Bank is defaulting party any Bank Event of Default, or any event which, with the giving of notice or passage of time or both, would constitute a Bank Event of Default or any Event of Default where Bank is the defaulting party, or any development or other information which is likely to have a material and adverse effect on the Program, the Accounts in the aggregate or Bank's ability to perform its obligations pursuant to this Agreement. Notice pursuant to this Section 11.4(d) relating to Bank Events of Default or any Event of Default where Bank is the defaulting party shall be provided within two (2) Business Days after Bank becomes aware of the existence of such default. Notices relating to all other events or developments described in this Section 11.4(d) shall be provided (i) within two (2) Business Days after Bank becomes aware of the existence of such event or development if such event or development has already occurred, and (ii) with respect to events or developments that have yet to occur, as early as reasonably practicable under the circumstances. Any notice produced under this section shall be confirmed in writing to Bank within five (5) Business Days after transmission of the initial notice.
- (e) Applicable Law/Operating Procedures. Bank shall at all times during the Term comply in all material respects with Applicable Law and the Operating Procedures. Bank shall at all times during the Term maintain its bank charter or such other charter that will permit it to fulfill all of its obligations hereunder and FDIC insurance.
- (f) Books and Records. Bank shall keep adequate records and books of account with respect to the Accounts and Cardholder Indebtedness in which proper entries, reflecting all of Bank's financial transactions relating to the Program, are made in accordance with GAAP. Bank shall keep adequate records and books of account with respect to its activities, in which proper entries reflecting all of Bank's financial transactions are made in accordance with generally accepted accounting principles. All of Bank's records, files and books of account shall be in all material respects complete and correct and shall be maintained in accordance with good business practice and Applicable Law.

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- (g) Affiliate Compliance. Bank shall, to the extent necessary, cause its Affiliates to comply with the terms of this Agreement.

ARTICLE 12
CONFIDENTIALITY

12.1 General Confidentiality.

- (a) For purposes of this Agreement, “Confidential Information” means any of the following: (i) information that is provided by or on behalf of either Kohl’s or Bank to the other party or its agents in connection with the Program; or (ii) information about Kohl’s or Bank or their Affiliates, or their respective businesses or employees, that is otherwise obtained by the other party in connection with the Program, in each case including: (A) information concerning marketing plans, objectives and financial results; (B) information regarding business systems, methods, processes, financing data, programs and products; (C) information unrelated to the Program obtained by Kohl’s or Bank in connection with this Agreement, including by accessing or being present at the business location of the other party; (D) proprietary technical information, including source codes; and (E) information about Credit Card usage that is not identifiable to Cardholders, which shall solely be the Confidential Information of Kohl’s. Confidential Information shall include Cardholder Data, the Qualified Kohl’s Customer List or Kohl’s Shopper Data and shall be governed by this Article 12 except as expressly provided elsewhere in this Agreement.
- (b) The restrictions on disclosure of Confidential Information under this Article 12 shall not apply to, with respect to Kohl’s or Bank, information that: (i) is already rightfully known to such party at the time it obtains Confidential Information from the other party; (ii) is or becomes generally available to the public other than as a result of disclosure in breach of this Agreement or any other confidentiality obligations; (iii) is lawfully received on a non-confidential basis from a third party authorized to disclose such information without restriction and without breach of this Agreement; (iv) is contained in, or is capable of being discovered through examination of publicly available records or products; (v) is required to be disclosed by Applicable Law (provided that the party subject to such Applicable Law shall notify the other party of any such use or requirement prior to disclosure of any Confidential Information obtained from the other party in order to afford such other party an opportunity to seek a protective order to prevent or limit disclosure of the Confidential Information to third parties and shall disclose Confidential Information of the other party only to the extent required by such Applicable Law); or (vi) is developed by Kohl’s or Bank without the use of any proprietary, non-public information provided by the other party under this Agreement. Nothing herein shall be construed to permit the Receiving Party (as defined below) to disclose to any third party any Confidential Information that the Receiving Party is required to keep confidential under Applicable Law.

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- (c) The terms and conditions of this Agreement shall be the Confidential Information of both Kohl's and Bank and neither party shall disclose such terms and conditions without consent from the other party except as provided herein.
 - (d) If Kohl's or Bank receive Confidential Information of the other party ("Receiving Party"), the Receiving Party shall do the following with respect to the Confidential information of the other party ("Disclosing Party"): (i) keep the Confidential Information of the Disclosing Party secure and confidential; (ii) treat all Confidential Information of the Disclosing Party with the same degree of care as it accords its own Confidential Information, but in no event less than a reasonable degree of care; and (iii) implement and maintain commercially reasonable physical, electronic, administrative and procedural security measures, including commercially reasonable authentication, access controls, virus protection and intrusion detection practices and procedures.
 - (e) Upon reasonable request, Kohl's and Bank each shall have the right to review the other party's information security standards and shall notify the other party prior to materially modifying such procedures.

12.2 Use and Disclosure of Confidential Information

- (a) Each Receiving Party shall use and disclose the Confidential Information of the Disclosing Party only for the purpose of performing its obligations or enforcing its rights with respect to the Program or as otherwise expressly permitted by this Agreement, and shall not accumulate in any way or make use of such Confidential Information for any other purpose.
- (b) Each Receiving Party shall: (i) limit access to the Disclosing Party's Confidential Information to those employees, authorized agents, vendors, consultants, service providers and subcontractors who have a reasonable need to access such Confidential Information in connection with the Program; and (ii) ensure that any Person with access to the Disclosing Party's Confidential Information agrees to be bound by the provisions of this Article 12 and maintains the existence of this Agreement and the nature of their obligations hereunder strictly confidential.

12.3 Unauthorized Use or Disclosure of Confidential Information

Each Receiving Party agrees that any unauthorized use or disclosure of Confidential Information of the Disclosing Party might cause immediate and irreparable harm to the Disclosing Party for which money damages might not constitute an adequate remedy. In that event, the Receiving Party agrees that injunctive relief may be warranted in addition to any other remedies the Disclosing Party may have. In addition, the Receiving Party agrees promptly to advise the Disclosing Party by telephone and in writing via facsimile of any security breach that may have compromised any Confidential Information, of any unauthorized misappropriation, disclosure or use by any person of the Confidential Information of the Disclosing Party which may come to its attention and to take all steps at its own expense reasonably requested by the Disclosing Party to limit, stop or otherwise remedy such misappropriation, disclosure or use.

12.4 Return or Destruction of Confidential Information

Upon the termination or expiration of this Agreement, the Receiving Party shall comply with the Disclosing Party's reasonable instructions regarding the disposition of the Disclosing Party's Confidential Information, which may include return of any and all the Disclosing Party's Confidential Information (including any electronic or paper copies, reproductions, extracts or summaries thereof); provided, however, the Receiving Party in possession of tangible property containing the Disclosing Party's Confidential Information may, if required by Applicable Law, retain one archived, encrypted copy of such material, subject to the terms of this Agreement which may be used solely for regulatory purposes and may not be used for any other purpose. For the avoidance of doubt, if the Receiving Party is not required to retain a copy by Applicable Law, then the Receiving Party shall not retain any copy, whether archived or not, and shall return or destroy such Confidential Information in accordance with this Section 12.4. Such compliance shall be certified in writing, including a statement that no copies of Confidential Information have been kept, except as necessary for regulatory purposes.

ARTICLE 13

RETAIL PORTFOLIO ACQUISITIONS AND DISPOSITIONS

13.1 Retail Portfolio Acquisition.

Bank and Kohl's agree as set forth in Schedule 13.1 with respect to retail portfolio acquisitions.

13.2 Retail Portfolio Disposition.

In the event that Kohl's arranges for the disposition of any of its retail establishments in the United States, other than through a change of control of Kohl's, during the Term of this Agreement, Kohl's may, in its discretion, offer its designated purchaser the right to acquire the portion of the Program Assets related to such disposition and Bank shall provide all cooperation necessary to consummate such disposition to the same extent as if such disposition were a transfer of Program Assets upon the expiration of this Agreement as provided in Article 16; provided, that Kohl's shall not exercise this right until the later of (i) eight (8) months following the Effective Date or (ii) the date as of which no more than ten percent (10%) of the Cardholder Indebtedness in existence as of the Effective Date remains outstanding. In addition, the parties agree as set forth in Schedule 13.2 with respect to retail portfolio dispositions.

ARTICLE 14

EVENTS OF DEFAULT; RIGHTS AND REMEDIES

14.1 Events of Default.

The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an Event of Default hereunder:

- (a) A party shall fail to make a payment of any material amount due and payable pursuant to this Agreement and such failure shall remain unremedied for a period of five (5) Business Days after the non-defaulting party shall have given written notice thereof.

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- (b) A party shall fail to perform, satisfy or comply with any obligation, condition, covenant or other provision contained in this Agreement (other than failure to comply with any service level standard set forth in **Schedule 7.3**), and (i) such failure shall remain unremedied for a period of thirty (30) days after the other party shall have given written notice thereof or, if the same cannot be cured in a commercially reasonable manner within such time, the same shall not constitute an Event of Default if the party shall have initiated and diligently pursued a cure within such time and such cure is completed within ninety (90) days from the date of written notice regarding such failure, and (ii) such failure shall either have a material and adverse effect on the Program or the Bank's or Kohl's Licensed Marks, or materially diminish the economic value of the Program to the other party.
 - (c) Any representation or warranty contained in this Agreement shall not be true and correct in any respect as of the date when made or reaffirmed, and (i) the party making such representation or warranty shall fail to cure the event giving rise to such breach within thirty (30) days after the other party shall have given written notice thereof or, if the same cannot be cured in a commercially reasonable manner within such time, the same shall not constitute an Event of Default if the party shall have initiated a cure within such time and such cure shall be completed within ninety (90) days from the date of written notice regarding such breach, and (ii) such failure shall either have a material and adverse effect on the Program or materially diminish the economic value of the Program to the other party.

14.2 Defaults by Bank.

The occurrence of any one or more of the following events (regardless of the reason therefore) shall constitute an event of default by Bank hereunder:

- (a) Bank fails to settle Charge Transaction Data in full within forty-eight (48) hours of the time that such settlement payment is due.
- (b) Bank shall no longer be solvent or shall fail generally to pay its debts as they become due or there shall be a substantial cessation of Bank's regular course of business.
- (c) The Federal Deposit Insurance Corporation or any other regulatory authority having jurisdiction over Bank shall order the appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) of Bank or of any substantial part of its properties, or order the winding-up or liquidation of the affairs of Bank, and such order shall not be vacated, discharged, stayed or bonded within sixty (60) days from the date of entry thereof.

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- (d) Bank shall (i) consent to the institution of proceedings specified in paragraph (b) above or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) of Bank of any substantial part of its properties, or (ii) take corporate action in furtherance of any such action.
 - (e) JPMorgan Chase & Co. does not have at least an A rating from two nationally recognized statistical rating organizations, and Kohl's does not receive reasonable financial assurances from JPMorgan Chase & Co. or Bank of the ability of Bank to perform its obligations under this Agreement.

14.3 Defaults by Kohl's.

The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an event of default by Kohl's hereunder:

- (a) Kohl's shall no longer be solvent or shall fail generally to pay its debts as such debts become due or there shall be a substantial cessation of Kohl's regular course of business.
- (b) A petition under the U.S. Bankruptcy Code or similar law shall be filed against Kohl's or any of its Affiliates and not be dismissed within sixty (60) days.
- (c) A decree or order by a court having jurisdiction (i) for relief in respect of Kohl's pursuant to the Bankruptcy Code or any other applicable bankruptcy or other similar law, (ii) for appointment of a custodian, receiver, liquidator, assignee, trustee, or sequestrator (or similar official) of Kohl's or of any substantial part of its properties, or (iii) ordering the winding-up or liquidation of the affairs of Kohl's shall be entered, and shall not be vacated, discharged, stayed or bonded within sixty (60) days from the date of entry thereof.
- (d) Kohl's shall (i) file a petition seeking relief pursuant to the Bankruptcy Code or any other applicable bankruptcy or other similar law, (ii) consent to the institution of proceedings pursuant thereto or to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) of Kohl's or any substantial part of its properties, or (iii) take corporate action in furtherance of any such action.

14.4 Remedies for Events of Default.

In addition to any other rights or remedies available to the parties at law or in equity, upon the occurrence of an Event of Default pursuant to Section 14.1, the non-defaulting party shall be entitled, in addition to its termination rights under Article 15, to collect any amount indisputably in default plus interest based on the Federal Funds Rate and calculated on a three hundred and sixty (360) day year basis.

ARTICLE 15
TERM/TERMINATION

15.1 Term.

This Agreement shall continue in full force and effect for five (5) years from the Effective Date (the "Initial Term"). The Agreement shall renew automatically without further action of the parties for successive one (1) year terms (each a "Renewal Term") unless Kohl's or Bank provides written notice of termination at least six (6) months prior to the expiration of the Initial Term or current Renewal Term, as the case may be.

15.2 Termination by Kohl's Prior to the End of the Initial Term or a Renewal Term.

Kohl's may terminate this Agreement upon written notice prior to the end of the Initial Term or any Renewal Term upon any basis set forth in **Schedule 15.2**.

15.3 Termination by Bank Prior to the End of the Initial Term or Renewal Term.

Bank may terminate this Agreement prior to the end of the Initial Term or any Renewal Term upon the occurrence of a Kohl's Event of Default or any other Event of Default where Kohl's is the defaulting party.

ARTICLE 16
EFFECTS OF TERMINATION

16.1 General Effects.

- (a) All obligations of the parties including (i) operating the Program and servicing of the Accounts in good faith and in the ordinary course of their respective businesses, (ii) solicitations, marketing and advertising of the Program, and (iii) acceptance of applications through Kohl's Channels in the ordinary course of business consistent with past practice, shall continue upon notice of termination of this Agreement by either party, except as the parties may mutually agree, subject to the terms of this Agreement, until the provisions of Sections 16.2 and 16.3 are satisfied. The parties will cooperate to ensure the orderly wind-down or transfer of the Program.
- (b) Upon the satisfaction of the provisions of Section 16.2 and 16.3, all obligations of the parties under this Agreement shall cease, except that the provisions specified in Section 18.23 shall survive.

16.2 Kohl's Option to Purchase the Program Assets.

The parties agree as set forth in **Schedule 16.2** with respect to Kohl's option to purchase the Program Assets.

16.3 Rights of Bank if Purchase Option not Exercised.

Bank and Kohl's agree as set forth in **Schedule 16.3** with respect to the rights of Bank if the Purchase Option is not exercised.

ARTICLE 17
INDEMNIFICATION

17.1 Kohl's Indemnification of Bank.

From and after the Effective Date, Kohl's shall indemnify and hold harmless Bank, its Affiliates, their respective officers, directors, employees, agents and representatives and any Person claiming by or through any of them from and against and in respect of any and all losses, liabilities, damages, costs and expenses of whatever nature, including reasonable attorneys' fees and expenses, relating to third-party claims which are caused or incurred by, result from, arise out of or relate to:

- (a) Kohl's gross negligence, recklessness or willful misconduct (including acts and omissions) relating to the Program;
- (b) any breach by Kohl's or any of its Affiliates, or their respective employees, directors, officers or agents of any of the material terms, covenants, representations, warranties or other provisions contained in this Agreement or of Kohl's or its Affiliates' obligations under any Credit Card Agreement, if any;
- (c) Kohl's failure to satisfy any of its material obligations or liabilities to third parties, including its obligations to Cardholders in respect of the purchase of Goods and/or Services;
- (d) any actions or omissions by Bank taken or not taken at Kohl's request or direction pursuant to this Agreement except where Bank would have been otherwise required to take such action (or refrain from acting) absent the request or direction of Kohl's;
- (e) fraudulent acts by Kohl's, its Affiliates, or their respective employees, directors, officers or agents;
- (f) the failure of Kohl's to comply with Applicable Law unless such failure was the result of any action taken or not taken by Kohl's at the specific written request or direction of Bank;
- (g) Kohl's Inserts or Billing Statement messages;
- (h) allegations by a third party that the use of the Kohl's Licensed Marks or any materials or documents provided by Kohl's constitutes: (i) libel, slander, and/or defamation; (ii) infringement of intellectual property, including trademark

infringement or dilution, or copyright infringement; (iii) unfair competition or misappropriation of another's ideas or trade secret; (iv) invasion of rights of privacy or rights of publicity; or (v) breach of contract or tortious interference; or

- (i) Kohl's Goods and/or Services charged to a Credit Card, including: (i) the quality or workmanship of such Goods and/or Services, (ii) the compliance of Kohl's Goods and/or Services with Applicable Law, and (iii) product liability or warranty claims relating directly to the Kohl's Goods and/or Services

17.2 Bank's Indemnification of Kohl's.

From and after the Effective Date, Bank shall indemnify and hold harmless Kohl's, its Affiliates, their respective officers, directors, employees, agents and representatives and any Person claiming by or through any of them from and against and in respect of any and all losses, liabilities, damages, costs and expenses of whatever nature, including reasonable attorneys' fees and expenses, relating to third-party claims which are caused or incurred by, result from, arise out of or relate to:

- (a) Bank's gross negligence, recklessness or willful misconduct (including acts and omissions) relating to the Program;
- (b) any breach by Bank or any of its Affiliates, or their respective employees, directors, officers or agents of any of the material terms, covenants, representations, warranties or other provisions contained in this Agreement, or any Credit Card Agreement;
- (c) Bank's failure to satisfy any of its material obligations or liabilities to third parties, including Cardholders;
- (d) any actions or omissions by Kohl's taken or not taken at Bank's request or direction pursuant to this Agreement, except where Kohl's would have been otherwise required to take such action (or refrain from acting) absent the request or direction of Bank;
- (e) fraudulent acts by Bank, its Affiliates, or their respective employees, directors, officers or agents;
- (f) any Account Documentation used by Kohl's after Bank's legal review and approval that fails to comply with Applicable Law unless such failure to comply is as a result of subsequent modification to such Account Documentation by Kohl's;
- (g) the failure of Bank to comply with Applicable Law or the Operating Procedures unless such failure was the result of any action taken or not taken by Bank at the specific written request or direction of Kohl's;
- (h) the Bank's Inserts or Billing Statement messages;

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- (i) the Bank's failure to perform its obligations under the Purchase Agreement;
 - (j) allegations by a third party that the use of the Bank Licensed Marks or any materials or documents provided by Bank constitutes: (i) libel, slander, and/or defamation; (ii) infringement of intellectual property, including trademark infringement or dilution, or copyright infringement, (iii) unfair competition or misappropriation of another's ideas or trade secret; (iv) invasion of rights of privacy or rights of publicity; or (v) breach of contract or tortious interference; or
 - (k) allegations by a third party that the use of the Bank Systems or anything provided by Bank under Section 4.10 (including the Bank Systems, software, hardware and licenses) constitutes infringement, misappropriation or violation of intellectual property unless such allegations are caused by a failure of Kohl's, its personnel and any third parties engaged thereby to (i) have complied with all licenses and training provided pursuant to Section 4.10(b) after Bank has completed such training and other obligations set forth in Section 4.10(b), (ii) have maintained the confidentiality of all source codes accessed pursuant thereto in accordance with this Agreement, and (iii) use or alter the Bank Systems or anything provided by Bank under Section 4.10(b) in a manner consistent with the installation, implementation, tuning, maintenance and support therefor provided by Bank pursuant to Section 4.10(b) after Bank has completed such support and other obligations set forth in Section 4.10(b).

17.3 Procedures.

- (a) In case any claim is made, or any suit or action is commenced, against either party (the "Indemnified Party") in respect of which indemnification may be sought by it under this Article 17, the Indemnified Party shall promptly give the other party (the "Indemnifying Party") notice thereof and the Indemnifying Party shall be entitled to participate in the defense thereof and, with prior written notice to the Indemnified Party given not later than twenty (20) days after the delivery of the applicable notice, to assume, at the Indemnifying Party's expense, the defense thereof, with counsel reasonably satisfactory to such Indemnified Party. After notice from the Indemnifying Party to such Indemnified Party of its election so to assume the defense thereof, the Indemnifying Party will not be liable to such Indemnified Party under this Section for any attorneys' fees or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of investigation.
- (b) The Indemnified Party shall have the right to employ its own counsel if the Indemnifying Party elects to assume such defense, but the fees and expenses of such counsel shall be at the Indemnified Party's expense, unless (i) the employment of such counsel has been authorized in writing by the Indemnifying Party, (ii) the Indemnifying Party has not employed counsel to take charge of the defense within twenty (20) days after delivery of the applicable notice or, having elected to assume such defense, thereafter ceases its defense of such action, or (iii) the Indemnified Party has reasonably concluded that there may be defenses

available to it which are different from or additional to those available to the Indemnifying Party (in which case the Indemnifying Party shall not have the right to direct the defense of such action on behalf of the Indemnified Party), in any of which event attorneys' fees and expenses shall be borne by the Indemnifying Party.

- (c) The Indemnifying Party shall promptly notify the Indemnified Party if the Indemnifying Party desires not to assume, or participate in the defense of, any such claim, suit or action.
- (d) The Indemnified Party or Indemnifying Party may at any time notify the other of its intention to settle or compromise any claim, suit or action against the Indemnified Party in respect of which payments may be sought by the Indemnified Party hereunder, and (i) the Indemnifying Party may settle or compromise any such claim, suit or action solely for the payment of money damages, but shall not agree to any other settlement or compromise without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld (it being agreed that any failure of an Indemnified Party to consent to any settlement or compromise involving relief other than monetary damages shall not be deemed to be unreasonably withheld), and (ii) the Indemnified Party may settle or compromise any such claim, suit or action solely for an amount not exceeding One Thousand Dollars (\$1,000), but shall not settle or compromise any other matter without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld.

17.4 Notice and Additional Rights and Limitations.

- (a) If an Indemnified Party fails to give prompt notice of any claim being made or any suit or action being commenced in respect of which indemnification under this Article 17 may be sought, such failure shall not limit the liability of the Indemnifying Party; provided, however, that this provision shall not be deemed to limit the Indemnifying Party's rights to recover for any loss, cost or expense which it can establish resulted from such failure to give prompt notice.
- (b) This Article 17 shall govern the obligations of the parties with respect to the subject matter hereof but shall not be deemed to limit the rights which any party might otherwise have at law or in equity.
- (c) Notwithstanding anything to the contrary in this Agreement, no party shall be liable to the other for punitive, consequential, indirect or exemplary damages relating to or arising out of this Agreement, any breach hereof or any of the transactions provided for therein.

ARTICLE 18
MISCELLANEOUS

18.1 Precautionary Security Interest.

Kohl's and Bank agree that this Agreement contemplates the extension of credit by Bank to Cardholders. However, as a precaution in the unlikely event that any person asserts that Article 9 of the UCC applies or may apply to the transactions contemplated hereby, and to secure Kohl's payment of and performance of all obligations of Kohl's to Bank, Kohl's hereby grants to Bank a first priority present and continuing security interest in and to the following, whether now existing or hereafter created or acquired, together with the proceeds thereof: all Accounts, all indebtedness charged to Accounts, and all Charge Transaction Data. In addition, Kohl's agrees to take any reasonable action requested by Bank, at Bank's expense, to establish the first lien and perfected status of such security interest, and appoints Bank as Kohl's attorney-in-fact to take any such action on Kohl's behalf; provided that Bank shall be responsible for preparing any such documentation.

18.2 Securitization: Participation.

Bank shall have the right to securitize, pledge or participate the Cardholder Indebtedness or any part thereof by itself or as part of a larger offering at any time, in such a manner that allows Bank to obtain cash flows representing all or most of the economic benefits of owning such Cardholder Indebtedness. Such securitization, pledge or participation shall not affect Kohl's rights or Bank's obligations hereunder. Bank shall not securitize, pledge or participate the Cardholder Indebtedness in any manner that may be reasonably expected to encumber any of Kohl's rights hereunder to purchase the Program Assets after the later of (i) the first eight (8) months following the Effective Date or (ii) the date as of which no more than ten percent (10%) of the Cardholder Indebtedness in existence as of the Effective Date remains outstanding. All uses of the Kohl's Licensed Marks in any securitization document shall be made in accordance with Section 10.1 and with the prior written approval of Kohl's.

18.3 Assignment.

Except as provided in this Section 18.3, neither party shall assign this Agreement or any of its rights hereunder without the prior written consent of the other party; provided, however, that either party may, without the consent of the other party, assign this Agreement in whole or in part to an Affiliate of such party or as part of a transfer of all or substantially all of the assets of such party.

18.4 Sale or Transfer of Accounts.

Except as provided in Sections 13.2 and 18.3, the Bank shall not sell or transfer in whole or in part the Accounts.

18.5 Subcontracting.

It is understood and agreed that, in fulfilling its obligations under this Agreement, either party may utilize its Affiliates or other Persons to perform functions. The party shall be responsible for functions performed by such Affiliates or other Persons to the same extent the party would be responsible if it performed such functions itself.

18.6 Amendment.

Except as provided herein, this Agreement may not be amended except by a written instrument signed by Bank and Kohl's.

18.7 Non-Waiver.

No delay by a party hereto in exercising any of its rights hereunder, or partial or single exercise of such rights, shall operate as a waiver of that or any other right. The exercise of one or more of a party's rights hereunder shall not be a waiver of, or preclude the exercise of, any rights or remedies available to such party under this Agreement or in law or at equity.

18.8 Severability.

If any provision of this Agreement is held to be invalid, void or unenforceable, all other provisions shall remain valid and be enforced and construed as if such invalid provision were never a part of this Agreement.

18.9 Waiver of Jury Trial.

The parties hereto waive all right to trial by jury in any action or proceeding to enforce or defend any rights under this Agreement.

18.10 Governing Law.

This Agreement and all rights and obligations hereunder, including matters of construction, validity and performance, shall be governed by and construed in accordance with the laws of the State of New York, without regard to internal principles of conflict of laws, and applicable federal law.

18.11 Captions.

Captions of the articles and sections of this Agreement are for convenient reference only and are not intended as a summary of such articles or sections and do not affect, limit, modify or construe the contents thereof.

18.12 Notices.

Any notice, approval, acceptance or consent required or permitted under this Agreement shall be in writing to the other party and shall be deemed to have been duly given when delivered in person or, if sent by United States registered or certified mail, with postage prepaid, or by a nationally recognized overnight delivery service, when received, addressed as follows:

If to Kohl's:

Kohl's Department Stores, Inc.
N56 W17000 Ridgewood Drive
Menomonee Falls, Wisconsin 53051
Attention: Chief Operating Officer

With a copy to:

Kohl's Department Stores, Inc.
N56 W17000 Ridgewood Drive
Menomonee Falls, Wisconsin 53051
Attention: General Counsel
Fax: (262) 703-7274

If to Bank:

Chase Bank USA, N.A.
3 Christina Center
201 North Walnut Street
Wilmington, DE 19801
Attention: Chief Executive Officer

With a copy to:

General Counsel Chase Card Services
Chase Bank USA, N.A.
same address as above

18.13 Further Assurances.

Kohl's and Bank agree to produce or execute such other documents or agreements as may be necessary or desirable for the execution and implementation of this Agreement and the consummation of the transactions specified herein and to take all such further action as the other party may reasonably request in order to give evidence to the consummation of the transactions specified herein.

18.14 No Joint Venture.

Nothing contained in this Agreement shall be deemed or construed by the parties or any third party to create the relationship of principal and agent, partnership, joint venture or of any association between Kohl's and Bank, and no act of either party shall be deemed to create any such relationship. Kohl's and Bank each agree to such further actions as the other may request to evidence and affirm the non-existence of any such relationship.

18.15 Press Releases.

Kohl's and Bank each shall obtain the prior written approval of the other party with regard to the substance and timing of any press releases which announce the execution of this Agreement or the transactions specified herein, which prior approval shall not unreasonably be withheld. At all times thereafter, Kohl's and Bank, prior to issuing any press releases concerning this Agreement or the transactions specified herein, shall consult with each other concerning the proposed substance and timing of such releases and give due consideration to the comments of the other party relating thereto.

18.16 No Set-Off.

Kohl's and Bank agree that each party has waived any right to set-off, combine, consolidate or otherwise appropriate and apply (i) any assets of the other party held by the party or (ii) any indebtedness or other liabilities at any time owing by the party to the other party, as the case may be, against or on account of any obligations owed by the other party under this Agreement, except as expressly set forth herein.

18.17 Conflict of Interest.

Each party hereto, in performing its obligations hereunder, shall establish and maintain appropriate business standards, procedures and controls. Each party shall review such standards, procedures and controls with reasonable frequency during the Term of this Agreement including those related to the activities of its employees and agents in their relations with the employees, agents and representatives of the other parties hereto and with other third parties.

18.18 Third Parties.

There are no third-party beneficiaries to this Agreement. The parties do not intend: (i) the benefits of this Agreement to inure to any third party; or (ii) any rights, claims or causes of action against a party to be created in favor of any person or entity other than the other party.

18.19 Force Majeure.

If performance of any service or obligation under this Agreement is prevented, restricted, delayed or interfered with by reason of labor disputes, strikes, acts of God, floods, lightning, severe weather, shortages of materials, rationing, utility or communication failures, earthquakes, war, revolution, civil commotion, acts of public enemies, blockade, embargo or any law, order, proclamation, regulation, ordinance, demand or requirement having legal effect of any government or any judicial authority or representative of any such government, or any other act whatsoever, whether similar or dissimilar to those referred to in this clause, which are beyond the reasonable control of a party and could not have been prevented by reasonable precautions, then such party shall be excused from such performance to the extent of and during the period of such prevention, restriction, delay or interference, but in no event for more than a period of thirty (30) consecutive days, or five (5) consecutive days with respect to any payment obligation. A party excused from performance pursuant to this Section shall exercise all reasonable efforts to continue to perform its obligations hereunder, including by implementing its disaster recovery and business continuity plan as provided in Section 7.6, and shall thereafter continue with reasonable due diligence and good faith to remedy its inability to so perform except that nothing herein shall obligate either party to settle a strike or other labor dispute when it does not wish to do so.

18.20 Entire Agreement.

This Agreement, together with the Schedules hereto which are expressly incorporated herein by reference, supersedes any other agreement, whether written or oral, that may have been made or entered into by Kohl's and Bank (or by any officer or employee of either of such parties) relating to the matters specified herein, and constitutes the entire agreement by the parties related to the matters specified herein or therein.

18.21 Binding Effect; Effectiveness.

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is the product of negotiation by the parties having the assistance of counsel and other advisers. It is the intention of the parties that this Agreement not be construed more strictly with regard to one party than with regard to the other.

18.22 Counterparts/Facsimiles.

This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument, but in making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart. Any telefacsimile of an executed counterpart shall be deemed an original.

18.23 Survival.

Upon the termination of this Agreement, the parties shall have the rights and remedies described herein. Upon such termination, all obligations of the parties under this Agreement shall cease, except that the obligations of the parties pursuant to Sections 6 (Cardholder and Customer Information), 10 (Licensing of Trademarks; Intellectual Property), 12 (Confidentiality), 16 (Effects of Termination), 17 (Indemnification), 18.9 (Waiver of Jury Trial and Venue) and 18.10 (Governing Law) shall survive the expiration or termination of this Agreement. In furtherance and not in limitation of the foregoing, Bank shall be entitled to collect Accounts in any lawful manner.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed as of the date first above written.

KOHL'S DEPARTMENT STORES, INC.

By: /s/ Arlene Meier
Name: Arlene Meier
Title: Chief Operating Officer

CHASE BANK USA, NATIONAL ASSOCIATION

By: /s/ David Hoyt
Name: David Hoyt
Title: Senior Vice President

KOHL'S CORPORATION

2005

DEFERRED COMPENSATION PLAN

Amended & Restated Effective January 1, 2005

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KOHL'S CORPORATION

2005

DEFERRED COMPENSATION PLAN

Amended & Restated Effective January 1, 2005

WHEREAS, Kohl's Corporation desires to adopt the Kohl's Corporation 2005 Deferred Compensation Plan as a master plan to permit certain of its and its affiliate entities' senior management employees to provide supplemental retirement income benefits through the deferral of salary, bonus and incentive compensation in accordance with Section 409A of the Internal Revenue Code; and

WHEREAS, Kohl's Corporation adopted the Kohl's Corporation 2005 Deferred Compensation Plan effective December 10, 2004, and hereby amends and restates the Plan effective as of January 1, 2005, as follows:

ARTICLE I

TITLE AND DEFINITIONS

1.1. Title. This Plan shall be known as the Kohl's Corporation Deferred Compensation Plan.

1.2. Definitions. Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meaning specified below:

- a) "Account" or "Accounts" shall mean a Participant's Deferral Account.
- b) "Administrative Committee" shall mean the committee appointed by the Board of Kohl's Corporation to administer the Plan.
- c) "Base Salary" shall mean a Participant's annual base salary, excluding Performance Bonuses and all other remuneration for services rendered to the Company.
- d) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the death of a Participant. No beneficiary designation shall become effective until it is filed with the Administrative Committee. Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary. If there is no such designation, then the surviving spouse of the Participant shall be the Beneficiary. If there is

no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the estate of the Participant shall be the Beneficiary. In the event any amount is payable under the Plan to a minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within sixty (60) days after the date the amount becomes payable (or such extended period as the Administrative Committee determines is reasonably necessary to allow such guardian to be appointed), payment shall be deposited with the court having jurisdiction over the estate of the minor. The Company may condition any payment hereunder on the receipt of such release as the Company may request. Payment by the Company pursuant to any unrevoked Beneficiary designation, or to the spouse or estate of the Participant if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of Company.

e) "Board of Directors" shall mean the Board of Directors of the Company.

f) "Change of Control" shall mean the occurrence of (1) the acquisition (other than from Kohl's Corporation) by a person, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), other than Kohl's Corporation, a subsidiary of Kohl's Corporation, or any employee benefit plan or plans sponsored by Kohl's Corporation or any subsidiary of Kohl's Corporation, directly or indirectly, of beneficial ownership (within the meaning of Exchange Act Rule 13d-3) of 33% or more of the then outstanding shares of common stock of Kohl's Corporation or voting securities representing 33% or more of the combined voting power of Kohl's Corporation's then outstanding voting securities ordinarily entitled to vote in the election of directors unless the incumbent Board (as defined below) before such acquisition or within 30 days thereafter, deems such acquisition not to be a Change of Control; or (2) individuals who, as of the date this Plan is adopted by the Board, constitute the Board (as of such date, the "Incumbent Board") ceasing for any reason to constitute a majority of such Board; provided, however, that any person becoming a director subsequent to the date this Plan is adopted by the Board whose election, or nomination for election by the shareholders of Kohl's Corporation, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be for purposes of this Plan, considered as though such person were a member of the Incumbent Board but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest which was (or, if threatened, would have been) subject to Exchange Act Rule 14a-12(c); or (3) the consummation of any merger, consolidation or share exchange of Kohl's Corporation with any other corporation, other than a merger, consolidation or share exchange which results in more than 60% of the outstanding shares of the common stock, and voting securities representing more than 60% of the combined voting power of then outstanding voting securities entitled to vote generally in the election of directors, of the surviving, consolidated or resulting corporation being then beneficially owned, directly or indirectly, by the persons who were Kohl's Corporation's shareholders immediately prior to such transaction in substantially the same proportions as their ownership, immediately prior to such transaction, of Kohl's Corporation's then outstanding common stock or then outstanding voting securities, as the case may be; or (4) the consummation of any liquidation or dissolution of Kohl's Corporation or a sale or other disposition of all or substantially all of the assets of Kohl's Corporation. Notwithstanding the foregoing, a transaction or series of related transactions shall not constitute a Change of Control hereunder unless it or they also constitute a change in control within the meaning of Section 409A of the Code and the guidance promulgated thereunder.

g) “Code” shall mean the Internal Revenue Code of 1986, as amended.

h) “Company” shall mean Kohl’s Corporation and any successor corporations and each corporation which is an “affiliate” member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) of which Kohl’s Corporation is a component member, if the Board of Kohl’s Corporation and the Board of Directors of the applicable corporation provides that such corporation shall participate in the Plan.

i) “Compensation” shall mean Base Salary, Performance Bonuses, and other compensation that the Participant is entitled to receive for services rendered to the Company.

j) “Competition with the Company” means that a Participant, directly or indirectly, whether as a partner, officer, director, employee, manager, consultant or otherwise, during the one (1) year period following the Participant’s Termination of Employment provides Restricted Services for or on behalf of any Competitive Business or, during such one (1) year period, provides any Competitive Business with any advice or counsel in the nature of the Restricted Services.

k) “Competitive Business” shall mean any entity that as of the time of the determination (i) generates more than Five Hundred Million Dollars (\$500,000,000) in annual revenues; and (ii) operates or owns a Retail Business. “Competitive Business” shall also include a business that provides a buying office or sourcing service to a Retail Business. “Retail Business” means any business engaged in the sale of products at retail which derives at least twenty percent (20%) of its annual revenue from the sale of Goods in the United States and includes, without limitation, any such business that (i) owns or operates Internet-based or other electronic retail sales or (ii) owns or operates retail stores if such business owns or operates stores located within twenty-five (25) miles of any store operated by the Company.

l) “Credit Rate” for each Fund shall mean an amount equal to the net gain or loss on the assets deemed invested in each Fund by the Participant during each month.

m) “Deferral Account” shall mean the bookkeeping account maintained by the Administrative Committee for each Participant that is credited with amounts equal to (1) the portion of the Compensation the Participant elects to defer; and (2) net earnings and losses on such amount as provided herein; less (3) prior withdrawals, forfeitures and expenses allocated by the Administrative Committee to the Deferral Account of the Participant.

n) “Dependent” shall mean an individual described in Section 152(a) of the Code.

o) “Disability,” shall mean the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant’s employer.

p) "Distributable Amount" shall mean the amounts credited to the Deferral Account of a Participant for any Plan Year, adjusted in accordance with the Credit Rate until the date of distribution, and reduced by any fees or expenses associated with administering this Plan which are not paid by the Company.

q) "Effective Date" shall mean December 10, 2004.

r) "Eligible Employee" shall mean such management employees that are actively employed by the Company on a full time basis as are designated by the Board for participation in this Plan.

s) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

t) "Fund" or "Funds" shall mean one or more of the investment funds selected by the Administrative Committee from time to time.

u) "Goods" shall mean merchandise categories that comprise at least ten percent (10%) of the Company's annual revenues during the twelve (12) months prior to Employee's last date of employment with the Company.

v) "Initial Election Period" for an Eligible Employee shall mean the period established by Kohl's Corporation in the month of December, or, if later, the thirty (30) day period following the date the employee initially becomes an Eligible Employee.

w) "Participant" shall mean any Eligible Employee who becomes a Participant in accordance with Article II hereof.

x) "Performance Bonuses" shall mean the performance bonus earned by a Participant during the Company's fiscal year, as such performance bonuses may be determined by the Company.

y) "Plan" shall mean the Kohl's Corporation 2005 Deferred Compensation Plan set forth herein, as amended from time to time.

z) "Plan Year" shall mean the twelve (12) consecutive monthly periods beginning on January 1 and ending on December 31 of each year, or such shorter period beginning on the date an Eligible Employee becomes a Participant and ending on the last day of the calendar year. At the discretion of the Administrative Committee, the Plan Year for Participants whose Compensation may be subject to Section 162(m) of the Code will be the Company's fiscal year.

aa) "Policy" shall mean any insurance policy purchased in connection with this Plan.

bb) "Restricted Services" shall mean services of any kind or character comparable to those Participant provided to the Company during the eighteen (18) month period immediately preceding Participant's last date of employment with the Company.

-
- cc) "Scheduled In-Service Withdrawals" mean distributions while the Participant is still employed by the Company.
- dd) "Termination of Employment" shall mean the Participant ceases to be employed by the Company for any reason on a full time basis.
- ee) "Trust" shall mean the irrevocable trust created by the Company into which the Company shall deposit funds pursuant to paragraph 4.2 of the Plan.

ARTICLE II
ELIGIBILITY AND PARTICIPATION

2.1. Eligibility. The Board shall from time to time determine the employees of the Company that are Eligible Employees. The Administrative Committee shall promptly notify each employee of the Company designated as an Eligible Employee of his/her right to participate in the Plan. The designation of an employee of the Company as an Eligible Employee for any Plan Year shall not confer upon such employee a right to continue as an Eligible Employee in any other Plan Year.

2.2. Participant. A participant in the Kohl's Corporation Amended and Restated Deferred Compensation Plan immediately prior to the Effective Date shall be eligible to be a Participant in this Plan. An employee of the Company who was an Eligible Employee prior to the Effective Date, but not a Participant in the Kohl's Corporation Amended and Restated Deferred Compensation Plan, may become a Participant in accordance with rules established by the Administrative Committee. An employee of the Company who becomes an Eligible Employee may become a Participant in the Plan in accordance with rules established by the Administrative Committee.

ARTICLE III
DEFERRAL ELECTIONS

3.1. Elections to Defer Compensation.

a) General Rule. The amount of Compensation which an Eligible Employee may elect to defer is Compensation earned on or after the effective date of the election by the Eligible Employee to defer in accordance with this Article III. The Eligible Employee shall generally be eligible to defer a percentage or dollar amount of compensation which shall not exceed one hundred percent (100%) of the Eligible Employee's Compensation, provided that the total amount deferred by a Participant shall be limited in any Plan Year to an amount in excess of the amount required to satisfy social security tax (including Medicare and any other applicable tax or similar assessment), income tax and employee benefit plan withholding requirements as determined by the Administrative Committee. The minimum deferral that may be made for any Plan Year by an Eligible Employee shall not be less than Five Thousand Dollars (\$5,000.00), provided, however, the minimum deferral for the Initial Election Period for participation pursuant to 3.1 shall be prorated based on the number of months of participation remaining in the calendar year.

b) Initial Election Period. The Administrative Committee shall establish rules regarding (i) the participation by employees of the Company who were not Eligible Employees prior to the Effective Date; (ii) the participation of employees of the Company who were Eligible Employees prior to the Effective Date but were not Participants; and (iii) additional deferrals of compensation by previous Participants.

c) Annual Election. An Eligible Employee's election during the Initial Election Period to defer Compensation shall be in effect only for the Plan Year to which such election relates. Any subsequent election with respect to Compensation must be filed by date designated by the Company in the year prior to the year the Compensation is earned. Notwithstanding the foregoing, in accordance with Q&A-21 of IRS Notice 2005-1, in 2005, an Eligible Employee's election with respect to Compensation which has not been paid or become payable at the time of election may be filed at any time prior to March 15, 2005. The failure to make an election with respect to any Compensation earned during the Plan Year shall result in no deferral of Compensation for such Plan Year. The Administrative Committee shall from time to time promulgate rules applicable to elections to defer Compensation.

d) Duration of Compensation Deferral Election. An Eligible Employee's initial election in accordance with this Plan shall be effective on the first day of the first pay period during a Plan Year beginning after such Initial Election Period. An Eligible Employee's election after the Initial Election Period in accordance with this Plan shall be effective on the first day of the Plan Year following such election.

3.2. Investment Elections.

a) The Administrative Committee shall from time to time select the Funds available for investment designation by Participants with respect to Deferral Accounts. The Administrative Committee shall notify Participants of the type of the Funds selected from time to time. At the time of making the deferral elections described in Section 3.1, each Participant shall designate, on a form provided by the Administrative Committee, the investment funds the Account of the Participant will be deemed to be invested in for purposes of determining the Credit Rate to be credited to that Account. In making the designation, a Participant may specify that all or any percentage of his/her Deferral Account (in one percent (1%) or more whole percentage increments) be deemed to be invested in one or more Funds selected by the Administrative Committee.

Effective as of the end of any calendar month, a Participant may change the investment designation made by filing an election by the 25th day of any calendar month, on a form provided by the Administrative Committee, or, if available, by making the change in investment designation on-line, on a web site established for this purpose. Such change shall be effective as of the beginning of the next calendar month. If a Participant fails to timely elect a Fund, he/she shall be deemed to have elected the money market type of investment or such other Fund as the Administrative Committee may from time to time designate as the Fund to be employed if no

timely election is made. A Participant may make investment elections either prior to or after Termination of Employment, or in the event of a Participant's death, the Beneficiary designated by the Participant may make investment elections.

b) Although the Participant may designate the Funds, the Administrative Committee shall not be bound to invest such amount in any specific Fund and shall have no liability to Participants for failure to so invest. The Administrative Committee shall select from time to time, in its sole discretion, commercially available investment Funds of the investment types determined from time to time by the Administrative Committee. The Administrative Committee may from time to time select alternate Funds in addition to or in replacement of Funds previously selected. If the Administrative Committee selects alternate Funds to replace a Fund previously selected by the Participant, the Participant shall be notified to change their investment designation to a different Fund and if the Participant fails to timely make such change, the Participant's investment designation to a replaced Fund shall be substituted with an investment designation to an equivalent alternate Fund. The Credit Rate of each such commercially available investment fund shall be used to determine the amount of earnings or losses to be credited to the Account of the Participant.

ARTICLE IV ACCOUNTS AND TRUST FUNDING

4.1. **Deferral Accounts.** The Administrative Committee shall establish and maintain a Deferral Account for each Participant under the Plan. Each Participant's Deferral Account shall be further divided into separate subaccounts ("Investment Fund Subaccounts"), each of which corresponds to a Fund selected by the Participant. A Participant's Deferral Account shall be credited as follows:

a) As of the last day of each month, the Administrative Committee shall credit the Participant's Deferral Account with an amount equal to Compensation deferred by the Participant during each pay period occurring in that month in accordance with the deferral election of the Participant. Compensation that the Participant has elected to be deemed to be invested in a certain type of Fund shall be credited to the Investment Fund Subaccount as of the end of the month.

b) As of the last day of each month, each Investment Fund Subaccount of a Participant's Deferral Account shall be credited with earnings or losses in an amount equal to that determined by multiplying the balance credited to such Investment Fund Subaccount as of the last day of the preceding month by the Credit Rate for the applicable month for the corresponding Fund in which the amount is deemed invested.

4.2. **Trust Funding.** The Company has created a Trust into which the Company shall deposit amounts equal to the amounts deferred by Participants. The Company shall cause the Trust to be funded each month. The Company shall contribute to the Trust an amount equal to the amount deferred by each Participant for each month during the Plan Year.

The principal of the Trust and any earnings thereon shall be held separate and apart from other funds of Company and, except as otherwise provided herein, shall be used exclusively for the uses and purposes of Plan Participants and beneficiaries as set forth therein. Notwithstanding the foregoing, neither the Participants nor their beneficiaries shall have any preferred claim on, or any beneficial ownership in, any assets of the Trust prior to the time such assets are paid to the Participants or beneficiaries as benefits. All amounts credited under this Plan shall represent unsecured contractual rights of Plan Participants and beneficiaries against the Company. Any assets held in the Trust will be subject to the claims of general creditors of the Company under federal and state law in the event of insolvency as defined in the Trust.

Except as provided above, and except for amounts forfeited by a Participant hereunder, the assets of the Plan and Trust shall not inure to the benefit of the Company other than in the case of insolvency as defined in the Trust, and the same shall be held for the purpose of providing benefits to Participants and their beneficiaries and defraying reasonable expenses of administering the Plan and Trust.

ARTICLE V

DISTRIBUTION OF DEFERRED COMPENSATION

5.1. Distribution Due to Termination of Employment. The Distributable Amount for any Plan Year shall be distributed to the Participant (and after his/her death to his/her Beneficiary) in accordance with the Participant's election for such Plan Year. In the case of the Termination of Employment of a Participant, the Distributable Amount shall be paid to the Participant (and after his/her death to his/her Beneficiary) in the form of a lump sum distribution upon the later of: (i) April of the year following the year in which the Participant's Termination of Employment occurred; or (ii) the 15th day of the first month of the Company's fiscal quarter that begins on or after the six-month anniversary of the Participant's Termination of Employment. Notwithstanding the foregoing, a Participant described in the preceding sentence may elect optional forms of distribution in accordance with the procedures prescribed by the Administrative Committee provided that his/her election is filed with the Administrative Committee at the time of the deferral. The Administrative Committee shall allow a Participant to elect an optional form of distribution or to change such election only to the extent such form of distribution is permissible under Section 409A of the Code and any guidance promulgated thereunder. Notwithstanding any election by a Participant, in the event (A) the Participant's Distributable Amounts for all Plan Years at any time following Termination of Employment is not more than Twenty-Five Thousand Dollars (\$25,000), or (B) the Participant engages in Competition with the Company following Termination of Employment, the Participant's Distributable Amount for all Plan Years shall be paid in a lump-sum distribution, to the extent such a distribution is permissible under Section 409A of the Code and any guidance promulgated thereunder.

In the event a Participant dies after his Termination of Employment and still has a balance in his/her Deferral Accounts, the balance of such Deferral Accounts shall continue to be paid for the remainder of the period as elected by the Participant to the Participant's Beneficiary.

5.2. Distribution Due to a Change of Control. In the event of a Change of Control before a Participant's Termination of Employment, the Distributable Amount shall be paid to the Participant (and after his/her death to his/her Beneficiary) in the form of a lump sum distribution within sixty (60) days following the date of the Change of Control. Notwithstanding the foregoing, a Participant described in the preceding sentence may elect an optional form of distribution in accordance with the procedures prescribed by the Administrative Committee provided that his/her election is filed with the Administrative Committee at the time of the Participant's first deferral under this Plan. The Administrative Committee shall allow a Participant to elect a form of distribution or to change such election only to the extent such form of distribution is permissible under Section 409A of the Code and any guidance promulgated thereunder.

In the event a Participant dies after a Change of Control and still has a balance in his/her Deferral Account, the balance of such Deferral Account shall continue to be paid for the remainder of the period as elected by the Participant to the Participant's Beneficiary.

5.3. Scheduled In-Service Withdrawals. A Participant shall be permitted to elect a Scheduled In-Service Withdrawal from his/her Deferral Account prior to the Participant's Termination of Employment or a Change of Control in accordance with the procedures prescribed by the Administrative Committee, provided that his/her election is filed with the Administrative Committee at the time of the deferral. The Administrative Committee shall allow a Participant to elect a Scheduled In-Service Withdrawal or to change such election only to the extent such distribution is permissible under Section 409A of the Code and guidance promulgated thereunder. Notwithstanding the foregoing, the amount of a Scheduled In-Service Withdrawal will be reduced by the amount which is not deductible by the Company under Section 162(m) of the Code. In such event, any amount not distributed because of this limitation will be distributed in the next succeeding Plan Year in which Section 162(m) would not limit the deductibility of such amount.

5.4. Hardship Withdrawals.

a) Any Participant who has been determined by the Administrative Committee to have incurred a "Financial Hardship" as defined herein may request and receive a withdrawal of all or part of his/her Account balance.

b) In the event a Participant desires to withdraw an amount as a Financial Hardship withdrawal:

1) The Participant shall deliver a request for such withdrawal to the Administrative Committee setting forth the amount requested and the factual basis for such Financial Hardship request. The request for withdrawal shall be in a form which complies with requirements, if any, established by the Administrative Committee.

2) If the Participant's request for a Financial Hardship withdrawal is approved by the Administrative Committee, the distribution shall be made within

30 days of the date the request for withdrawal is received by the Administrative Committee and the Participant shall be ineligible to participate in the Plan for the balance of the Plan Year, to the extent consistent with the provisions of Section 409A of the Code. The Participant's Deferral Account shall be valued using the month-end balance for the month prior to the month of the distribution and the amounts distributed hereunder will not exceed the amounts necessary to satisfy such Financial Hardship, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such Financial Hardship is, or may be, relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship.)

3) If the Participant's request for a Financial Hardship withdrawal is denied by the Administrative Committee, in whole or in part, the Administrative Committee shall notify the Participant of such denial. The determination of the Administrative Committee is final and binding on the Company, the Participant and the Participant's Beneficiaries.

c) "Financial Hardship" is defined as a severe financial hardship to the Participant resulting from:

- 1) An illness or accident of the Participant, the Participant's spouse, or a Dependent of the Participant;
- 2) Loss of the Participant's property due to casualty; or
- 3) Other similar, extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

d) Notwithstanding the foregoing, a Financial Hardship withdrawal shall only be permitted to the extent such withdrawal is permissible under Section 409A of the Code and any guidance promulgated thereunder.

ARTICLE VI ADMINISTRATION

6.1. Administrative Committee. The Administrative Committee shall be appointed by, and serve at the pleasure of, the Board. The number of members comprising the Administrative Committee shall be determined by the Board from time to time. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member. Vacancies in the membership of the Administrative Committee shall be filled by the Board.

6.2. Administrative Committee Action. The Administrative Committee shall act at meetings by affirmative vote of a majority of the members of the Administrative Committee. Any action permitted to be taken at a meeting may be taken without a meeting if a written consent to the action is signed by all members of the Administrative Committee. A member of the Administrative Committee shall not vote or act upon any matter which relates solely to himself/herself as a Participant. The chairman or any other member or members of the Administrative Committee designated by the chairman may execute any certificate or other written direction on behalf of the Administrative Committee.

6.3. Powers and Duties of the Administrative Committee. The Administrative Committee shall administer the Plan in accordance with its terms, and shall have all powers necessary to accomplish its purposes including, but not by way of limitation, the following:

- a) To select the Funds in accordance with Section 3.2 hereof;
- b) To construe and interpret the provisions of this Plan;
- c) To compute the amount of benefits payable to Participants and their Beneficiaries;
- d) To maintain all records that may be necessary for the administration of the Plan;
- e) To provide for the disclosure of all information and the filing of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- f) To make and publish rules, definitions and procedures for administration of the Plan;
- g) To appoint a plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe; and
- h) To take all actions necessary or in its best interests for the administration of the Plan.

6.4. Administrative Committee and Interpretation. The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretations or construction shall be final and binding on all parties including, but not limited to, the Company and any Participant or Beneficiary.

6.5. Compensation and Expenses.

- a) The members of the Administrative Committee shall serve without compensation for their services hereunder.
- b) The Administrative Committee is authorized at the expense of the Company to employ such legal counsel as it may deem advisable to assist in the performance of its duties hereunder. The Administrative Committee may require Participants to pay expenses and fees incurred in connection with the administration of the Plan. To the extent authorized by Company, expenses and fees in connection with the administration of the Plan shall be paid by the Company.

6.6. Liability. Neither the Administrative Committee nor any member of the Administrative Committee nor the Company nor any other person who is acting on behalf of the Administrative Committee or the Company shall be liable for any act or failure to act hereunder except for gross negligence or fraud. Such persons shall be indemnified by the Company and held harmless against any and all claims, damages, liabilities, costs and expenses (including attorneys' fees) arising by reason of any good faith error of omission or commission with respect to any responsibility, duty or action hereunder.

6.7. Statements. The Administrative Committee, under procedures established by it, shall provide a statement with respect to each Account of the Participant on at least an annual basis.

6.8. Disputes. An individual who believes that he/she is being denied a benefit to which he/she is entitled under this Plan (hereinafter referred to as "Claimant") may file a written request for such benefit with the Administrative Committee setting forth his/her claim. The request must be addressed to the secretary of the Company at its principal place of business.

A written notice of a claim denial will be sent within a reasonable time after the Administrative Committee receives a claim, but not later than 90 days after receipt. If a decision cannot be made within 90 days after the Administrative Committee receives the claim, the Administrative Committee may extend the initial review period as permitted under U.S. Department of Labor regulations. The Administrative Committee will provide timely notice of the extension to the Claimant, explaining the unresolved issues that prevent a decision on the claim, and the date the Administrative Committee expects to make its decision.

If the claim is denied, the Administrative Committee will inform the Claimant in writing, setting forth: (i) the specified reason(s) for the denial; (ii) reference to the Plan provisions on which the denial is based; (iii) a description of any additional information necessary to perfect the claim; and (iv) a description of the Plan's review procedures.

The Claimant may request in writing a review of the denial within 60 days after receiving the notice of denial. Such request must be addressed to the secretary of the Company at its principal place of business. The Claimant may submit written information relating to the claim, and may request copies of all relevant information, free of charge.

The Administrative Committee will review the claim on receipt of the written request for review, and will notify the Claimant of its decision within a reasonable time but not later than 60 days after the request has been received. If an extension of time is required to process the claim, the Administrative Committee will notify the Claimant in writing of the special circumstances requiring the extension and the date by which the Administrative Committee expects to make a determination on review. The extension cannot exceed a period of 60 days from the end of the first review period.

The Administrative Committee will provide the Claimant with written notice of its decision on review. If the decision is adverse, the notice will set forth: (i) the specified reason(s) for the denial; (ii) reference to the Plan provisions on which the denial is based; (iii) a statement that the Claimant may receive, upon request and free of charge, reasonable access to all information relevant to the claim; and (iv) a statement of the Claimant's right to bring an action under ERISA Section 502(a).

ARTICLE VII
MISCELLANEOUS

7.1. Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims or interest in any specific property or assets of the Company. No assets of the Company shall be held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Company that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

7.2. Restriction Against Assignment. The Company shall pay all amounts payable hereunder only to the person or persons designated according to the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, engagements of any Participant, his/her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber, or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its sole discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

7.3. Withholding. There shall be deducted from each payment made under the Plan or from any other Compensation payable to the Participant (or Beneficiary) all taxes which are required to be withheld by the Company in respect to such payment or this Plan. The Company shall have the right to reduce any payment (or Compensation) by the amount of cash sufficient to provide the amount of said taxes.

7.4. Amendment, Modification, Suspension or Termination. The Board of Directors of Kohl's Corporation may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination shall have any retroactive effect to reduce any amounts allocated to a Participant's Account (neither the Policies themselves, nor the death benefit shall be treated as allocated to any Account). Notwithstanding

the previous sentence, the Board of Directors of Kohl's Corporation may amend the Plan at any time in order to cause the Plan to meet the requirements of Section 409A of the Code and any guidance promulgated thereunder in order to avoid causing any Participant to become subject to interest and/or penalties that would otherwise be imposed under Section 409A of the Code. In the event this Plan is terminated, the amounts allocated to Participant's Account shall be distributed to the Participants only in a manner permitted under Section 409A of the Code and any guidance promulgated thereunder.

Notwithstanding anything contained in the Plan or the Trust and notwithstanding any election made by a Participant, all elections to defer Compensation made by a Participant for amounts earned subsequent to a Change of Control shall terminate and be of no force or effect.

7.5. Governing Law. This Plan shall be construed, governed and administered in accordance with the laws of the State of Wisconsin, without regard to its conflicts of law provisions.

7.6. Receipt or Release. Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Administrative Committee and the Company. The Administrative Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

7.7. Payments on Behalf of Persons Under Incapacity. In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefor, the Administrative Committee may direct that such payment be made to any person found by the Administrative Committee, in its sole judgment, to have assumed the care of such person.

7.8. No Continued Right to Employment. The designation of an employee as an Eligible Employee under this Plan shall not be construed as conferring upon such employee any right to remain employed by the Company or obligate the Company to continue the employment of the employee or limit the right of the Company to discipline the employee or terminate the employee's employment. Termination of Employment of the Participant with the Company for any reason, whether by action of the Company or employee, shall immediately terminate the employee's deferral election for the remainder of such Plan Year. In no event shall this Plan, by its terms or implication, constitute an employment contract of any nature between the Company and the employee.

7.9. Information. Each person, whether a Participant, a duly designated beneficiary of a Participant, a guardian or any other person, entitled to receive payment under the Plan shall provide the Administrative Committee with such information or documents as the Administrative Committee may from time to time deem necessary or in its best interests in administering the Plan.

Subsidiaries

<u>Name</u>	<u>State of Incorporation or Formation</u>
Kohl's Department Stores, Inc.	Delaware
Kohl's Investment Corporation	Delaware
Kohl's Illinois, Inc.*	Nevada
Kohl's Pennsylvania, Inc.*	Pennsylvania
Kohl's New York DC, Inc.	Nevada
Kohl's Texas, L.L.C.*	Delaware
Kohl's Texas Limited Partner, L.L.C.*	Delaware
Kohl's Texas, L.P.	Texas
Kohl's Indiana, Inc. *	Delaware
Kohl's Indiana, L.P.	Delaware
Kohl's Michigan, L.P.	Delaware

*These subsidiaries are wholly owned subsidiaries of Kohl's Department Stores, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 #33-49886) pertaining to the 1992 Long Term Compensation Plan, in the Registration Statement (Form S-8 #333-26409) pertaining to the 1994 Long Term Compensation Plan and 1997 Stock Option Plan for Outside Directors, in the Registration Statement (Form S-8 #33-84558) pertaining to Kohl's Corporation Employee Savings Plan, and in the Registration Statement (Form S-8 #333-105264) pertaining to the 2003 Long Term Compensation Plan, and in the related prospectuses, of our reports dated March 3, 2006, with respect to the consolidated financial statements and schedule of Kohl's Corporation, Kohl's Corporation's management assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Kohl's Corporation, included in this Annual Report (Form 10-K) for the year ended January 28, 2006.

/s/ Ernst & Young LLP

Milwaukee, WI
March 16, 2006

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

I, R. Lawrence Montgomery, certify that:

1. I have reviewed this Annual Report on Form 10-K of Kohl's Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/ R. Lawrence Montgomery

R. Lawrence Montgomery
Chairman, Chief 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 of Kohl's Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/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, R. Lawrence Montgomery, Chairman 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 of the Company for the annual period ended January 28, 2006 (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: March 16, 2006

/s/ R. Lawrence Montgomery

R. Lawrence Montgomery
Chairman, Chief 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 of the Company for the annual period ended January 28, 2006 (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: March 16, 2006

/s/ Wesley S. McDonald

Wesley S. McDonald
Chief Financial Officer