

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2015

or

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

Commission file number 1-11084

KOHL'S
KOHL'S CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of incorporation or organization)

39-1630919

(I.R.S. Employer Identification No.)

N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin

(Address of principal executive offices)

53051

(Zip Code)

Registrant's telephone number, including area code (262) 703-7000

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

Title of each class

Common Stock, \$.01 Par Value

Name of each exchange on which registered

New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X 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 X

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 X No _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X 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. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer _____ Non-accelerated filer _____ (Do not check if a smaller reporting company) Smaller reporting company _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No X

At August 1, 2014, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was approximately \$11.0 billion (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date). At March 11, 2015, the Registrant had outstanding an aggregate of 202,802,328 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 May 14, 2015 are incorporated into Parts II and III.

**KOHL'S CORPORATION
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PART I

Item 1. Business

Kohl's Corporation (the "Company" or "Kohl's") was organized in 1988 and is a Wisconsin corporation. As of January 31, 2015, we operated 1,162 department stores in 49 states and an E-Commerce website (www.Kohls.com). We sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.

Our fiscal year ends on the Saturday closest to January 31st each year. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. The following fiscal periods are presented in this report.

<u>Fiscal Year</u>	<u>Ended</u>	<u>Number of Weeks</u>
2014	January 31, 2015	52
2013	February 1, 2014	52
2012	February 2, 2013	53

As reflected in the charts below, our merchandise mix by line of business has remained consistent over the last three years.



Our strategic framework, which we refer to as "The Greatness Agenda," is built on five pillars - amazing product, incredible savings, easy experience, personalized connections and winning teams.

Amazing product provides a renewed focus on providing the right merchandise mix, being locally relevant and tailoring products to every customer across every shopping channel. We strive to offer the appropriate balance between the fashion that our customers want and the everyday basics that they need.

Our merchandise mix includes both national brands and private and exclusive brands which are available only at Kohl's. In 2014, we continued our emphasis on national brands as we believe they drive customer traffic and sales increases. National brands generally have higher selling prices than private and exclusive brands.

Most of our private brands are well-known established brands such as Apt. 9, Croft & Barrow, Jumping Beans, SO and Sonoma Life + Style. Selling prices for our private brands are generally lower than exclusive and national brands.

Exclusive brands are developed and marketed through agreements with nationally-recognized brands. Examples of our exclusive brands include Food Network, Jennifer Lopez, Marc Anthony, Rock & Republic and Simply Vera Vera Wang. Exclusive brands have selling prices which are generally lower than national brands, but higher than private brands.

The charts below summarize the percentage of our sales which were national brands and those which were private and exclusive brands over the last three years.



We frequently add new products, brands and categories in order to maintain freshness in our inventory assortment and drive customer traffic to our stores and website. In 2014, we launched the Fitbit, IZOD, Juicy Couture, Gaiam, Nespresso and PUMA brands as well as various Jumping Beans collections featuring Disney characters.

Another example of new products that customers can find in many of our stores and on-line is our new beauty departments which offer brands which were not previously available at Kohl's. We expect to further expand our beauty offerings in 2015 when we launch Bliss beauty and apparel products. As of year-end, approximately half of our stores have newly-renovated beauty departments. We expect to have the new beauty department in approximately 900 stores by the end of 2015.

The goal of incredible savings is to help every customer get more from every dollar. For many years, we have offered special discounts during our Kohl's Cash promotions and for being a Kohl's-branded private label credit card holder. In 2014, we launched a nationwide loyalty program called Yes2You rewards. Customers who enroll earn rewards based on the dollar amount of purchases that they make. As of year-end 2014, approximately 25 million customers had enrolled.

We're able to offer incredible savings to our customers because of our ongoing commitment to a lean operating model. Critical elements of this low-cost structure are our unique store format; lean staffing levels; sophisticated systems which enhance productivity and support personalization, predictive analytics and real-time savings offers; and operating efficiencies which are the result of centralized buying, advertising and distribution.

We are also making significant investments to create an easy experience for our customers wherever or however they choose to engage with us. Whether they are shopping in one of our stores, from their mobile devices or from their laptops, we are creating a consistent experience to ensure that our customers can connect with us wherever and however they wish. In 2014, we focused on improving the tablet and smart phone shopping experience and tested buy on-line and pick up in store in approximately 100 stores. We expect to offer this shopping option in all of our stores by the second quarter of 2015.

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

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

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

Distribution

We receive substantially all of our store merchandise at our nine retail distribution centers. A small amount of our merchandise is delivered directly to the stores by vendors or their distributors. The retail distribution centers, which are strategically located throughout the United States, ship merchandise to each store by contract carrier several times a week. On-line sales are shipped from four Kohl's fulfillment centers, from third-party fulfillment centers, from our retail distribution centers, directly by third-party vendors, and from a majority of our stores. We expect to have ship-from-store capabilities in all of our stores by the end of 2015.

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

Employees

As of January 31, 2015, we employed approximately 137,000 associates, including approximately 32,000 full-time and 105,000 part-time associates. The number of associates varies during the year, peaking during the back-to-school and holiday seasons. None of our associates are represented by a collective bargaining unit. We believe our relations with our associates are very good.

Competition

The retail industry is highly competitive. Management considers style, quality and price to be the most significant competitive factors in the industry. Merchandise mix, brands, service, customer experience and convenience are also key competitive factors. Our primary competitors are traditional department stores, upscale mass merchandisers, off-price retailers, specialty stores, internet and catalog businesses and other forms of retail commerce. Our specific competitors vary from market to market.

Merchandise Vendors

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

Approximately 30% of the merchandise we sell is sourced through a third-party purchasing agent. None of our vendors individually accounted for more than 5% of our net purchases during 2014. We have no significant long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We believe we have good working relationships with our suppliers.

Seasonality

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

Trademarks and Service Marks

The name “Kohl’s” is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary has over 180 additional registered trademarks, trade names and service marks, most of which are used in connection with our private label program.

Available Information

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

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

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

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

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

Item 1A. Risk Factors

Forward-Looking Statements

This Form 10-K contains “forward-looking statements” made within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believes,” “anticipates,” “plans,” “may,” “intends,” “will,” “should,” “expects” and similar expressions are intended to identify forward-looking statements. Forward-looking statements also include comments about our future sales or financial performance and our plans, performance and other objectives, expectations or intentions, such as statements regarding our liquidity, debt service requirements, planned capital expenditures, future store initiatives, adequacy of capital resources and reserves and statements contained in the “2015 Outlook” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations. There are a number of important factors that could cause our results to differ materially from those indicated by the forward-looking statements including, among others, those risk factors described below. Forward-looking statements relate to the date made, and we undertake no obligation to update them.

Our sales, gross margin and operating results could be negatively impacted by a number of factors including, but not limited to those described below. Many of these risk factors are outside of our control. If we are not successful in managing these risks, they could have a negative impact on our sales, gross margin and/or operating results.

- *Declines in general economic conditions, consumer spending levels and other conditions could lead to reduced consumer demand for our merchandise.*

Consumer spending habits, including spending for the merchandise that we sell, are affected by many factors including prevailing economic conditions, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy and fuel costs, income tax rates and policies, consumer confidence, consumer perception of economic conditions, and the consumer’s disposable income, credit availability and debt levels.

The moderate income consumer, which is our core customer, has been under economic pressure for several years. Recent economic conditions have caused disruptions and significant volatility in financial markets, increased rates of default and bankruptcy and declining consumer and business confidence, which has led to decreased levels of consumer spending, particularly on discretionary items. A continued or incremental slowdown in the U.S. economy and the uncertain economic outlook could continue to adversely affect consumer spending habits. As all of our stores are located in the United States, we are especially susceptible to deteriorations in the U.S. economy.

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

- *Actions by our competitors.*

The retail business is highly competitive. We compete for customers, associates, locations, merchandise, services and other important aspects of our business with many other local, regional and national retailers. Those competitors include traditional department stores, upscale mass merchandisers, off-price retailers, specialty stores, internet and catalog businesses and other forms of retail commerce.

We consider style, quality and price to be the most significant competitive factors in our industry. The continuing migration and evolution of retailing to on-line and mobile channels has increased our challenges in differentiating ourselves from other retailers especially as it relates to national brands. In particular, consumers are able to quickly and conveniently comparison shop with digital tools, which can lead to decisions based solely on price. Unanticipated changes in the pricing and other practices of our competitors may adversely affect our performance.

- *Our inability to offer merchandise that resonates with existing customers and helps to attract new customers and failure to successfully manage our inventory levels.*

Our business is dependent on our ability to anticipate fluctuations in consumer demand for a wide variety of merchandise. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions could create inventory imbalances and adversely affect our performance and long-term relationships

with our customers. Additionally, failure to accurately predict changing consumer tastes may result in excess inventory, which could result in additional markdowns and adversely affect our operating results.

- *We may be unable to source merchandise in a timely and cost-effective manner.*

Approximately 30% of the merchandise we sell is sourced through a third-party purchasing agent. The remaining merchandise is sourced from a wide variety of domestic and international vendors. Our ability to find qualified vendors and access products in a timely and efficient manner is a significant challenge which is typically even more difficult for goods sourced outside the United States. Political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs, work stoppages, port strikes, and other factors relating to foreign trade are beyond our control and could adversely impact our performance.

Increases in the price of merchandise, raw materials, fuel and labor or their reduced availability could increase our cost of goods. The price and availability of raw materials may fluctuate substantially, depending on a variety of factors, including demand, weather, supply conditions, transportation costs, energy prices, work stoppages, government regulation and government policy, economic climates, market speculation and other unpredictable factors. An inability to mitigate these cost increases, unless sufficiently offset with our pricing actions, might cause a decrease in our profitability. Any related pricing actions might cause a decline in our sales volume. Additionally, a decrease in the availability of raw materials could impair our ability to meet our production or purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel and labor may also have an adverse impact on our cash and working capital needs as well as those of our suppliers.

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

- *Failure of our vendors to adhere to our Terms of Engagement and applicable laws.*

A substantial portion of our merchandise is received from vendors and factories outside of the United States. We require all of our suppliers to comply with all applicable local and national laws and regulations and our Terms of Engagement for Kohl's Business Partners. Our Terms of Engagement include employment and ethical standards as well as environmental, legal, communication, monitoring/compliance and other requirements. From time to time, suppliers may not be in compliance with these standards or applicable laws. Significant or continuing noncompliance with such standards and laws by one or more suppliers could have a negative impact on our reputation and our results of operations.

- *Ineffective marketing.*

We believe that differentiating Kohl's in the marketplace is critical to our success. We design our marketing programs to increase awareness of our brands and to build personalized connections with our customers. We believe our marketing programs will strengthen customer loyalty, increase the number and frequency of customers that shop our stores and website and increase our sales. If our marketing programs are not successful, our sales and profitability could be adversely affected.

- *Damage to the reputation of the Kohl's brand or our private and exclusive brands.*

We believe the Kohl's brand name and many of our private and exclusive brand names are powerful sales and marketing tools. We devote significant resources to promoting and protecting them. We develop and promote private and exclusive brands that have generated national recognition. In some cases, the brands or the marketing of such brands are tied to or affiliated with well-known individuals. Damage to the reputations (whether or not justified) of the Kohl's brand, our private and exclusive brand names or any affiliated individuals, could arise from product failures; concerns about human rights, working conditions and other labor rights and conditions where merchandise is produced; perceptions of our pricing and return policies; litigation; vendor violations of our Terms of Engagement; or various other forms of adverse publicity, especially in social media outlets. Damage to our reputation may generate negative customer sentiment, potentially resulting in a reduction in sales, earnings, and shareholder value.

- *Product safety concerns.*

If our merchandise offerings do not meet applicable safety standards or our customers' expectations regarding safety, we could experience lost sales, experience increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action and/or

private litigation. Reputational damage caused by real or perceived product safety concerns, could have a negative impact on our sales.

- *Disruptions in our information systems or an inability to adequately maintain and update those systems.*

The efficient operation of our business is dependent on our information systems. In particular, we rely on our information systems to effectively manage sales, distribution, and merchandise planning and allocation functions. We also generate sales through the operations of our Kohls.com website. We frequently make investments that will help maintain and update our existing information systems. The potential problems and interruptions associated with implementing technology initiatives or the failure of our information systems to perform as designed could disrupt our business and harm sales and profitability.

- *Weather conditions could adversely affect consumer shopping patterns.*

A significant portion of our business is apparel and is subject to weather conditions. As a result, our operating results may be adversely affected by severe or unexpected weather conditions. Frequent or unusually heavy snow, ice or rain storms; natural disasters such as earthquakes, tornadoes, floods and hurricanes; or extended periods of unseasonable temperatures could adversely affect our performance by affecting consumer shopping patterns, diminishing demand for seasonal merchandise and/or causing physical damage to our properties.

- *Inability to successfully execute a profitable omni-channel strategy.*

Our business has evolved from an in-store only shopping experience to a multi-channel experience which includes in-store, on-line, mobile, social media and/or other interactions. We strive to offer a desirable omni-channel shopping experience for our customers and use social media as a way to interact with our customers and enhance their shopping experiences.

Our ability to compete with other retailers and to meet our customer expectations may suffer if we are unable to execute a relevant customer-facing technology in a timely manner. Our ability to compete may also suffer if Kohl's, our suppliers, or our third-party shipping and delivery vendors are unable to effectively and efficiently fulfill and deliver orders, especially during the holiday season when sales volumes are especially high. Consequently, our results of operations could be adversely affected.

Our omni-channel business currently generates a lower operating margin than we have historically reported when we were primarily a store-only retailer. This profitability variance is due to a variety of factors including, but not limited to, an increase in the volume of lower margin merchandise, especially home products; costs to ship merchandise to our customers; and investments to provide the infrastructure necessary to expand our omni-channel strategy. There can be no assurances that future profitability will return to historical levels.

Our revenues, operating results and cash requirements are affected by the seasonal nature of our business.

Our business is subject to seasonal influences, with a major portion of sales and income historically realized during the second half of the fiscal year, which includes the back-to-school and holiday seasons.

If we do not properly stock or restock popular products, particularly during the back-to-school and holiday seasons, we may fail to meet customer demand, which could affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs, which could reduce profitability.

We may experience an increase in costs associated with shipping on-line orders due to complimentary upgrades, split shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our website within a short period of time due to increased holiday demand, we may experience system interruptions that make our website unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. Also, third-party delivery, direct ship vendors and customer service co-sourcers may be unable to meet the seasonal demand.

This seasonality causes our operating results and cash needs to vary considerably from quarter to quarter. Additionally, any decrease in sales or profitability during the second half of the fiscal year could have a disproportionately adverse effect on our results of operations.

Our inability to raise additional capital and maintain bank credit on favorable terms could adversely affect our business and financial condition.

We have historically relied on the public debt markets to raise capital to partially fund our operations and growth. We have also historically maintained lines of credit with financial institutions. Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict our access to these potential sources of future liquidity. Our continued access to these liquidity sources on favorable terms depends on multiple factors, including our operating performance and maintaining strong debt ratings. If our credit ratings fall below desirable levels, our ability to access the debt markets and our cost of funds for new debt issuances could be adversely impacted. Additionally, if unfavorable capital market conditions exist if and when we were to seek additional financing, we may not be able to raise sufficient capital on favorable terms and on a timely basis (if at all). If our access to capital was to become significantly constrained or our cost of capital was to increase significantly, our financial condition, results of operations and cash flows could be adversely affected.

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

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

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

Our credit card operations facilitate merchandise sales and generate additional revenue from fees related to extending credit. The proprietary Kohl's credit card accounts are owned by an unrelated third-party, but we share in the net risk-adjusted revenue of the portfolio, which is defined as the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. Changes in funding costs related to interest rate fluctuations will be shared similar to the revenue if interest rates exceed defined amounts. Though management currently believes that increases in funding costs will be largely offset by increases in finance charge revenue, increases in funding costs could adversely impact the profitability of this program.

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

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

Our performance is dependent on attracting and retaining a large number of quality associates. Many of those associates are in entry level or part-time positions with historically high rates of turnover. Many of our strategic initiatives require that we hire and/or develop associates with appropriate experience. Our staffing needs are especially high during the holiday season. Competition for these associates is intense. We cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods.

Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, actions by our competitors in compensation levels and changing demographics. Changes that adversely impact our ability to attract and retain quality associates could adversely affect our performance. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefit costs, which could negatively impact our profitability.

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

Various aspects of our operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. The costs and other effects of new or changed legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent such requirements increase prices of goods and services, reduce the availability of raw materials or further restrict our ability to extend credit to our customers.

We continually monitor the state and federal legal/regulatory environment for developments that may impact us. Failure to detect changes and comply with such laws and regulations may result in an erosion of our reputation, disruption of business and/or loss of associate morale. Additionally, we are regularly involved in various litigation matters that arise out of the conduct of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance.

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

As part of our normal course of business, we collect, process and retain sensitive and confidential customer, associate and company information. The protection of this data is extremely important to us, our associates and our customers. Despite the considerable security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could disrupt our operations, damage our reputation and customers' willingness to shop in our stores or on our website, violate applicable laws, regulations, orders and agreements, and subject us to additional costs and liabilities which could be material.

Item 1B. Unresolved Staff Comments

Not applicable

Item 2. Properties

Stores

As of January 31, 2015, we operated 1,162 stores with 83.8 million selling square feet in 49 states. Our typical, or "prototype," store has approximately 88,000 gross square feet of retail space and serves trade areas of 150,000 to 200,000 people. Most "small" stores are 55,000 to 68,000 gross square feet and serve trade areas of 100,000 to 150,000 people.

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

The following tables summarize key information about our stores.

	Number of Stores				Number of Stores		
	2013	Net Change	2014		2013	Net Change	2014
Mid-Atlantic Region:				South Central Region:			
Delaware	5	—	5	Arkansas	8	—	8
Maryland	23	—	23	Kansas	12	—	12
Pennsylvania	50	—	50	Louisiana	6	2	8
Virginia	30	—	30	Missouri	26	—	26
West Virginia	7	—	7	Oklahoma	10	1	11
Total Mid-Atlantic	115	—	115	Texas	85	—	85
Midwest Region:				Total South Central	147	3	150
Illinois	66	—	66	Southeast Region:			
Indiana	39	—	39	Alabama	14	—	14
Iowa	18	—	18	Florida	53	—	53
Michigan	45	—	45	Georgia	35	—	35
Minnesota	26	—	26	Kentucky	16	1	17
Nebraska	7	—	7	Mississippi	5	—	5
North Dakota	4	—	4	North Carolina	31	—	31
Ohio	58	—	58	South Carolina	15	1	16
South Dakota	3	—	3	Tennessee	20	—	20
Wisconsin	40	—	40	Total Southeast	189	2	191
Total Midwest	306	—	306	West Region:			
Northeast Region:				Alaska	1	—	1
Connecticut	21	1	22	Arizona	26	—	26
Maine	5	—	5	California	128	(2)	126
Massachusetts	25	—	25	Colorado	24	—	24
New Hampshire	11	—	11	Idaho	5	—	5
New Jersey	38	—	38	Montana	2	—	2
New York	51	(1)	50	Nevada	12	—	12
Rhode Island	3	—	3	New Mexico	5	—	5
Vermont	1	—	1	Oregon	11	—	11
Total Northeast	155	—	155	Utah	12	—	12
				Washington	18	1	19
				Wyoming	2	—	2
				Total West	246	(1)	245
				Total Kohl's	1,158	4	1,162

	Number of Stores by Store Type		
	2013	Net Change	2014
Prototype	993	(5)	988
Small	165	9	174
	<u>1,158</u>	<u>4</u>	<u>1,162</u>

	Number of Stores by Location		
	2013	Net Change	2014
Strip centers	777	3	780
Community & regional malls	85	—	85
Freestanding	296	1	297
	<u>1,158</u>	<u>4</u>	<u>1,162</u>

	Number of Stores by Ownership		
	2013	Net Change	2014
Owned	412	1	413
Leased*			
Operating lease	246	4	250
On-balance sheet	500	(1)	499
Total leased	<u>746</u>	<u>3</u>	<u>749</u>
	<u>1,158</u>	<u>4</u>	<u>1,162</u>

* Includes locations where we lease the land and/or building

Distribution Centers

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

	Year Opened	Square Footage
Findlay, Ohio	1994	780,000
Winchester, Virginia	1997	420,000
Blue Springs, Missouri	1999	540,000
Corsicana, Texas	2001	540,000
Monroe, Ohio*	2001	1,200,000
Mamakating, New York	2002	605,000
San Bernardino, California	2002	575,000
Macon, Georgia	2005	560,000
Patterson, California	2006	360,000
Ottawa, Illinois	2008	328,000
San Bernardino, California*	2010	970,000
Edgewood, Maryland*	2011	1,450,000
DeSoto, Texas*	2012	1,200,000

* On-line fulfillment centers

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

Corporate Facilities

We own our corporate headquarters in Menomonee Falls, Wisconsin. We also own or lease additional buildings and office space which are used by various corporate departments, including our credit operations.

Item 3. Legal Proceedings

We are not currently a party to any material legal proceedings, but are subject to certain legal proceedings and claims from time to time that arise out of the conduct of our business.

Item 4. Mine Safety Disclosures

Not applicable

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

Our Common Stock has been traded on the New York Stock Exchange ("NYSE") since May 19, 1992, under the symbol "KSS." The prices in the table set forth below indicate the high and low sales prices of our Common Stock per the New York Stock Exchange Composite Price History and our quarterly cash dividends per common share for each quarter in 2014 and 2013.

	2014			2013		
	High	Low	Dividend	High	Low	Dividend
Fourth Quarter	\$61.54	\$54.95	\$0.39	\$58.47	\$49.97	\$0.35
Third Quarter	62.50	53.74	0.39	57.04	49.84	0.35
Second Quarter	55.89	51.00	0.39	54.16	47.00	0.35
First Quarter	57.89	49.09	0.39	49.32	45.21	0.35

On February 25, 2015, our Board of Directors approved a dividend of \$0.45 per share which will be paid on March 25, 2015 to shareholders of record as of March 11, 2015. In 2014, we paid aggregate cash dividends of \$317 million.

(b) Holders

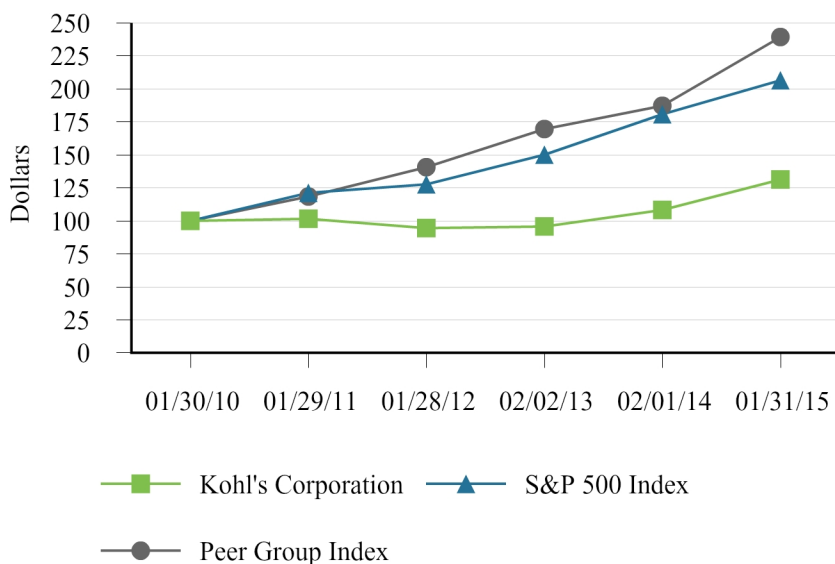
As of March 11, 2015, there were approximately 4,200 record holders of our Common Stock.

(c) Securities Authorized For Issuance Under Equity Compensation Plans

See the information provided in the "Equity Compensation Plan Information" section of the Proxy Statement for our May 14, 2015 Annual Meeting of Shareholders, which information is incorporated herein by reference.

(d) Performance Graph

The graph below compares our cumulative five-year shareholder return to that of the Standard & Poor’s 500 Index and a Peer Group Index that is consistent with the retail peer group used in the Compensation Discussion & Analysis section of our Proxy Statement for our May 14, 2015 Annual Meeting of Shareholders. The Peer Group Index was calculated by Capital IQ, a Standard & Poor’s business and includes Bed, Bath & Beyond Inc.; The Gap, Inc.; J.C Penney Company, Inc.; Limited Brands, Inc.; Macy’s, Inc.; Nordstrom, Inc.; Ross Stores, Inc.; Sears Holding Corporation; Target Corporation; and The TJX Companies, Inc. The Peer Group Index is weighted by the market capitalization of each component company at the beginning of each period. The graph assumes an investment of \$100 on January 30, 2010 and reinvestment of dividends. The calculations exclude trading commissions and taxes.



<u>Company / Index</u>	<u>Jan 30, 2010</u>	<u>Jan 29, 2011</u>	<u>Jan 28, 2012</u>	<u>Feb 2, 2013</u>	<u>Feb 1, 2014</u>	<u>Jan 31, 2015</u>
Kohl’s Corporation	\$100.00	\$101.65	\$94.58	\$95.78	\$108.30	\$131.35
S&P 500 Index	100.00	121.26	127.72	150.20	180.70	206.41
Peer Group Index	100.00	118.35	140.64	169.67	187.33	239.18

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

We did not sell any equity securities during 2014 which were not registered under the Securities Act.

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

In 2012, our Board of Directors authorized the repurchase of \$3.5 billion of our shares of common stock. Purchases under the repurchase program may be made in the open market, through block trades and other negotiated transactions. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions. There is no fixed termination date for the repurchase program, and the program may be suspended, discontinued or accelerated at any time.

The following table contains information for shares repurchased and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the three fiscal months ended January 31, 2015:

<u>Period</u>	<u>Total Number of Shares Purchased During Period</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u> (Dollars In Millions)
November 2 – November 29, 2014	942,839	\$ 56.61	941,999	\$ 1,714
November 30, 2014 – January 3, 2015	713,532	58.19	712,237	1,673
January 4 – January 31, 2015	494,521	60.02	466,162	1,645
Total	<u>2,150,892</u>	<u>\$ 57.92</u>	<u>2,120,398</u>	<u>\$ 1,645</u>

Item 6. Selected Consolidated Financial Data

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

	2014	2013	2012 (d)	2011	2010
	(Dollars in Millions, Except Per Share and Per Square Foot Data)				
Statements of Income Data:					
Net sales	\$19,023	\$ 19,031	\$19,279	\$ 18,804	\$ 18,391
Cost of merchandise sold	12,098	12,087	12,289	11,625	11,359
Gross margin	6,925	6,944	6,990	7,179	7,032
Selling, general and administrative expenses	4,350	4,313	4,267	4,243	4,190
Depreciation and amortization	886	889	833	778	750
Operating income	1,689	1,742	1,890	2,158	2,092
Interest expense, net	340	338	329	299	304
Income before income taxes	1,349	1,404	1,561	1,859	1,788
Provision for income taxes	482	515	575	692	668
Net income	\$ 867	\$ 889	\$ 986	\$ 1,167	\$ 1,120
Basic earnings per share	\$ 4.28	\$ 4.08	\$ 4.19	\$ 4.33	\$ 3.69
Diluted earnings per share	\$ 4.24	\$ 4.05	\$ 4.17	\$ 4.30	\$ 3.66
Dividends per share	\$ 1.56	\$ 1.40	\$ 1.28	\$ 1.00	—
Operating Data:					
Net sales growth	— %	(1.3)%	2.5%	2.2%	7.1%
Comparable sales growth (a)	(0.3)%	(1.2)%	0.3%	0.5%	4.4%
Net sales per selling square foot (b)	\$ 226	\$ 227	\$ 231	\$ 232	\$ 231
As a percent of sales:					
Gross margin	36.4 %	36.5 %	36.3%	38.2%	38.2%
Operating income	8.9 %	9.2 %	9.8%	11.5%	11.4%
Return on average shareholders' equity (c)	14.7 %	14.8 %	15.8%	16.4%	14.1%
Total square feet of selling space (in thousands)	83,750	83,671	83,098	82,226	80,139
Number of stores (end of period)	1,162	1,158	1,146	1,127	1,089
Balance Sheet Data:					
Working capital	\$ 2,839	\$ 2,556	\$ 2,184	\$ 2,222	\$ 2,888
Total assets	14,431	14,357	13,905	14,148	14,891
Long-term debt	2,793	2,792	2,492	2,141	1,894
Capital lease and financing obligations	1,968	2,069	2,061	2,103	2,104
Shareholders' equity	5,991	5,978	6,048	6,508	7,850
Cash flow from operations	2,024	1,884	1,265	2,139	1,750
Capital expenditures	682	643	785	927	801

- (a) Comparable sales growth is based on sales for stores (including relocated or remodeled stores) which were open throughout both the full current and prior year periods and omni-channel sales. Fiscal 2013 comparable sales growth compares the 52 weeks ended February 1, 2014 to the 52 weeks ended January 26, 2013. Fiscal 2012 comparable sales growth compares the 52 weeks ended January 26, 2013 to the 52 weeks ended January 28, 2012.
- (b) Net sales per selling square foot includes on-line sales and stores open for the full current period. 2012 excludes the impact of the 53rd week.
- (c) Average shareholders' equity is based on a 5-quarter average.
- (d) Fiscal 2012 was a 53-week year. During the 53rd week, total sales were \$169 million; selling, general and administrative expenses were approximately \$30 million; interest was approximately \$2 million; net income was approximately \$15 million and diluted earnings per share was approximately \$0.06.

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

Executive Summary

As of January 31, 2015, we operated 1,162 family-focused, value-oriented department stores and a website (www.Kohls.com) that sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.

In the first quarter of 2014, we introduced a multi-year strategic framework which we refer to as "the Greatness Agenda". It is built on five pillars - amazing product, incredible savings, easy experience, personalized connections and winning teams. All of the Greatness Agenda initiatives are designed to increase sales, primarily by increasing the number of customers that shop at our stores and on-line.

To ensure newness and excitement in our merchandise assortment, we added new brands, including Fitbit, IZOD, Juicy Couture, Gaiam, Nespresso, PUMA and various Jumping Beans collections featuring Disney characters, and improved the beauty department in many of our stores. We renewed our emphasis on national brands as the name recognition of these brands often increases customer traffic.

We improved the Kohl's mobile shopping experience and personalized our marketing. We also launched the Yes2You rewards program which has increased customer loyalty by providing future discounts based on past purchases.

We knew that 2014 would be a transitional year as we implemented Greatness Agenda initiatives. Though we are early in the program, we are pleased with the results that we saw in its first year. Comparable sales and number of transactions improved throughout the year. In the fourth quarter, both comparable sales and number of transactions were higher than the prior year.

Net sales for the year were \$19.0 billion, consistent with 2013. Comparable sales decreased 0.3%.

Gross margin as a percentage of sales was 36.4% in 2014, 8 basis points lower than in 2013. Merchandise margin increased, but was more than offset by higher shipping losses attributable to growth in the number of on-line orders.

Selling, general and administrative ("SG&A") expenses increased both in dollars and as a percentage of sales. We increased our marketing expenses to launch our new loyalty program and to increase customer traffic and invested in omni-channel technology initiatives. Variable expenses, including store payroll, were well managed throughout the year.

For the year, net income was \$867 million, 2% lower than last year, and diluted earnings per share was \$4.24, an increase of 5% over 2013.

We generated \$1.2 billion of free cash flow in 2014, a 9% increase over 2013. We ended the year with \$1.4 billion of cash and cash equivalents.

See Results of Operations and Liquidity and Capital Resources for additional details about our financial results and how we define comparable sales and free cash flow (a non-GAAP financial measure).

2015 Outlook

Our current expectations for 2015 are as follows:

Total sales	Increase 1.8 - 2.8%
Comparable sales	Increase 1.5 - 2.5%
Gross margin as a percent of sales	Increase 0 - 20 bps
SG&A	Increase 1.5 - 2.5%
Depreciation	\$940 million
Interest	\$335 million
Effective tax rate	37%
Earnings per diluted share	\$4.40 - \$4.60
Capital expenditures	\$800 million
Share repurchases:	
Total repurchases	\$1 billion
Cost per share	\$70.00

Results of Operations

Net Sales.

As our omni-channel strategy continues to mature, it is increasingly difficult to distinguish between a "store" sale and an "E-Commerce" sale. Our website increases store sales as in-store customers have often pre-shopped on-line before shopping in the store. Below is a list of some omni-channel examples:

- Stores increase on-line sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering on-line.
- On-line purchases can easily be returned in our stores.
- Kohl's Cash coupons and Yes2You rewards can be earned and redeemed on-line or in store regardless of where they were earned.
- In-store customers can order from on-line kiosks in our stores.
- Order on-line and pick-up in store is available in approximately 100 stores and is expected to be available in all stores by the second quarter of 2015.
- Customers who utilize our mobile app while in the store may receive mobile coupons to use when they check out.
- On-line orders may be shipped from a dedicated E-Commerce fulfillment center, a store, a retail distribution center, direct ship vendors or any combination of the above.

Because we no longer have a clear distinction between "store" sales and "E-Commerce" sales, we do not separately report E-Commerce sales.

Comparable sales include sales for stores (including relocated or remodeled stores) which were open during both the current and prior year periods. We also include omni-channel sales in our comparable sales.

The following table summarizes net sales:

	2014	2013	2012
Net sales (In Millions)	\$ 19,023	\$19,031	\$19,279
Increase (decrease) in sales:			
Total	— %	(1.3)%	2.5%
Comparable (a)	(0.3)%	(1.2)%	0.3%
Net sales per selling square foot (b)	\$ 226	\$ 227	\$ 231

(a) Includes sales for stores (including relocated or remodeled stores) which were open throughout both the full current and prior year periods and omni-channel sales. 2013 compares the 52 weeks ending February 1, 2014 to the 52 weeks ending January 26, 2013. 2012 compares the 52 weeks ended January 26, 2013 to the 52 weeks ended January 28, 2012.

(b) Net sales per selling square foot includes on-line sales and stores open for the full current period. 2012 excludes the impact of the 53rd week.

The following table summarizes the changes in net sales:

	2014		2013	
	\$	%	\$	%
	(Dollars in Millions)			
Net sales - prior year	\$ 19,031		\$ 19,279	
Comparable sales (a)	(54)	(0.3)%	(233)	(1.2)%
New stores and other revenues	46	—	154	—
Net change before 53rd week	(8)	— %	(79)	(0.4)%
Net sales in 53rd week	—	—	(169)	—
Total decrease in net sales	(8)	— %	(248)	(1.3)%
Net sales - current year	\$ 19,023		\$ 19,031	

(a) 2013 compares the 52 weeks ending February 1, 2014 to the 52 weeks ending January 26, 2013.

Drivers of the changes in comparable sales were as follows:

	2014	2013
Selling price per unit	2.8 %	(0.4)%
Units per transaction	(0.8)	1.5
Average transaction value	2.0	1.1
Number of transactions	(2.3)	(2.3)
Comparable sales	(0.3)%	(1.2)%

The increase in selling price per unit was primarily due to increases in national brand merchandise penetration. Units per transaction decreased as customers purchased fewer items in response to the higher prices. Transactions improved throughout the year and were higher in the fourth quarter as the Greatness Agenda initiatives gained traction.

From a regional perspective, including on-line originated sales, the West, Southeast, and Midwest reported higher sales, which were offset by sales decreases in the Northeast, Mid-Atlantic, and South Central regions.

By line of business, Children's, Footwear, and Men's reported sales increases. All Children's categories reported sales increases, with toys reporting the largest increase. Accessories, led by bath and beauty, was slightly above the Company average, primarily as a result of our beauty remodel program. Home and Women's both underperformed the Company average. Active was the strongest category in the Men's, Women's, and Footwear businesses. Electrics and luggage reported the highest sales increases in the Home business.

Net sales per selling square foot (which includes on-line sales and stores open for the full current period and includes omni-channel), decreased \$1 to \$226 in 2014. The decrease is consistent with the decrease in comparable sales.

Net sales for 2013 decreased \$248 million from 2012 and comparable sales decreased 1.2%. From a line of business perspective, Children's, Men's and Home outperformed the Company average in 2013. Comparable sales in Women's was consistent with the Company average, while Accessories and Footwear were below the Company average. All regions, except the West, which reported sales consistent with 2012, reported modest sales decreases.

Gross margin.

	2014	2013	2012
	(Dollars in Millions)		
Gross margin	\$ 6,925	\$ 6,944	\$ 6,990
As a percent of net sales	36.4%	36.5%	36.3%

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

Gross margin as a percentage of sales decreased 8 basis points from 2013 to 2014. Merchandise sales margin increased 9 basis points. Shipping losses reduced margin 22 basis points more in 2014 than in 2013.

Gross margin as a percentage of sales increased approximately 20 basis points in 2013 over 2012. The increase included a 45 basis point increase in our merchandise sales margin. This increase was primarily due to modest decreases in apparel costs in 2013. Partially offsetting this increase were higher shipping losses in our on-line business. The losses were due to higher costs to ship merchandise during the fourth quarter holiday season and to growth in our on-line business.

Selling, general and administrative expenses.

	2014	2013	2012
	(Dollars in Millions)		
Selling, general, and administrative expenses	\$ 4,350	\$ 4,313	\$ 4,267
As a percent of net sales	22.9%	22.7%	22.1%

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

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

	2014	2013
	(Dollars In Millions)	
Corporate expenses	\$ 34	\$ 32
Marketing costs, excluding credit card operations	21	9
Distribution costs	10	27
Store expenses	(4)	27
Net revenues from credit card operations	(24)	(19)
SG&A in 53rd week	—	(30)
Total increase	<u>\$ 37</u>	<u>\$ 46</u>

Many of our expenses, including store payroll and distribution costs, are variable in nature. These costs generally increase as sales increase and decrease as sales decrease. We measure both the change in these variable expenses and the expense as a percent of sales. If the expense as a percent of sales decreased from the prior year, the expense "leveraged" and indicates that the expense was well-managed or effectively generated additional sales. If the expense as a percent of sales

increased over the prior year, the expense "deleveraged" and indicates that sales growth was less than expense growth. SG&A as a percent of sales increased, or "deleveraged," by approximately 20 basis points in 2014.

IT spending, which is included in corporate expenses, increased over 2013 due to growth and infrastructure investments related to our omni-channel strategy. Corporate expenses also increased due to higher incentive compensation.

Marketing costs increased in 2014 as we increased our spending in digital and broadcast. In addition, we launched our loyalty program nationwide in the third quarter of 2014. The increased spending was partially offset by a decrease in spending in newspaper inserts and direct mail.

Distribution costs were \$281 million for 2014, \$271 million for 2013 and \$245 million for 2012. Distribution costs increased in 2014 due to higher distribution and fulfillment costs related to our growing on-line business, particularly in the fourth quarter.

The decrease in store expenses are the result of lower operating expenses, such as common area maintenance, utilities, and janitorial.

Revenues from our credit card operations were \$430 million in 2014, \$406 million in 2013 and \$388 million in 2012. The increases in net revenues from credit card operations are the result of higher finance charge revenues and late fees due to growth in the portfolio. Partially offsetting these increases were higher bad debt expenses and operational costs. The increased operating costs were primarily due to growth in the portfolio.

SG&A for 2013 increased \$46 million, or 1% over 2012. As a percentage of sales, SG&A increased, or "deleveraged", by approximately 60 basis points in 2013. The increase in SG&A was due primarily to higher distribution costs, increased marketing, investments in technology and infrastructure related to our on-line business. These increases were partially offset by lower incentive costs.

Other Expenses.

	2014	2013	2012
	(Dollars In Millions)		
Depreciation and amortization	\$ 886	\$ 889	\$ 833
Interest expense, net	340	338	329
Provision for income taxes	482	515	575
Effective tax rate	35.7%	36.7%	36.8%

Depreciation and amortization were consistent in 2014 and 2013, as higher IT amortization was offset by a decrease due to maturing stores. The increase in depreciation and amortization in 2013 was primarily due to our on-line fulfillment centers and IT amortization.

Net interest expense increased \$2 million, or 1%, in 2014 and increased \$9 million, or 3%, in 2013. The increases in interest expense are primarily due to higher outstanding long-term debt following the September 2013 debt issuance.

The decreases in the effective tax rate for 2014 and 2013 were primarily due to favorable settlements of state tax audits in both years.

Inflation

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

Liquidity and Capital Resources

The following table presents the primary cash requirements and sources of funds.

<u>Cash Requirements</u>	<u>Source of Funds</u>
<ul style="list-style-type: none"> • Operational needs, including salaries, rent, taxes and other costs of running our business • Capital expenditures • Inventory (seasonal and new store) • Share repurchases • Dividend payments 	<ul style="list-style-type: none"> • Cash flow from operations • Short-term trade credit, in the form of extended payment terms • Line of credit under our revolving credit facility

Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season. Share repurchases are discretionary and can be discontinued at any time should we require cash for other uses.

The following table includes cash balances and changes.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In Millions)		
Cash and cash equivalents	\$ 1,407	\$ 971	\$ 537
Net cash provided by (used in):			
Operating activities	\$ 2,024	\$ 1,884	\$ 1,265
Investing activities	(593)	(623)	(660)
Financing activities	(995)	(827)	(1,273)
Free Cash Flow (a)	\$ 1,234	\$ 1,127	\$ 381

(a) See the Free Cash Flow discussion later in this Liquidity and Capital Resources section for additional discussion of this non-GAAP financial measure.

Operating activities.

Cash provided by operations increased \$140 million, or 7%, in 2014 to \$2.0 billion.

Merchandise inventory decreased \$60 million in 2014 to \$3.8 billion. Inventory per store decreased 2% and units per store decreased 3% from 2013. Accounts payable as a percent of inventory was 39.6% at January 31, 2015, compared to 35.2% at February 1, 2014. The increase reflects higher receipt volume and timing of payments to some of our vendors.

Cash provided by operations increased \$619 million to \$1.9 billion in 2013. The increase was primarily due to reduced inventory growth and to lower bonus and other payroll-related liability payments in 2013.

Investing activities.

Net cash used in investing activities decreased \$30 million to \$593 million in 2014.

Capital expenditures totaled \$682 million in 2014, a \$39 million increase over 2013. The increase in capital spending is primarily due to the expansion of our corporate campus, increased IT spending and the purchase and build out of a call center in Texas, partially offset by decreased new store spending.

Proceeds from sales of investments in auction rate securities totaled \$82 million in 2014 and \$1 million in 2013. All of our auction rate securities have now been sold. Despite the non-liquid nature of these investments following market conditions that arose in 2008, we were able to sell substantially all of our investments at par.

The following table summarizes expected and actual capital expenditures by major category as a percentage of total capital expenditures:

	2015 Estimate	2014	2013	2012
Computer hardware and software	41%	43%	45%	33%
Store refresh	41	34	29	29
New stores	4	7	9	19
Distribution centers	8	3	7	15
Corporate expansion including credit	4	12	9	3
Other	2	1	1	1
Total	100%	100%	100%	100%

We expect total capital expenditures of approximately \$800 million in fiscal 2015. The actual amount of our future capital expenditures will depend on the number and timing of new stores and refreshes; expansion and renovations to distribution centers; the mix of owned, leased or acquired stores; and IT and corporate spending. We do not anticipate that our capital expenditures will be limited by any restrictive covenants in our financing agreements.

Net cash used in investing activities decreased \$37 million to \$623 million in 2013. The decrease reflects a \$142 million decrease in capital expenditures which was substantially offset by a \$108 million decrease in auction rate securities sales.

Financing activities.

Our financing activities used cash of \$995 million in 2014 and \$827 million in 2013.

We repurchased 12 million shares of our common stock for \$677 million in 2014 and 15 million shares for \$799 million in 2013. Share repurchases are discretionary in nature. The timing and amount of repurchases is based upon available cash balances, our stock price and other factors. The shares were purchased as part of our share repurchase program. We have \$1.6 billion of authorized share repurchases remaining from the \$3.5 billion program approved by our Board of Directors in November 2012. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions.

In September 2013, we issued \$300 million of 4.75% notes with semi-annual interest payments that began in December 2013.

We have various facilities upon which we may draw funds, including a 5-year, \$1 billion senior unsecured revolving credit facility which matures in 2018. There were no draws on these facilities during 2014 or 2013.

As of January 31, 2015, our credit ratings were as follows:

	Moody's	Standard & Poor's	Fitch
Long-term debt	Baa1	BBB	BBB+

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

During 2014, we paid cash dividends of \$317 million as detailed in the following table:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Declaration date	February 26	May 14	August 12	November 12
Record date	March 12	June 11	September 10	December 10
Payment date	March 26	June 25	September 24	December 24
Amount per common share	\$0.39	\$0.39	\$0.39	\$0.39

On February 25, 2015 our Board of Directors approved a 15% increase to our dividend to \$0.45 per common share which will be paid on March 25, 2015 to shareholders of record as of March 11, 2015.

Our financing activities used cash of \$827 million in 2013 and \$1.3 billion in 2012. The decrease was primarily due to lower share repurchases.

Free Cash Flow

We generated \$1.2 billion of free cash flow in 2014; an increase of \$107 million over 2013. As discussed above, the increase is primarily the result of higher cash provided by operating activities in 2014. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations (which generally represent landlord reimbursements of construction costs) less acquisition of property & equipment and capital lease & financing obligation payments. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operating activities. We believe that free cash flow represents our ability to generate additional cash flow from our business operations. See the key financial ratio calculations section below.

Key financial ratios.

The following ratios provide additional measures of our liquidity, return on investments, and capital structure.

	2014	2013	2012
	(Dollars in Millions)		
Liquidity Ratios:			
Working capital	\$2,839	\$ 2,556	\$ 2,184
Current ratio	1.99	1.93	1.86
Free Cash Flow (a)	\$1,234	\$ 1,127	\$ 381
Return on Investment Ratios:			
Ratio of earnings to fixed charges	3.6	3.7	4.1
Return on Assets	6.0%	6.2%	6.9%
Return on Gross Investment (a)	15.1%	15.5%	16.8%
Capital Structure Ratios:			
Debt/capitalization	44.3%	44.8%	42.9%
Adjusted Debt to EBITDAR (a)	2.45	2.42	2.23

(a) Non-GAAP financial measure

Liquidity ratios.

Liquidity measures our ability to meet short-term cash needs. Working capital increased \$283 million and our current ratio increased 6 basis points over year-end 2013. In 2013, working capital increased \$372 million and our current ratio increased 7 basis points over year-end 2012. The increases were primarily due to higher cash balances.

Return on investment ratios.

Lower earnings resulted in decreases in all three of our return on investment ratios - ratio of earnings to fixed charges, return on assets and return on gross investment ("ROI"). See Exhibit 12.1 to this Annual Report on Form 10-K for the calculation of our ratio of earnings to fixed charges and the key financial ratio calculations below for the return on assets and ROI calculations.

We believe that ROI is a useful financial measure in evaluating our operating performance. When analyzed in conjunction with our net earnings and total assets and compared with return on assets, it provides investors with a useful tool to evaluate our ongoing operations and our management of assets from period to period. ROI is a non-GAAP financial measure which we define as earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") divided by average gross investment. Our ROI calculation may not be comparable to similarly-titled measures reported by other companies. ROI should be evaluated in addition to, and not considered a substitute for, other financial measures such as return on assets.

Capital structure ratios.

Our debt agreements contain various covenants including limitations on additional indebtedness and a maximum permitted debt ratio. As of January 31, 2015, we were in compliance with all debt covenants and expect to remain in compliance during 2015. See the key financial ratio calculations section below for our debt covenant calculation.

Our debt/capitalization ratio was 44.3% at year-end 2014 and 44.8% at year-end 2013. The decrease is primarily due to lower store lease obligations.

Our Adjusted Debt to EBITDAR ratio was 2.45 for 2014, 2.42 for 2013, and 2.23 for 2012. The increases are primarily due to lower EBITDAR. Adjusted Debt to EBITDAR is a non-GAAP financial measure which we define as our adjusted outstanding debt balance divided by EBITDAR. We believe that our debt levels are best analyzed using this measure. Our current goals are to maintain an Adjusted Debt to EBITDAR ratio of approximately 2.25, to manage debt levels to maintain a BBB+ investment-grade credit rating and to operate with an efficient capital structure for our size, growth plans and industry. We exceeded our target goal in 2014 and 2013 to take advantage of a favorable, low interest rate debt environment. We expect to manage our business and debt levels to get our overall ratio back to our target goal over the next several years. We currently have no plans for new debt in 2015. Our Adjusted Debt to EBITDAR calculation may not be comparable to similarly-titled measures reported by other companies. Adjusted Debt to EBITDAR should be evaluated in addition to, and not considered a substitute for, other financial measures such as debt/capitalization. See the key financial ratio calculations section below for our Adjusted Debt to EBITDAR calculation.

Key financial ratio calculations.

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

	2014	2013	2012
	(Dollars in Millions)		
Net cash provided by operating activities	\$ 2,024	\$ 1,884	\$ 1,265
Acquisition of property & equipment	(682)	(643)	(785)
Capital lease & financing obligation payments	(114)	(115)	(111)
Proceeds from financing obligations	6	1	12
Free cash flow	<u>\$ 1,234</u>	<u>\$ 1,127</u>	<u>\$ 381</u>

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

	2014	2013	2012
	(Dollars in Millions)		
Operating income	\$ 1,689	\$ 1,742	\$ 1,890
Depreciation and amortization	886	889	833
Rent expense	277	270	265
EBITDAR	<u>\$ 2,852</u>	<u>\$ 2,901</u>	<u>\$ 2,988</u>
Average: (a)			
Total assets	\$ 14,406	\$ 14,335	\$ 14,266
Cash equivalents and long-term investments (b)	(477)	(321)	(677)
Deferred tax and other assets	(140)	(149)	(126)
Accumulated depreciation and amortization	5,743	5,457	4,943
Accounts payable	(1,624)	(1,556)	(1,622)
Accrued liabilities	(1,119)	(1,082)	(1,079)
Other long-term liabilities	(563)	(538)	(478)
Capitalized rent (c)	2,667	2,625	2,573
Gross Investment ("AGI")	<u>\$ 18,893</u>	<u>\$ 18,771</u>	<u>\$ 17,800</u>
Return on Assets ("ROA") (d)	<u>6.0%</u>	<u>6.2%</u>	<u>6.9%</u>
Return on Gross Investment ("ROI") (e)	<u>15.1%</u>	<u>15.5%</u>	<u>16.8%</u>

- (a) Represents average of 5 most recent quarter end balances
- (b) Represents excess cash not required for operations
- (c) Represents 10 times store rent and 5 times equipment/other rent
- (d) Net income divided by average total assets
- (e) EBITDAR divided by Gross Investment

The following table includes our debt ratio calculation, as defined by our debt agreements, as of January 31, 2015:

	(Dollars in Millions)
Included Indebtedness	
Total debt	\$ 4,768
Permitted exclusions	(7)
Subtotal	4,761
Rent x 8	2,216
Included Indebtedness	<u>\$ 6,977</u>
Adjusted Debt Compliance EBITDAR	
Net income	\$ 867
Rent expense	277
Depreciation and amortization	886
Net interest	340
Provision for income taxes	482
EBITDAR	<u>2,852</u>
Stock based compensation	48
Other non-cash revenues and expenses	13
Adjusted Debt Compliance EBITDAR	<u>\$ 2,913</u>
Debt Ratio (a)	2.40
Maximum permitted Debt Ratio	3.75

(a) Included Indebtedness divided by Adjusted Debt Compliance EBITDAR

The following table includes our Adjusted Debt to EBITDAR and debt/capitalization (a comparable GAAP measure) calculations:

	2014	2013	2012
	(Dollars in Millions)		
Total Debt (net of discount)	\$ 4,761	\$ 4,861	\$ 4,553
Rent x 8	2,216	2,160	2,120
Adjusted Debt	<u>\$ 6,977</u>	<u>\$ 7,021</u>	<u>\$ 6,673</u>
Total Equity	\$ 5,991	\$ 5,978	\$ 6,048
EBITDAR per above	\$ 2,852	\$ 2,901	\$ 2,988
Debt/capitalization (a)	44.3%	44.8%	42.9%
Adjusted Debt to EBITDAR (b)	2.45	2.42	2.23

(a) Total debt divided by total debt and total equity

(b) Adjusted debt divided by EBITDAR

Contractual Obligations

Our contractual obligations as of January 31, 2015 were as follows:

	Maturing in:				
	Total	2015	2016 and 2017	2018 and 2019	2020 and after
(Dollars In Millions)					
Recorded contractual obligations:					
Long-term debt	\$ 2,800	\$ —	\$ 650	\$ —	\$ 2,150
Capital lease and financing obligations	1,510	99	217	190	1,004
	<u>4,310</u>	<u>99</u>	<u>867</u>	<u>190</u>	<u>3,154</u>
Unrecorded contractual obligations:					
Interest payments:					
Long-term debt	1,617	149	298	216	954
Capital lease and financing obligations	2,681	180	336	303	1,862
Operating leases (a)	5,800	246	481	476	4,597
Purchase obligations (b)	4,366	4,366	—	—	—
Other (c)	699	289	271	110	29
	<u>15,163</u>	<u>5,230</u>	<u>1,386</u>	<u>1,105</u>	<u>7,442</u>
Total	<u>\$ 19,473</u>	<u>\$ 5,329</u>	<u>\$ 2,253</u>	<u>\$ 1,295</u>	<u>\$ 10,596</u>

- (a) Our leases typically require that we pay real estate taxes, insurance and maintenance costs in addition to the minimum rental payments included in the table above. Such costs vary from period to period and totaled \$175 million for both 2014 and 2013 and \$165 million for 2012. The lease term includes cancelable option periods where failure to exercise such options would result in an economic penalty.
- (b) 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) Other includes royalties, legally binding minimum lease and interest payments for stores opening in 2015 or later, as well as payments associated with technology and marketing agreements.

We have not included \$146 million of long-term liabilities for unrecognized tax benefits and the related interest and penalties in the contractual obligations table because we are not able to reasonably estimate the timing of cash settlements. It is reasonably possible that such tax positions may change within the next 12 months, primarily as a result of ongoing audits. While it is possible that one or more of these audits may be resolved in the next year, it is not anticipated that payment of any such amounts in future periods will materially affect liquidity and cash flows.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of year-end 2014.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts. A discussion of the more significant estimates follows. Management has discussed the development, selection and disclosure of these estimates and assumptions with the Audit Committee of our Board of Directors.

Retail Inventory Method and Inventory Valuation

We value our inventory at the lower of cost or market with cost determined on the first-in, first-out (“FIFO”) basis using the retail inventory method (“RIM”). Under RIM, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of the inventories. Inherent in the retail inventory method are certain management estimates that may affect the ending inventory valuation as well as gross margin.

The use of RIM will generally result in inventories being valued at the lower of cost or market as permanent markdowns are taken as a reduction of the retail value of inventories. Management estimates the need for an additional markdown reserve based on a review of historical clearance markdowns, current business trends, expected vendor funding and discontinued merchandise categories.

We also record a reserve for estimated inventory shrink between the last physical inventory count and the balance sheet date. Shrink is the difference between the recorded amount of inventory and the physical inventory. Shrink may occur due to theft, loss, inaccurate records for the receipt of inventory or deterioration of goods, among other things. We generally perform an annual physical inventory count at the majority of our stores and distribution centers. The shrink reserve is based on sales and actual shrink results from previous inventories.

We did not make any material changes in the methodologies used to value our inventory or to estimate the markdown and shrink reserves during 2014, 2013 or 2012. We believe that we have sufficient current and historical knowledge to record reasonable estimates for our inventory reserves. Though historical reserves have approximated actual markdowns and shrink adjustments, it is possible that future results could differ from current recorded reserves.

Because we routinely record permanent markdowns for potentially obsolete merchandise, the markdown reserve was immaterial as of January 31, 2015. Changes in the assumptions used to estimate our markdown reserve requirement would not have had a material impact on our financial statements. A 10 basis point change in estimated inventory shrink would also have had an immaterial impact on our financial statements.

Vendor Allowances

We receive allowances from many of our merchandise vendors. These allowances often are reimbursements for markdowns that we have taken in order to sell the merchandise and/or to support the gross margins earned in connection with the sales of merchandise. The allowances generally relate to sold inventory or permanent markdowns and, accordingly, are reflected as reductions to cost of merchandise sold. Allowances related to merchandise that has not yet been sold are recorded in inventory.

We also receive vendor allowances which represent reimbursements of costs (primarily advertising) that we have incurred to promote the vendors’ merchandise. These allowances are generally netted against advertising or the other related costs as the costs are incurred. Advertising allowances in excess of costs incurred are recorded as a reduction of merchandise costs.

Most of our vendor allowance agreements are supported by signed contracts which are binding, but informal in nature. The terms of these arrangements vary significantly from vendor to vendor and are influenced by, among other things, the type of merchandise to be supported. Vendor allowances will fluctuate based on the amount of promotional and clearance markdowns necessary to liquidate the inventory as well as advertising and other reimbursed costs.

Insurance Reserve Estimates

We use a combination of insurance and self-insurance for a number of risks.

We retain the initial risk of \$500,000 per occurrence in workers’ compensation claims and \$250,000 per occurrence in general liability claims. We record reserves for workers’ compensation and general liability claims which include the total amounts that we expect to pay for a fully developed loss and related expenses, such as fees paid to attorneys, experts and investigators. The fully developed loss includes amounts for both reported claims and incurred, but not reported losses.

We use a third-party actuary to estimate the liabilities associated with these risks. The actuary considers historical claims experience, demographic and severity factors and actuarial assumptions to estimate the liabilities associated with these risks. As of January 31, 2015, estimated liabilities for workers’ compensation and general liability claims were approximately \$32 million.

A change in claims frequency and severity of claims from historical experience as well as changes in state statutes and the mix of states in which we operate could result in a change to the required reserve levels. Changes in actuarial assumptions

could also have an impact on estimated reserves. Historically, our actuarial estimates have not been materially different from actual results.

We are fully self-insured for employee-related health care benefits, a portion of which is paid by our associates. We use a third-party actuary to estimate the liability for incurred, but not reported, health care claims. This estimate uses historical claims information as well as estimated health care trends. As of January 31, 2015, we had recorded approximately \$14 million for medical, pharmacy and dental claims which were incurred in 2014 and expected to be paid in 2015. Historically, our actuarial estimates have not been materially different from actual results.

Impairment of Assets

As of January 31, 2015, our investment in buildings and improvements, before accumulated depreciation, was \$10 billion. We review these buildings and improvements for impairment when an event or changes in circumstances, such as decisions to close a store or significant operating losses, indicate the carrying value of the asset may not be recoverable.

For operating stores, a potential impairment has occurred if the fair value of a specific store is less than the net carrying amount of the assets. If required, we would record an impairment loss equal to the amount by which the carrying amount of the asset exceeds its fair value.

Identifying impaired assets and quantifying the related impairment loss, if any, requires significant estimates by management. The most significant of these estimates is the cash flow expected to result from the use and eventual disposition of the asset. When determining the stream of projected future cash flows associated with an individual store, management estimates future store performance including sales growth rates, gross margin and controllable expenses, such as store payroll and occupancy expense. Projected cash flows must be estimated for future periods throughout the remaining life of the property, which may be as many as 40 years in the future. The accuracy of these estimates will be impacted by a number of factors including general economic conditions, changes in competitive landscape and our ability to effectively manage the operations of the store.

We have not historically experienced any significant impairment of long-lived assets. Additionally, impairment of an individual building and related improvements, net of accumulated depreciation, would not generally be material to our financial results.

Income Taxes

We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal and state filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount which we believe is cumulatively greater than 50% likely to be realized. Our unrecognized tax benefit, excluding accrued interest and penalties, was \$123 million as of January 31, 2015.

Unrecognized tax benefits require significant management judgment regarding applicable statutes and their related interpretation, the status of various income tax audits and our particular facts and circumstances. Also, as audits are completed or statutes of limitations lapse, it may be necessary to record adjustments to our taxes payable, deferred tax assets, tax reserves or income tax expense. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different.

Operating Leases

As of January 31, 2015, 749 of our 1,162 retail stores were subject to either a ground or building lease. Accounting for leased properties requires compliance with technical accounting rules and significant judgment by management. Application of these accounting rules and assumptions made by management will determine whether we are considered the owner for accounting purposes or whether the lease is accounted for as a capital or operating lease in accordance with ASC 840, "Leases."

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

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

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

- **Expected lease term**—Our expected lease term includes both contractual lease periods and cancelable option periods where failure to exercise such options would result in an economic penalty. The expected lease term is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the lease term exceeds 75% of the leased asset's useful life. The expected lease term is also used in determining the depreciable life of the asset or the straight-line rent recognition period. Increasing the expected lease term will increase the probability that a lease will be considered a capital lease and will generally result in higher rent expense for an operating lease and higher interest and depreciation expenses for a leased property recorded on our balance sheet.
- **Incremental borrowing rate**—We estimate our incremental borrowing rate using treasury rates for debt with maturities comparable to the expected lease term and our credit spread. The incremental borrowing rate is primarily used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the incremental borrowing rate decreases the net present value of the lease payments and reduces the probability that a lease will be considered a capital lease. For leases which are recorded on our balance sheet with a related capital lease or financing obligation, the incremental borrowing rate is also used in allocating our rental payments between interest expense and a reduction of the outstanding obligation.
- **Fair market value of leased asset**—The fair market value of leased retail property is generally estimated based on comparable market data as provided by third-party appraisers or consideration received from the landlord. Fair market value is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the fair market value reduces the probability that a lease will be considered a capital lease. Fair market value is also used in determining the amount of property and related financing obligation to be recognized on our balance sheet for certain leased properties which are considered owned for accounting purposes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

All of our long-term debt at year-end 2014 is at fixed interest rates and, therefore, is not affected by changes in interest rates. When our long-term debt instruments mature, we may refinance them at then existing market interest rates, which may be more or less than interest rates on the maturing debt.

We share in the net risk-adjusted revenue of the Kohl's credit card portfolio as defined by the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. We also share the costs of funding the outstanding receivables if interest rates were to exceed defined rates. As a result, our share of profits from the credit card portfolio may be negatively impacted by increases in interest rates. The reduced profitability, if any, will be impacted by various factors, including our ability to pass higher funding costs on to the credit card holders and the outstanding receivable balance, and cannot be reasonably estimated at this time.

Item 8. Financial Statements and Supplementary Data

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

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

None

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

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

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

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

Our management assessed the effectiveness of our internal control over financing reporting as of January 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, our management has concluded that as of January 31, 2015, our internal control over financial reporting was effective based on those criteria.

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

(c) Changes in Internal Control Over Financial Reporting

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Kohl's Corporation

We have audited Kohl's Corporation's internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the "COSO criteria"). Kohl's Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Kohl's Corporation maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, 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 31, 2015 and February 1, 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2015 of Kohl's Corporation and our report dated March 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 20, 2015

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to our Directors, the Board of Directors' Audit Committee and our written code of ethics, see the applicable portions of the "Questions and Answers About our Board of Directors and Corporate Governance Matters" and "Item One: Election of Directors" sections of the Proxy Statement for our May 14, 2015 Annual Meeting of Shareholders ("our 2015 Proxy"), which information is incorporated herein by reference. For information with respect to Section 16 reports, see the information provided in the "Section 16(a) Beneficial Ownership Reporting Compliance" section of our 2015 Proxy, which information is incorporated herein by reference.

Our executive officers as of January 31, 2015 were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin Mansell	62	Chairman, Chief Executive Officer and President
Michelle Gass	46	Chief Customer Officer
Kenneth Bonning	57	Senior Executive Vice President
Wesley S. McDonald	52	Senior Executive Vice President, Chief Financial Officer
Richard D. Schepp	54	Senior Executive Vice President

Mr. Mansell is responsible for Kohl's strategic direction, long-term growth and profitability. He has served as Chairman since September 2009, Chief Executive Officer since August 2008 and President and Director since February 1999. Mr. Mansell began his retail career in 1975.

Ms. Gass joined Kohl's in June 2013 as Chief Customer Officer and is responsible for our overall customer engagement strategy, including our digital, marketing, public relations, and social responsibility efforts, as well as the omni-channel business. Previously, she had served as President, Starbucks Europe, Middle East and Africa. Ms. Gass began her retail career in 1991.

Mr. Bonning was promoted to Senior Executive Vice President in May 2011 and is responsible for information technology, logistics, and store planning. Previously, he had served as Executive Vice President, Logistics, Facilities and Store Planning from October 2006 to May 2011. Mr. Bonning began his retail career in 1985.

Mr. McDonald was promoted to Senior Executive Vice President, Chief Financial Officer in December 2010 and is responsible for financial planning and analysis, investor relations, financial reporting, accounting operations, tax, treasury, non-merchandise purchasing, credit and capital investment. Previously, he had served as Executive Vice President, Chief Financial Officer since August 2003. Mr. McDonald began his retail career in 1988.

Mr. Schepp was promoted to Senior Executive Vice President in May 2011 and is responsible for legal affairs, risk management, human resources, real estate and internal audit. Mr. Schepp assumed responsibility for our human resource department in April 2012. He previously served as Executive Vice President—General Counsel, Secretary from August 2001 to May 2011. Mr. Schepp began his retail career in 1992.

Members of our Board of Directors as of January 31, 2015 were as follows:

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

Frank V. Sica ^{(b)* (c)}
Managing Partner,
Tailwind Capital

Peter Boneparth ^{(b) (c)}
Former Senior Advisor,
Irving Place Capital Partners

Peter M. Sommerhauser
Shareholder,
Godfrey & Kahn, S.C. Law Firm

Former President and Chief Executive Officer,
Jones Apparel Group

Steven A. Burd ^{(b) (c)}
Founder and Chief Executive Officer,
Burd Health LLC

Stephanie A. Streeter ^{(a) (c)*}
Chief Executive Officer
Libbey, Inc.

Former Chairman, Chief Executive Officer and President,
Safeway Inc.

Dale E. Jones ^{(b) (c)}
Chief Executive Officer and President,
Diversified Search

Nina G. Vaca ^{(a)(c)}
Chairman, Chief Executive Officer,
Pinnacle Technical Resources, Inc.

John E. Schlifske ^{(a) (c)}
Chairman and Chief Executive Officer,
Northwestern Mutual Life Insurance Company

Stephen E. Watson ^{(a)* (c)}
Former President, Chief Executive Officer of Gander
Mountain, L.L.C.

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

- (a) Audit Committee member
- (b) Compensation Committee member
- (c) Governance & Nominating Committee member
- * Denotes Chair

Item 11. Executive Compensation

See the information provided in the applicable portions of the “Questions and Answers About our Board of Directors and Corporate Governance Matters” and “Item One: Election of Directors” sections of our 2015 Proxy, including the Compensation Committee Report and Compensation Discussion & Analysis, which information is incorporated herein by reference.

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

See the information provided in the “Security Ownership of Certain Beneficial Owners, Directors and Management” and “Equity Compensation Plan Information” sections of our 2015 Proxy, which information is incorporated herein by reference.

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

See the information provided in the “Independence Determinations & Related Party Transactions” section of our 2015 Proxy, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

See the information provided in the “Fees Paid to Ernst & Young” section of our 2015 Proxy, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

1. Consolidated Financial Statements:

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

2. Financial Statement Schedule:

All schedules have been omitted as they are not applicable.

3. Exhibits:

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

Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kohl's Corporation

By: /s/ KEVIN MANSELL

Kevin Mansell

*Chairman, Chief Executive Officer, President and Director
(Principal Executive Officer)*

/S/ WESLEY S. MCDONALD

Wesley S. McDonald

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

Dated: March 20, 2015

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

/s/ KEVIN MANSELL

Kevin Mansell

*Chairman, President, Chief Executive Officer and
Director (Principal Executive Officer)*

/s/ PETER BONEPARTH

Peter Boneparth

Director

/s/ PETER M. SOMMERHAUSER

Peter M. Sommerhauser

Director

/s/ STEVEN A. BURD

Steven A. Burd

Director

/s/ STEPHANIE A. STREETER

Stephanie A. Streeter

Director

/s/ DALE E. JONES

Dale E. Jones

Director

/s/ NINA G. VACA

Nina G. Vaca

Director

/s/ JOHN E. SCHLIFSKE

John E. Schlifske

Director

/s/ STEPHEN E. WATSON

Stephen E. Watson

Director

/s/ FRANK V. SICA

Frank V. Sica

Director

Exhibit Index

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 16, 2011.
3.2	Amended and Restated Bylaws of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 15, 2014.
4.1	Credit Agreement Amendment dated as of June 21, 2013 by and among the Company, the Lenders party thereto, Bank of America, N.A., as the Administrative Agent and as a Continuing Lender and as an Issuing Bank and a Swing Line Lender, U.S Bank National Association, as a Continuing Lender, an Issuing Bank, and a Swing Line Lender, and Wells Fargo Bank, National Association, as a Continuing Lender, an Issuing Bank, and a Swing Line Lender, incorporated herein by reference to Item 4.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 3, 2013.
4.2	Certain other long-term debt is described in Note 2 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 2 and not filed herewith.
10.1(a)	Private Label Credit Card Program Agreement dated as of August 11, 2010 by and between Kohl's Department Stores, Inc and Capital One, National Association, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.
10.1(b)	Amendment to Private Label Credit Card Program Agreement dated as of May 13, 2014 by and between Kohl's Department Stores, Inc. and Capital One, National Association, incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014.
10.2	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.*
10.3	Kohl's Corporation 2005 Deferred Compensation Plan, as amended and restated effective January 1, 2005, incorporated herein by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006.*
10.4	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.*
10.5	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.*
10.6	Kohl's Corporation Annual Incentive Plan, incorporated herein by reference to Annex B to the Proxy Statement on Schedule 14A filed on March 21, 2011 in connection with the Company's 2011 Annual Meeting of Shareholders.*
10.7	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.*
10.8	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.*
10.9	Amended and Restated 2003 Long-Term Compensation Plan, incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2008.*

Exhibit Number	Description
10.10	Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Annex A to the Proxy Statement on Schedule 14A filed on March 26, 2010 in connection with the Company's 2010 Annual Meeting.*
10.11	Form of Executive Performance Share Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K dated as of January 15, 2014.*
10.12	Form of Executive Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.13(a)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.13(b)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 99.2 of the Company's Current Report on Form 8-K filed on January 15, 2014.*
10.13(c)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan (March 2014 grant), incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014.*
10.14	Form of Outside Director Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.15	Form of Outside Director Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.16	Summary of Outside Director Compensation.*
10.17	Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Kevin Mansell dated as of November 14, 2014, incorporated herein by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on November 14, 2014.*
10.18(a)	Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Donald Brennan dated as of April 1, 2012, incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013.*
10.18(b)	Agreement dated as of March 24, 2014 by and between Donald A. Brennan and Kohl's Department Stores Inc. incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014.*
10.19	Employment Agreement dated as of May 20, 2014 by and between Kohl's Corporation and Kohl's Department Stores, Inc. and Michelle Gass, incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.*
10.20	Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Wesley S. McDonald dated as of April 1, 2012, incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013.*

Table of Contents

Exhibit Number	Description
10.21	Amended and Restated Employment Agreement dated as of April 1, 2012 by and between Kohl's Corporation and Kohl's Department Stores, Inc. and Richard D. Schepp, incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.*
10.22	Amended and Restated Employment Agreement dated as of April 1, 2012 by and between Kohl's Corporation and Kohl's Department Stores, Inc. and Kenneth G. Bonning.*
10.23	Form of Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and its Senior Executive Vice Presidents, incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013.*
12.1	Ratio of Earnings to Fixed Charges.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* A management contract or compensatory plan or arrangement.

Index to Consolidated Financial Statements

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Schedules have been omitted as they are not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Kohl's Corporation

We have audited the accompanying consolidated balance sheets of Kohl's Corporation (the "Company") as of January 31, 2015 and February 1, 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended January 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kohl's Corporation at January 31, 2015 and February 1, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kohl's Corporation's internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated March 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 20, 2015

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

	January 31, 2015	February 1, 2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,407	\$ 971
Merchandise inventories	3,814	3,874
Deferred income taxes	116	142
Other	361	327
Total current assets	5,698	5,314
Property and equipment, net	8,515	8,745
Other assets	218	298
Total assets	<u>\$ 14,431</u>	<u>\$ 14,357</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,511	\$ 1,365
Accrued liabilities	1,160	1,138
Income taxes payable	78	116
Current portion of capital lease and financing obligations	110	139
Total current liabilities	2,859	2,758
Long-term debt	2,793	2,792
Capital lease and financing obligations	1,858	1,930
Deferred income taxes	368	339
Other long-term liabilities	562	560
Shareholders' equity:		
Common stock - 367 and 364 million shares issued	4	4
Paid-in capital	2,743	2,598
Treasury stock, at cost, 166 and 153 million shares	(8,744)	(8,052)
Accumulated other comprehensive loss	(20)	(34)
Retained earnings	12,008	11,462
Total shareholders' equity	5,991	5,978
Total liabilities and shareholders' equity	<u>\$ 14,431</u>	<u>\$ 14,357</u>

See accompanying Notes to Consolidated Financial Statements

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 19,023	\$ 19,031	\$ 19,279
Cost of merchandise sold	12,098	12,087	12,289
Gross margin	6,925	6,944	6,990
Operating expenses:			
Selling, general and administrative	4,350	4,313	4,267
Depreciation and amortization	886	889	833
Operating income	1,689	1,742	1,890
Interest expense, net	340	338	329
Income before income taxes	1,349	1,404	1,561
Provision for income taxes	482	515	575
Net income	<u>\$ 867</u>	<u>\$ 889</u>	<u>\$ 986</u>
Net income per share:			
Basic	\$ 4.28	\$ 4.08	\$ 4.19
Diluted	\$ 4.24	\$ 4.05	\$ 4.17
Dividends declared and paid per share	\$ 1.56	\$ 1.40	\$ 1.28

See accompanying Notes to Consolidated Financial Statements

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net income	\$ 867	\$ 889	\$ 986
Other comprehensive income, net of tax:			
Unrealized gains on investments	11	8	5
Reclassification adjustment for interest expense on interest rate derivatives included in net income	3	3	3
Other comprehensive income	14	11	8
Comprehensive income	<u>\$ 881</u>	<u>\$ 900</u>	<u>\$ 994</u>

See accompanying Notes to Consolidated Financial Statements

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

	Common Stock		Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount		Shares	Amount			
Balance at January 28, 2012	358	\$ 4	\$ 2,339	(111)	\$(5,977)	\$ (53)	\$10,195	\$ 6,508
Comprehensive income	—	—	—	—	—	8	986	994
Stock options and awards, net of tax	2	—	115	—	(9)	—	—	106
Dividends paid (\$1.28 per common share)	—	—	—	—	3	—	(303)	(300)
Treasury stock purchases	—	—	—	(27)	(1,260)	—	—	(1,260)
Balance at February 2, 2013	360	4	2,454	(138)	(7,243)	(45)	10,878	6,048
Comprehensive income	—	—	—	—	—	11	889	900
Stock options and awards, net of tax	4	—	144	—	(13)	—	—	131
Dividends paid (\$1.40 per common share)	—	—	—	—	3	—	(305)	(302)
Treasury stock purchases	—	—	—	(15)	(799)	—	—	(799)
Balance at February 1, 2014	364	4	2,598	(153)	(8,052)	(34)	11,462	5,978
Comprehensive income	—	—	—	—	—	14	867	881
Stock options and awards, net of tax	3	—	145	—	(19)	—	—	126
Dividends paid (\$1.56 per common share)	—	—	—	—	4	—	(321)	(317)
Treasury stock purchases	—	—	—	(13)	(677)	—	—	(677)
Balance at January 31, 2015	367	\$ 4	\$ 2,743	(166)	\$(8,744)	\$ (20)	\$12,008	\$ 5,991

See accompanying Notes to Consolidated Financial Statements

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

	2014	2013	2012
Operating activities			
Net income	\$ 867	\$ 889	\$ 986
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	886	889	833
Share-based compensation	48	55	50
Excess tax benefits from share-based compensation	(3)	(3)	(4)
Deferred income taxes	46	(11)	(79)
Other non-cash expenses, net	31	43	29
Changes in operating assets and liabilities:			
Merchandise inventories	68	(116)	(523)
Other current and long-term assets	(33)	(19)	(37)
Accounts payable	146	58	74
Accrued and other long-term liabilities	33	149	(60)
Income taxes	(65)	(50)	(4)
Net cash provided by operating activities	<u>2,024</u>	<u>1,884</u>	<u>1,265</u>
Investing activities			
Acquisition of property and equipment	(682)	(643)	(785)
Sales of investments in auction rate securities	82	1	109
Other	7	19	16
Net cash used in investing activities	<u>(593)</u>	<u>(623)</u>	<u>(660)</u>
Financing activities			
Treasury stock purchases	(677)	(799)	(1,284)
Shares withheld for taxes on vested restricted shares	(19)	(13)	(9)
Dividends paid	(317)	(302)	(300)
Proceeds from issuance of debt, net of deferred financing costs	—	296	347
Proceeds from financing obligations	6	1	12
Capital lease and financing obligation payments	(114)	(115)	(111)
Proceeds from stock option exercises	123	102	68
Excess tax benefits from share-based compensation	3	3	4
Net cash used in financing activities	<u>(995)</u>	<u>(827)</u>	<u>(1,273)</u>
Net increase (decrease) in cash and cash equivalents	436	434	(668)
Cash and cash equivalents at beginning of period	971	537	1,205
Cash and cash equivalents at end of period	<u>\$ 1,407</u>	<u>\$ 971</u>	<u>\$ 537</u>
Supplemental information:			
Interest paid, net of capitalized interest	\$ 329	\$ 326	\$ 318
Income taxes paid	502	561	654
Non-Cash Investing and Financing Activities			
Property and equipment acquired through capital lease and financing obligations	\$ 41	\$ 121	\$ 63

See accompanying Notes to Consolidated Financial Statements

KOHL'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Summary of Accounting Policies

Business

As of January 31, 2015, we operated 1,162 department stores in 49 states and a website (www.Kohls.com) that sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our stores generally carry a consistent merchandise assortment with some differences attributable to regional preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.

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

Consolidation

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

Accounting Period

Our fiscal year ends on the Saturday closest to January 31st each year. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. The following fiscal periods are presented in this report.

<u>Fiscal year</u>	<u>Ended</u>	<u>Number of Weeks</u>
2014	January 31, 2015	52
2013	February 1, 2014	52
2012	February 2, 2013	53

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.

Cash and Cash Equivalents

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

Also included in cash and cash equivalents are amounts due from credit card transactions with settlement terms of less than five days. Credit and debit card receivables included within cash were \$95 million at January 31, 2015 and \$89 million at February 1, 2014.

Merchandise Inventories

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

1. Business and Summary of Accounting Policies (continued)

Property and Equipment

Property and equipment consist of the following:

	Jan 31, 2015	Feb 1, 2014
	(Dollars In Millions)	
Land	\$ 1,103	\$ 1,095
Buildings and improvements:		
Owned	7,844	7,713
Leased	1,848	1,845
Store fixtures and equipment	2,032	2,147
Computer hardware and software	1,368	1,033
Construction in progress	210	291
Total property and equipment, at cost	<u>14,405</u>	<u>14,124</u>
Less accumulated depreciation	<u>(5,890)</u>	<u>(5,379)</u>
Property and equipment, net	<u>\$ 8,515</u>	<u>\$ 8,745</u>

Construction in progress includes land, building and improvements, and computer hardware and software which is not ready for its intended use.

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

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

Buildings and improvements	5-40 years
Store fixtures and equipment	3-15 years
Computer hardware and software	3-8 years

Long-Lived Assets

All property and equipment and other long-lived assets are reviewed for potential impairment when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than the carrying value of the assets. A potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. No impairments were recorded in 2014, 2013, or 2012 as a result of the tests performed.

Accrued Liabilities

Accrued liabilities consist of the following:

	Jan 31, 2015	Feb 1, 2014
	(Dollars In Millions)	
Gift cards and merchandise return cards	\$ 307	\$ 296
Payroll and related fringe benefits	135	112
Sales, property and use taxes	185	166
Credit card liabilities	106	109
Other	427	455
Accrued liabilities	<u>\$ 1,160</u>	<u>\$ 1,138</u>

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

1. Business and Summary of Accounting Policies (continued)

Self-Insurance

We use a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability, and employee-related health care benefits, a portion of which is paid by our associates. Liabilities associated with these losses include estimates of both reported losses and losses incurred but not yet reported. We use a third-party actuary, which considers historical claims experience, demographic factors, severity factors and other actuarial assumptions, to estimate the liabilities associated with these risks. Total estimated liabilities for workers' compensation, general liability and employee-related health benefits were approximately \$46 million at January 31, 2015 and \$47 million at February 1, 2014. Although these amounts are actuarially determined based on analysis of historical trends, the amounts that we will ultimately disburse could differ from these estimates.

As of January 1, 2015, our self insurance exposure for property losses differs based on the type of claim. For catastrophic claims like earthquakes, floods and windstorms, depending on the location, we are self insured for 2-5% of the insurance claim. For other standard claims like fire and building damages, we are self insured for the first \$250,000 of property loss claims.

Treasury Stock

We account for repurchases of common stock and shares withheld in lieu of taxes when restricted stock vests using the cost method with common stock in treasury classified in the Consolidated Balance Sheets as a reduction of shareholders' equity.

Accumulated Other Comprehensive Loss and Other Comprehensive Income

Accumulated other comprehensive loss consists of the following:

	Unrealized Gains (Losses) on Investments	Loss on Interest Rate Derivatives	Accumulated Other Comprehensive Loss
(Dollars In Millions)			
Balance at February 2, 2013	\$ (19)	\$ (26)	\$ (45)
Other comprehensive income	8	3	11
Balance at February 1, 2014	(11)	(23)	(34)
Other comprehensive income	11	3	14
Balance at January 31, 2015	\$ —	\$ (20)	\$ (20)

The tax effects of each component of other comprehensive income are as follows:

	2014	2013	2012
(Dollars In Millions)			
Unrealized gains on investments:			
Before-tax amounts	\$ 18	\$ 12	\$ 9
Tax expense	(7)	(4)	(4)
After-tax amounts	11	8	5
Interest rate derivatives:			
Before-tax amounts	5	5	5
Tax expense	(2)	(2)	(2)
After-tax amounts	3	3	3
Other comprehensive income	\$ 14	\$ 11	\$ 8

1. Business and Summary of Accounting Policies (continued)

Revenue Recognition

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

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

Cost of Merchandise Sold and Selling, General and Administrative Expenses

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

Cost of Merchandise Sold	Selling, General and Administrative Expenses
<ul style="list-style-type: none"> • Total cost of products sold including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs • Inventory shrink • Markdowns • Freight expenses associated with moving merchandise from our vendors to our distribution centers • Shipping and handling expenses of sales generated on-line • Terms cash discount 	<ul style="list-style-type: none"> • Compensation and benefit costs including: <ul style="list-style-type: none"> • Stores • Corporate headquarters, including buying and merchandising • Distribution centers • Occupancy and operating costs of our retail, distribution and corporate facilities • Net revenues from the Kohl's credit card program • Freight expenses associated with moving merchandise from our distribution centers to our retail stores and between distribution and retail facilities • Advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs • Other administrative revenues and expenses

The classification of these expenses varies across the retail industry.

Vendor Allowances

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

Loyalty Program

We currently operate the Kohl's Yes2You Rewards program in which customers earn points based on their spending and other promotional activities. Upon accumulating certain point levels, customers receive rewards to apply to future purchases. We accrue the cost of anticipated redemptions related to the program when the points are earned at the initial purchase. The costs of the program are recorded in cost of merchandise sold.

1. Business and Summary of Accounting Policies (continued)

Fair Value

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

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

We carry our current assets and liabilities at cost, which approximate fair value.

Leases

We lease certain property and equipment used in our operations.

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

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

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

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

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

1. Business and Summary of Accounting Policies (continued)

Advertising

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

	2014	2013	2012
	(Dollars In Millions)		
Gross advertising costs	\$1,189	\$1,185	\$1,163
Vendor allowances	(165)	(172)	(170)
Net advertising costs	<u>\$1,024</u>	<u>\$1,013</u>	<u>\$ 993</u>
Net advertising costs as a percent of net sales	5.4%	5.3%	5.2%

Income Taxes

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

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

Net Income Per Share

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

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

	2014	2013	2012
	(In Millions, Except per Share Data)		
Numerator—net income	\$ 867	\$ 889	\$ 986
Denominator—weighted average shares			
Basic	203	218	235
Impact of dilutive employee stock options (a)	1	2	2
Diluted	<u>204</u>	<u>220</u>	<u>237</u>
Net income per share:			
Basic	\$ 4.28	\$ 4.08	\$ 4.19
Diluted	\$ 4.24	\$ 4.05	\$ 4.17

(a) Excludes 3 million share-based awards for 2014, 10 million share-based awards for 2013 and 14 million share-based awards for 2012 as the impact of such awards was antidilutive.

Share-Based Awards

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

Recent Accounting Pronouncements Not Yet Adopted

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

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

2. Debt

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

<u>Maturity</u>	<u>Effective Rate</u>	<u>Coupon Rate</u>	<u>Outstanding</u>	
			<u>January 31, 2015</u>	<u>February 1, 2014</u>
			(Dollars in Millions)	
2017	6.31%	6.25%	\$ 650	\$ 650
2021	4.81%	4.00%	650	650
2023	3.25%	3.25%	350	350
2023	4.78%	4.75%	300	300
2029	7.36%	7.25%	200	200
2033	6.05%	6.00%	300	300
2037	6.89%	6.88%	350	350
	5.54%		2,800	2,800
Unamortized debt discount			(7)	(8)
Long-term debt			<u>\$ 2,793</u>	<u>\$ 2,792</u>

Based on quoted market prices (Level 1 per ASC No. 820, "Fair Value Measurements and Disclosures"), the estimated fair value of our long-term debt was \$3.1 billion at January 31, 2015 and \$3.0 billion at February 1, 2014.

We have various facilities upon which we may draw funds, including a 5-year, \$1 billion senior unsecured revolving credit facility which matures in June 2018. There were no draws on these facilities during 2014 or 2013.

Our various debt agreements contain covenants including limitations on additional indebtedness and certain financial tests. As of January 31, 2015, we were in compliance with all covenants of the various debt agreements.

We also have outstanding trade letters of credit and stand-by letters of credit totaling approximately \$52 million at January 31, 2015, issued under uncommitted lines with two banks.

3. Lease Commitments

Rent expense charged to operations was \$277 million for 2014, \$270 million for 2013, and \$265 million for 2012. In addition to rent payments, we are often required to pay real estate taxes, insurance and maintenance costs on leased properties. These items are not included in the future minimum lease payments listed below. Many store leases include multiple renewal options, exercisable at our option, that generally range from four to eight additional five-year periods.

Future minimum lease payments at January 31, 2015 were as follows:

	<u>Capital Lease and Financing Obligations</u>	<u>Operating Leases</u>
	(Dollars In Millions)	
Fiscal year:		
2015	\$ 279	\$ 246
2016	282	242
2017	271	239
2018	255	240
2019	238	236
Thereafter	2,866	4,597
	4,191	<u>\$ 5,800</u>
Non-cash gain on future sale of property	458	
Amount representing interest	(2,681)	
Present value of lease payments	<u>\$ 1,968</u>	

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

4. Benefit Plans

We have a defined contribution savings plan covering all full-time and certain part-time associates. Participants in this plan may invest up to 100% of their base compensation, subject to certain statutory limits. We match 100% of the first 5% of each participant's contribution.

We also have an Employee Stock Ownership Plan ("ESOP") for the benefit of a group of our non-management associates. Contributions are made at the discretion of the Board of Directors. Shares of our stock held by the ESOP are included as shares outstanding for purposes of the net income per share computations.

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

The total costs for these benefit plans were \$43 million for 2014, \$49 million for 2013, and \$53 million for 2012.

5. Income Taxes

Deferred income taxes consist of the following:

	Jan 31, 2015	Feb 1, 2014
	(Dollars In Millions)	
Deferred tax liabilities:		
Property and equipment	\$ 1,385	\$ 1,416
Deferred tax assets:		
Merchandise inventories	24	24
Accrued and other liabilities, including stock options	182	223
Capital lease and financing obligations	773	813
Accrued step rent liability	100	94
Unrealized loss on investments	—	7
Unrealized loss on interest rate swap	13	15
Federal benefit on state tax reserves	41	43
	<u>1,133</u>	<u>1,219</u>
Net deferred tax liability	<u>\$ 252</u>	<u>\$ 197</u>

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

	2014	2013	2012
	(Dollars In Millions)		
Current federal	\$ 400	\$ 473	\$ 592
Current state	36	45	60
Deferred federal	48	6	(68)
Deferred state	(2)	(9)	(9)
	<u>\$ 482</u>	<u>\$ 515</u>	<u>\$ 575</u>

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

	2014	2013	2012
Provision at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	1.3	2.2	2.2
Tax-exempt interest income	—	(0.2)	(0.1)
Other federal tax credits	(0.6)	(0.3)	(0.3)
Provision for income taxes	<u>35.7%</u>	<u>36.7%</u>	<u>36.8%</u>

We have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. The only federal returns subject to examination are for the 2008 through 2014 tax years. State returns subject to examination vary depending upon the state. Generally, the 2011 through 2014

5. Income Taxes (continued)

tax years are subject to state examination. The earliest open period is 2003. Certain states have proposed adjustments which we are currently appealing. If we do not prevail on our appeals, we do not anticipate that the adjustments would result in a material change in our financial position.

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

	2014	2013
	(Dollars In Millions)	
Balance at beginning of year	\$ 125	\$ 108
Increases due to:		
Tax positions taken in prior years	—	6
Tax positions taken in current year	21	21
Decreases due to:		
Tax positions taken in prior years	(16)	(4)
Settlements with taxing authorities	(2)	(3)
Lapse of applicable statute of limitations	(5)	(3)
Balance at end of year	<u>\$ 123</u>	<u>\$ 125</u>

Not included in the unrecognized tax benefits reconciliation above are gross unrecognized accrued interest and penalties of \$23 million at January 31, 2015 and \$21 million at February 1, 2014. Interest and penalty expense was \$2 million for 2014 and \$3 million for 2013.

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were \$89 million as of January 31, 2015 and \$88 million as of February 1, 2014.

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

We have both payables and receivables recorded on our balance sheet for current income taxes. The receivables are recorded within other current assets in our balance sheet. The total of the receivables was \$25 million as of January 31, 2015. To conform to the current year presentation, we have reclassified \$22 million from income taxes payable to other current assets for February 1, 2014.

To conform to the current year presentation on our balance sheet, we have reclassified \$43 million of the federal income taxes receivable related to state tax reserves and interest from long-term other assets to deferred income taxes on the balance sheet.

6. Stock-Based Compensation

We currently grant share-based compensation pursuant to the Kohl's Corporation 2010 Long-Term Compensation Plan, which provides for the granting of various forms of equity-based awards, including nonvested stock, performance share units and options to purchase shares of our common stock, to officers, key employees and directors. As of January 31, 2015, there were 18.5 million shares authorized and 11.5 million shares available for grant under the 2010 Long-Term Compensation Plan. Options and nonvested stock that are surrendered or terminated without issuance of shares are available for future grants.

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

Stock options

The majority of stock options granted to employees typically vest in five equal annual installments. Outstanding options granted to employees after 2005 have a term of seven years. Outstanding options granted to employees prior to 2006 have a term of up to 15 years. Options granted to directors have a term of 10 years.

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

6. Stock-Based Compensation (continued)

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

	2014	2013	2012
Dividend yield	2.8%	2.9%	2.6%
Volatility	31.0%	32.7%	33.7%
Risk-free interest rate	1.7%	0.9%	1.0%
Expected life in years	5.5	5.5	5.5
Weighted average fair value at grant date	\$12.23	\$10.68	\$11.79

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

The following table summarizes our stock option activity for 2014, 2013, and 2012:

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(Shares in Thousands)					
Balance at beginning of year	11,375	\$ 56.05	15,212	\$ 53.96	16,564	\$ 53.41
Granted	186	54.69	575	47.86	1,458	49.00
Exercised	(2,647)	46.87	(2,494)	41.02	(1,718)	40.01
Forfeited/expired	(2,703)	72.21	(1,918)	56.59	(1,092)	60.93
Balance at end of year	<u>6,211</u>	<u>\$ 52.95</u>	<u>11,375</u>	<u>\$ 56.05</u>	<u>15,212</u>	<u>\$ 53.96</u>

The intrinsic value of options exercised represents the excess of our stock price at the time the option was exercised over the exercise price and was \$30 million in both 2014 and 2013 and \$20 million in 2012.

Additional information related to stock options outstanding and exercisable at January 31, 2015, segregated by exercise price range, is summarized below:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable		
	Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
	(Shares in Thousands)					
\$ 29.09 – \$ 46.00	823	1.9	\$ 42.27	701	1.3	\$ 41.84
\$ 46.01 – \$ 49.00	1,180	4.4	47.60	541	4.6	47.46
\$ 49.01 – \$ 51.00	1,081	2.9	50.06	910	2.6	50.06
\$ 51.01 – \$ 55.00	1,164	3.9	52.75	592	3.6	52.90
\$ 55.01 – \$ 65.00	954	2.7	57.52	766	2.4	57.86
\$ 65.01 – \$ 77.62	1,009	1.6	66.95	1,009	1.6	66.95
	<u>6,211</u>	<u>3.0</u>	<u>\$ 52.95</u>	<u>4,519</u>	<u>2.5</u>	<u>\$ 53.94</u>
Intrinsic value (in thousands)	<u>\$ 49,754</u>			<u>\$ 33,849</u>		

The intrinsic value of outstanding and exercisable stock options represents the excess of our closing stock price on January 31, 2015 (\$59.72) over the exercise price multiplied by the applicable number of stock options.

6. Stock-Based Compensation (continued)

Nonvested stock awards

We have also awarded shares of nonvested common stock to eligible key employees and to our Board of Directors. Substantially all awards have restriction periods tied primarily to employment and/or service. Nonvested stock awarded to employees generally vests over five years. Director awards vest over the term to which the director was elected, generally one year. In lieu of cash dividends, nonvested stock awards are granted restricted stock equivalents which vest consistently with the underlying nonvested stock awards.

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

The following table summarizes nonvested stock activity, including restricted stock equivalents issued in lieu of cash dividends:

	2014		2013		2012	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
	(Shares in Thousands)					
Balance at beginning of year	2,653	\$ 50.56	2,323	\$ 50.47	1,946	\$ 51.11
Granted	910	56.13	1,189	49.22	1,038	48.86
Vested	(818)	50.69	(706)	48.00	(492)	49.77
Forfeited	(314)	51.47	(153)	50.48	(169)	50.04
Balance at end of year	<u>2,431</u>	<u>\$ 52.29</u>	<u>2,653</u>	<u>\$ 50.56</u>	<u>2,323</u>	<u>\$ 50.47</u>

The aggregate fair value of awards at the time of vesting was \$41 million in 2014, \$34 million in 2013 and \$24 million in 2012.

Performance share units

In March 2014, we granted performance-based restricted stock units ("performance share units") to certain executives. The performance measurement period for these performance share units is fiscal years 2014 through 2016. The fair market value of the grant was \$62.39 per unit and was determined using a Monte-Carlo valuation on the date of grant. The performance share units cover a target of 18,000 shares.

In January 2014, we granted performance share units to certain executives. The performance measurement period for these performance share units is fiscal years 2014 through 2016. The fair market value of the grant was \$57.37 per unit and was determined using a Monte-Carlo valuation on the date of grant. The performance share units cover a target of 230,000 shares.

The actual number of shares which will be earned at the end of the three-year vesting periods will vary based on our cumulative financial performance over the vesting periods. The number of performance share units earned will be modified up or down based on Kohl's Relative Total Shareholder Return against a defined peer group during the vesting periods. The payouts, if earned, will be settled in Kohl's common stock after the end of each multi-year performance periods.

Other required disclosures

Stock-based compensation expense is included in Selling, General and Administrative expense in our Consolidated Statements of Income. Such expense totaled \$48 million for 2014, \$55 million for 2013 and \$50 million for 2012. At January 31, 2015, we had approximately \$92 million of unrecognized share-based compensation expense, which is expected to be recognized over a weighted-average period of 2 years.

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

7. Contingencies

At any time, we may be subject to investigations, legal proceedings, or claims related to the on-going operation of our business, including claims both by and against us. Such proceedings typically involve claims related to various forms of liability, contract disputes, allegations of violations of laws or regulations or other actions brought by us or others including our employees, consumers, competitors, suppliers or governmental agencies. We routinely assess the likelihood of any adverse outcomes related to these matters on a case by case basis, as well as the potential ranges of losses and fees. We establish accruals for our potential exposure, as appropriate, for significant claims against us when losses become probable and reasonably estimable. Where we are able to reasonably estimate a range of potential losses relating to significant matters, we record the amount within that range that constitutes our best estimate. We also disclose the nature of and range of loss for claims against us when losses are reasonably possible and material. These accruals and disclosures are determined based on the facts and circumstances related to the individual cases and require estimates and judgments regarding the interpretation of facts and laws, as well as the effectiveness of strategies or other factors beyond our control.

8. Quarterly Financial Information (Unaudited)

Each quarterly period below was a 13-week accounting period.

	2014			
	First	Second	Third	Fourth
	(In Millions, Except per Share Data)			
Net sales	\$ 4,070	\$ 4,242	\$ 4,374	\$ 6,337
Gross margin	\$ 1,496	\$ 1,654	\$ 1,628	\$ 2,147
Net income	\$ 125	\$ 232	\$ 142	\$ 369
Basic shares	206	204	202	199
Basic net income per share	\$ 0.60	\$ 1.14	\$ 0.70	\$ 1.85
Diluted shares	208	205	203	201
Diluted net income per share	\$ 0.60	\$ 1.13	\$ 0.70	\$ 1.83

	2013			
	First	Second	Third	Fourth
	(In Millions, Except per Share Data)			
Net sales	\$ 4,199	\$ 4,289	\$ 4,444	\$ 6,099
Gross margin	\$ 1,528	\$ 1,676	\$ 1,666	\$ 2,075
Net income	\$ 147	\$ 231	\$ 177	\$ 334
Basic shares	222	220	216	213
Basic net income per share	\$ 0.66	\$ 1.05	\$ 0.82	\$ 1.57
Diluted shares	223	222	218	215
Diluted net income per share	\$ 0.66	\$ 1.04	\$ 0.81	\$ 1.56

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

9. Related Party Transactions

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

OUTSIDE DIRECTOR COMPENSATION

Pursuant to our 2014 Non-Employee Director Compensation Program, directors who are not our employees or employees of our subsidiaries receive an annual retainer fee of \$100,000. The independent Lead Director receives an additional retainer fee of \$40,000. Chairpersons of the Compensation Committee and the Audit Committee receive an additional \$20,000 retainer fee, and the Chairperson of the Governance & Nominating Committee receives an additional \$15,000 retainer fee. Non-employee directors also receive retainer fees for membership on the Board of Directors' standing committees and Executive Committee. Committee member retainers are \$5,000 for Governance & Nominating Committee members, \$10,000 for Compensation Committee members and \$15,000 for Audit Committee and Executive Committee members. Directors receive no additional compensation for participation in Board of Directors' or committee meetings. Directors are, however, reimbursed for travel and other expenses related to attendance at these meetings as well as travel and other expenses related to attendance at educational seminars approved in advance by the Governance & Nominating Committee.

Equity awards are granted to non-employee Directors from time to time pursuant to our 2010 Long Term Compensation Plan. These grants are typically made following a Director's initial election to the Board and each time the Director is re-elected by the shareholders to serve a new term. The annual awards, which are comprised of restricted shares, typically have a "grant date fair value" of approximately \$100,000, calculated in accordance with FASB ASC Topic 718 (formerly FAS 123R). The restricted shares vest on the first anniversary of the date of grant.

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“Agreement”) is executed as of this 1st day of April, 2012, by and between Kohl's Department Stores, Inc. and Kohl's Corporation (collectively referred to in this Agreement as “Company”) and Kenneth G. Bonning (“Executive”).

The Company and Executive entered into an Employment Agreement dated as of May 15, 2011 (the “Original Agreement”), whereby Company and Executive agreed to certain aspects of their relationship during and after the period in which Executive is employed by the Company.

The parties believe it is in their best interests to amend and restate the Original Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Company and Executive (“Parties”), the Parties agree as follows:

**ARTICLE I
EMPLOYMENT**

1.1 Term of Employment. The Company employs Executive, and Executive accepts employment by the Company, for the three (3) year period commencing on April 1, 2012 (the “Initial Term”), subject to earlier termination as hereinafter set forth in Article III, below. This Agreement shall be automatically extended for one (1) day each day during the term (the Initial Term as so extended, the “Renewal Term”) unless either party shall give the other a written notice of intention not to renew, in which case this Agreement shall terminate as of the end of the Initial Term or said Renewal Term, as applicable or unless this Agreement is earlier terminated as set forth in Article III, below. If this Agreement is extended, the terms of this Agreement during such Renewal Term shall be the same as the terms in effect immediately prior to such extension (including the early termination provisions set forth in Article III, below), subject to any such changes or modifications as mutually may be agreed between the Parties as evidenced in a written instrument signed by both the Company and Executive. If Executive's employment is terminated for any reason specified in Section 3.1, below, after either party has provided a notice of non-renewal under this Section 1.1, such termination will be treated as a termination under the applicable provision of Section 3.1 and not as a termination due to non-renewal under this Section 1.1.

1.2 Position and Duties. Executive shall be employed in the position of Senior Executive Vice President, and shall be subject to the authority of, and shall report to, the Company's Chief Administrative Officer and/or Board of Directors (the “Board”). Executive's duties and responsibilities shall include all those customarily attendant to the position of Senior Executive Vice President and such other duties and responsibilities as may be assigned from time to time by Executive's supervisor and/or the Company's Board. Executive shall devote Executive's entire business time, attention and energies exclusively to the business interests of the Company while employed by the Company except as otherwise specifically approved in writing by Executive's supervisor and/or the Company's Board. During the Initial Term and the Renewal Term,

Executive may not participate on the board of directors or any similar governing body of any for-profit entity other than the Company, unless first approved by the Company's Board.

ARTICLE II COMPENSATION AND OTHER BENEFITS

2.1 Base Salary. During the Initial Term and the Renewal Term, the Company shall pay Executive an annual base salary as described in Exhibit A (a copy of which is attached hereto and incorporated herein), payable in accordance with the normal payroll practices and schedule of the Company ("Base Salary"). The Base Salary shall be subject to adjustment from time to time as determined by the Board.

2.2 Benefit Plans and Fringe Benefits. During the Initial Term and the Renewal Term, Executive will be eligible to participate in the plans, programs and policies including, without limitation, group medical insurance, fringe benefits, paid vacation, expense reimbursement and incentive pay plans, which the Company makes available to senior executives of the Company in accordance with the eligibility requirements, terms and conditions of such plans, programs and policies in effect from time to time. Executive acknowledges and agrees that the Company may amend, modify or terminate any of such plans, programs and policies at any time at its discretion.

2.3 Equity Plans or Programs. During the Initial Term and the Renewal Term, Executive may be eligible to participate in stock option, phantom stock, restricted stock or other similar equity incentive plans or programs which the Company may establish from time to time. The terms of any such plans or programs, and Executive's eligibility to participate in them, shall be established by the Board at its sole discretion. Executive acknowledges and agrees that the Company may amend, modify or terminate any of such plans or programs at any time at its discretion.

In no event will the reimbursements or in-kind benefits to be provided by the Company pursuant to this Agreement in one taxable year affect the amount of reimbursements or in-kind benefits to be provided in any other taxable year, nor will Executive's right to reimbursement or in-kind benefits be subject to liquidation or exchange for another benefit. Further, any reimbursements to be provided by the Company pursuant to this Agreement shall be paid to the Executive no later than the calendar year following the calendar year in which the Executive incurs the expenses.

ARTICLE III TERMINATION

3.1 Right to Terminate; Automatic Termination.

(a) Termination Without Cause. Subject to Section 3.2, below, the Company may terminate Executive's employment and all of the Company's obligations under this Agreement at any time and for any reason.

(b) Termination For Cause. Subject to Section 3.2, below, the Company may terminate Executive's employment and all of the Company's obligations under this Agreement at any time for Cause (defined below) by giving notice to Executive stating the basis for such termination, effective immediately upon giving such notice or at such other time thereafter as the Company may designate. "Cause" shall mean any of the following: (i) Executive's continuous failure to substantially perform Executive's duties after a written demand for substantial performance is delivered to Executive that

specifically identifies the manner in which the Company believes that Executive has not substantially performed his duties, and Executive has failed to demonstrate substantial efforts to resume substantial performance of Executive's duties on a continuous basis within sixty (60) calendar days after receiving such demand; (ii) Executive's violation of a material provision of "Kohl's Ethical Standards and Responsibilities" which is materially injurious to the Company, monetarily or otherwise; (iii) any dishonest or fraudulent conduct which results, or is intended to result, in gain to Executive or Executive's personal enrichment at the expense of the Company; (iv) any material breach of this Agreement by Executive after a written notice of such breach is delivered to Executive that specifically identifies the manner in which the Company believes that Executive has breached this Agreement, and Executive has failed to cure such breach within thirty (30) calendar days after receiving such demand; provided, however, that no cure period shall be required for breaches of Articles IV, V, VI or VII, below, of this Agreement; or (v) conviction of Executive, after all applicable rights of appeal have been exhausted or waived, of any crime. Notwithstanding the conviction of a crime as described in the preceding subsection (v), the Board, in its sole discretion, may waive such termination in the event it determines that such crime does not discredit the Company or is not detrimental to the Company's reputation or goodwill, and any decision by the Board with respect to such waiver shall be final.

(c) Termination for Good Reason. Subject to Section 3.2, below, Executive may terminate Executive's employment and all of the Company's obligations under this Agreement at any time for Good Reason (defined below) by giving written notice to the Company stating the basis for such termination, effective immediately upon giving such notice. "Good Reason" shall mean any of the following: (i) a material reduction in Executive's status, title, position, responsibilities or Base Salary; (ii) any material breach by the Company of this Agreement; (iii) any purported termination of the Executive's employment for Cause which does not comply with the terms of this Agreement; or (iv) a mandatory relocation of Executive's employment with the Company from the Milwaukee, Wisconsin area, except for travel reasonably required in the performance of Executive's duties and responsibilities; provided, however, that no termination shall be for Good Reason until Executive has provided the Company with written notice of the conduct alleged to have caused Good Reason and at least thirty (30) calendar days have elapsed after the Company's receipt of such written notice from Executive, during which the Company has failed to demonstrate substantial efforts to cure any such alleged conduct.

(d) Termination by Death or Disability. Subject to Section 3.2, below, Executive's employment and the Company's obligations under this Agreement shall terminate automatically, effective immediately and without any notice being necessary, upon Executive's death or a determination of Disability of Executive. For purposes of this Agreement, "Disability" means the Executive: (i) is unable to engage in any substantial gainful activity 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 twelve (12) months, or (ii) has been, 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 twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company. A determination of Disability shall be made by the Company, which may, at its sole discretion, consult with a physician or physicians satisfactory to the Company, and Executive shall cooperate with any efforts to make such determination. Any such determination shall be conclusive and binding on the parties. Any determination of Disability under this Section 3.1(d) is not intended to alter any benefits any party may be entitled to receive under any disability insurance policy carried by either the Company or Executive with respect to Executive, which benefits shall be governed solely by the terms of any such insurance policy.

(e) Termination by Resignation. Subject to Section 3.2, below, Executive's employment and the Company's obligations under this Agreement shall terminate automatically, effective immediately upon Executive's provision of written notice to the Company of Executive's resignation from employment with the Company or at such other time as may be mutually agreed between the Parties following the provision of such notice.

(f) Separation of Service. A termination of employment under this Agreement shall only occur to the extent Executive has a "separation from service" from Company in accordance with Section 409A of the Code. Under Section 409A, a "separation from service" occurs when Executive and the Company reasonably anticipate that no further services will be performed by Executive after a certain date or that the level of bona fide services Executive would perform after such date (whether as an employee or as a consultant) would permanently decrease to no more than 20 percent of the average level of bona fide services performed by Executive over the immediately preceding 36-month period.

3.2 Rights Upon Termination.

(a) Termination By Company for Cause, By Executive Other Than For Good Reason or By Executive's Non-Renewal. If Executive's employment is terminated by the Company pursuant to Section 3.1(b), above, by Executive pursuant to Section 3.1(e), above, or due to non-renewal by Executive pursuant to Section 1.1, above, Executive shall have no further rights against the Company hereunder, except for the right to receive (i) any unpaid Base Salary with respect to the period prior to the effective date of termination together with payment of any vacation that Executive has accrued but not used through the date of termination; (ii) reimbursement of expenses to which Executive is entitled under Section 2.2, above; and (iii) Executive's unpaid bonus, if any, attributable to any complete fiscal year of the Company ended before the date of termination (in the aggregate, the "Accrued Benefits"). Any such bonus payment shall be made at the same time as any such bonus is paid to other similarly situated executives of the Company. Furthermore, under this Section 3.2(a), vesting of any Company stock options granted to Executive ceases on the effective date of termination, and any unvested stock options lapse and are forfeited immediately upon the effective date of termination.

(b) Termination By Company's Non-Renewal or Due to Executive's Death. If Executive's employment is terminated due to non-renewal by the Company pursuant to Section 1.1, above, Executive shall have no further rights against the Company hereunder, except for the right to receive (i) Accrued Benefits; and (ii) the Pro Rata Bonus (as defined in Section 3.2(d)(i), below). If Executive's employment is terminated due to Executive's death pursuant to Section 3.1(d), above, Executive shall have no further rights against the Company hereunder, except for the right to receive (i) Accrued Benefits; and (ii) a share of any bonus attributable to the fiscal year of the Company during which the effective date of termination occurs determined as follows: the product of (x) the average bonuses paid or payable, including any amounts that were deferred in respect of the three (3) fiscal years immediately preceding the fiscal year in which the effective date of termination occurs and (y) a fraction, the numerator of which is the number of days completed in the fiscal year in which the effective date of termination occurs through the effective date of termination and the denominator of which is three hundred sixty-five (365) (the "Historic Pro Rata Bonus"). The Pro Rata Bonus or the Historic Pro Rata Bonus shall be paid at the same time as any such bonuses are paid to other similarly situated executives of the Company. Upon termination due to either non-renewal by the Company or the Executive's death, Executive shall also be entitled to a severance payment equal to fifty percent (50%) of Executive's Base Salary payable for one (1) year following the effective date of termination pursuant to normal payroll practices. Furthermore, under this Section 3.2(b), vesting of any Company stock options granted to Executive shall cease on the effective date of termination, and any unvested stock options shall lapse and be forfeited as of such date; provided,

however, that if Executive's termination is due to Executive's death, all Company stock options granted to Executive shall immediately vest upon the date of Executive's death.

(c) Termination Due to Disability. If Executive's employment is terminated due to Executive's Disability pursuant to Section 3.1(d), above, Executive shall have no further rights against the Company hereunder, except for the right to receive (i) Accrued Benefits; (ii) the Historic Pro Rata Bonus; and (iii) a Severance Benefit. The Historic Pro Rata Bonus payment shall be made at the same time as any such bonuses are paid to other similarly situated executives of the Company. For purposes of this Section 3.2(c), "Severance Benefit" means six (6) months of Base Salary, payable in equal installments during the six (6) month period following Executive's exhaustion of any short-term disability benefits provided by the Company, in accordance with the normal payroll practices and schedule of the Company. The amount of such Severance Benefit shall be reduced by any compensation (including any payments from the Company or any benefit plans, policies or programs sponsored by the Company) earned or received by Executive during the six (6) month period following the date of termination and the six (6) month period during which Executive receives the Severance Benefit, and Executive agrees to reimburse the Company for the amount of any such reduction. Executive acknowledges and agrees that, upon the cessation, if any, of such Disability during the period of the payment of the Severance Benefit, he has an obligation to use his reasonable efforts to secure other employment consistent with Executive's status and experience and that his failure to do so, as determined at the sole discretion of the Board, is a breach of this Agreement. Furthermore, under this Section 3.2(c), vesting of any Company stock options granted to Executive shall cease on the effective date of termination, and any unvested stock options shall lapse and be forfeited as of such date.

(d) Termination By Company Without Cause or By Executive for Good Reason.

i. No Change of Control. If Executive's employment is terminated by the Company pursuant to Section 3.1(a), above, or by Executive pursuant to Section 3.1(c), above, and such termination does not occur three (3) months prior to or within one (1) year after the occurrence of a Change of Control (defined below), Executive shall have no further rights against the Company hereunder, except for the right to receive (A) Accrued Benefits; (B) a Severance Payment (defined below); (C) the Pro Rata Bonus (defined below); provided, however, that the Pro Rata Bonus payment shall be made at the same time as any such bonuses are paid to other similarly situated executives of the Company; (D) outplacement services from an outplacement service company of the Company's choosing at a cost not to exceed Twenty Thousand Dollars (\$20,000.00), payable directly to such outplacement service company ("Outplacement Services"); and (E) Health Insurance Continuation (defined below) for a period of two (2) years following the effective date of Executive's termination.

For purposes of this Section 3.2(d)(i), "Severance Payment" means an amount equal to the sum of:

(x) Executive's Base Salary for the remainder of the then current Initial Term or Renewal Term of this Agreement, but not to exceed two and nine-tenths (2.9) years; plus

(y) an amount equal to the average (calculated at the sole discretion of the Company) of the three (3) most recent annual incentive compensation plan payments, if any, paid to Executive prior to the effective date of termination.

The Severance Payment shall be paid to Executive in a lump sum within forty (40) days after the effective date of termination, subject to Section 3.2(e) below.

For purposes of this Section 3.2(d)(i), the “Pro Rata Bonus” means an amount equal to the product of:

(x) the bonus attributable to the fiscal year of the Company during which the Executive's termination occurs equal in amount to the bonus the Executive would have received for the full fiscal year had the Executive's employment not terminated and determined, where applicable, by taking into account the actual performance of the Company at year-end; and

(y) a fraction, the numerator of which is the number of days completed in the fiscal year in which the effective date of termination occurs through the effective date of termination and the denominator of which is three hundred sixty-five (365).

Furthermore, under this Section 3.2(d)(i), vesting of any Company stock options granted to Executive prior to the date of termination shall continue as scheduled until the term of this Agreement expires, after which such vesting ceases and any unvested stock options lapse and are forfeited.

ii. Change of Control. If Executive's employment is terminated by the Company pursuant to Section 3.1(a), above, or by the Executive pursuant to Section 3.1(c), above, and such termination occurs within three (3) months prior to or one (1) year after the occurrence of a Change of Control (defined below), Executive shall have no further rights against the Company hereunder, except for the right to receive (A) Accrued Benefits; (B) a Severance Payment (defined below); (C) the Historic Pro Rata Bonus; provided, however, that such bonus payments shall be made at the same time as any such bonuses are paid to other similarly situated executives of the Company; (D) Health Insurance Continuation (defined below) for a period of one (1) year following the effective date of Executive's termination; and (E) Outplacement Services.

For purposes of this Section 3.2(d)(ii), “Severance Payment” means an amount equal to the sum of:

(x) Executive's Base Salary for the period of time equal to the remainder of the then-current Renewal Term, but not to exceed two and nine-tenths (2.9) years; plus

(y) an amount equal to the average (calculated at the sole discretion of the Company) of the three (3) most recent annual incentive compensation plan payments, if any, paid to Executive prior to the effective date of termination times the number of years, rounded to the nearest tenth, remaining in the then-current Renewal Term, but not to exceed two and nine-tenths (2.9).

The Severance Payment shall be paid to Executive in a lump sum within forty (40) days after the effective date of termination, subject to Section 3.2(e) below.

Furthermore, under this Section 3.2(d)(ii), vesting of any Company stock options granted to Executive prior to termination shall occur immediately upon the date of termination.

iii. Definition - Change of Control. “Change of Control” means the occurrence of (1) the acquisition (other than from the Company) by any person, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (“Exchange Act”)), other than the Company, a subsidiary of the Company or any employee benefit plan or plans sponsored by the Company or any subsidiary of the Company, directly or indirectly, of beneficial ownership (within the meaning of Exchange Act Rule 13d-3) of thirty-three percent (33%) or more of the then outstanding shares of common stock of the Company or voting securities representing thirty-three percent (33%) or more of the combined voting power of the Company's then outstanding voting securities ordinarily entitled to vote in the election of directors unless the Incumbent Board (defined below), before such acquisition or within thirty (30) days thereafter, deems such acquisition not to be a Change of Control; or (2) individuals who, as of the date of this Agreement, constitute the Board (as of such date, “Incumbent Board”) ceasing for any reason to constitute at least a majority of such Board; provided, however, that any person becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the shareholders of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be for purposes of this Agreement, 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 the Company with any other corporation, other than a merger, consolidation or share exchange which results in more than sixty percent (60%) of the outstanding shares of the common stock, and voting securities representing more than sixty percent (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 the Company's shareholders immediately prior to such transaction in substantially the same proportions as their ownership, immediately prior to such transaction, of the Company'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 the Company or a sale or other disposition of all or substantially all of the assets of the Company.

Following the occurrence of an event which is not a Change of Control whereby there is a successor company to the Company, or if there is no such successor whereby the Company is not the surviving corporation in a merger or consolidation, the surviving corporation or successor holding company (as the case may be), for purposes of this Agreement, shall thereafter be referred to as the Company.

(iv) Definition - Health Insurance Continuation. For purposes of Sections 3.2(d)(i) and 3.2(d)(ii) above, the term “Health Insurance Continuation” means that, if Executive (and Executive's eligible dependents), following termination from employment under Sections 3.2(d)(i) and 3.2(d)(ii) above, timely elects to participate in the Company's group health insurance plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), the Company will pay the normal monthly employer's cost of coverage under the Company's group health insurance plans for full-time employees toward such COBRA coverage for the specified period of time, if any, set forth in Sections 3.2(d)(i) and 3.2(d)(ii). If the specified period of time provided for in this Agreement is longer than the end of the 18-month period for which Executive is eligible for COBRA, the Company will, until the end of such longer period, pay the normal monthly employer's cost of coverage under the Company's group health insurance plans to, at its sole discretion, allow Executive to continue to participate in such plans (if

allowed by law and the Company's policies, plans and programs) or allow Executive to purchase reasonably comparable individual health insurance coverage through the end of such longer period. Executive acknowledges and agrees that Executive is responsible for paying the balance of any costs not paid for by the Company under this Agreement which are associated with Executive's participation in the Company's health insurance plans or individual health insurance and that Executive's failure to pay such costs may result in the termination of Executive's participation in such plans or insurance. Executive acknowledges and agrees that the Company may deduct from any Severance Payment Executive receives pursuant to this Agreement, amounts that Executive is responsible to pay for Health Insurance Continuation. Any Health Insurance Continuation provided for herein will cease on the date on which Executive becomes eligible for health insurance coverage under another employer's group health insurance plan, and, within five (5) calendar days of Executive becoming eligible for health insurance coverage under another employer's group health insurance plan, Executive agrees to inform the Company of such fact in writing.

In no event will the Health Insurance Continuation to be provided by the Company pursuant to this Agreement in one taxable year affect the amount of Health Insurance Continuation to be provided in any other taxable year, nor will Executive's right to Health Insurance Continuation be subject to liquidation or exchange for another benefit.

(e) Delay of Payments if Required by Section 409A. If amounts paid to Executive pursuant to any Subsection of Section 3.2 would be subject to a penalty under Section 409A of the Internal Revenue Code because Executive is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i), such payments will be delayed until a date which is six (6) months after Executive's termination of employment, at which point any such delayed payments will be paid to Executive in a lump sum.

3.3 Return of Records. Upon termination of employment, for whatever reason, or upon request by the Company at any time, Executive shall immediately return to the Company all documents, records, and materials belonging and/or relating to the Company, and all copies of all such materials. Upon termination of employment, for whatever reason, or upon request by the Company at any time, Executive further agrees to destroy such records maintained by Executive on Executive's own computer equipment.

3.4 Release. As a condition to the receipt of any amounts or benefits after termination of employment for whatever reason, Executive, or his personal representative, shall be required to execute a written release agreement in a form satisfactory to the Company containing, among other items, a general release of claims against the Company and, as an additional condition to the receipt of such amounts or benefits, Executive shall refuse to exercise any right to revoke such release agreement during any applicable rescission period. Such written release under this Section 3.4 (A) shall be delivered to Executive within three (3) business days after the date of termination of Executive's employment, and (B) must be executed by Executive and the rescission period must expire without revocation of such release within 40 days following the date of termination of employment or Executive shall forfeit the compensation and benefits provided under this Agreement that are conditioned upon the release. Where any payment or benefit under the Agreement constitutes a nonqualified deferred compensation arrangement within the meaning of Section 409A of the Code, to the extent that (i) Executive is not a "specified employee" as defined in Section 409A of the Code and (ii) such payments would otherwise be paid or provided to Executive within the 40-day period following the date of termination of employment, such payment(s) or benefit(s) shall commence following Executive's execution of the written release and the expiration of the applicable rescission period, except where the

40-day period following the date of termination of employment spans two different calendar years, in which case such payment (s) or benefit(s) will not commence until the later calendar year during the 40-day period.

ARTICLE IV

CONFIDENTIALITY

4.1 Acknowledgments. Executive acknowledges and agrees that, as an integral part of its business, the Company has expended a great deal of time, money and effort to develop and maintain confidential, proprietary and trade secret information to compete against similar businesses and that this information, if misused or disclosed, would be harmful to the Company's business and competitive position in the marketplace. Executive further acknowledges and agrees that in Executive's position with the Company, the Company provides Executive with access to its confidential, proprietary and trade secret information, strategies and other confidential business information that would be of considerable value to competitive businesses. As a result, Executive acknowledges and agrees that the restrictions contained in this Article IV are reasonable, appropriate and necessary for the protection of the Company's confidential, proprietary and trade secret information. For purposes of this Article IV, the term "Company" means Kohl's Department Stores, Inc. and its parent companies, subsidiaries and other affiliates.

4.2 Confidentiality Obligations. During the term of Executive's employment under this Agreement, Executive will not directly or indirectly use or disclose any Confidential Information or Trade Secrets (defined below) except in the interest and for the benefit of the Company. After the termination, for whatever reason, of Executive's employment with the Company, Executive will not directly or indirectly use or disclose any Trade Secrets unless such information ceases to be deemed a Trade Secret by means of one of the exceptions set forth in Section 4.3(c), below. For a period of two (2) years following termination, for whatever reason, of Executive's employment with the Company, Executive will not directly or indirectly use or disclose any Confidential Information, unless such information ceases to be deemed Confidential Information by means of one of the exceptions set forth in Section 4.3(c), below.

4.3 Definitions.

(a) Trade Secret. The term "Trade Secret" shall have that meaning set forth under applicable law. This term is deemed by the Company to specifically include all of Company's computer source, object or other code and any confidential information received from a third party with whom the Company has a binding agreement restricting disclosure of such confidential information.

(b) Confidential Information. The term "Confidential Information" shall mean all non-Trade Secret or proprietary information of the Company which has value to the Company and which is not known to the public or the Company's competitors, generally, including, but not limited to, strategic growth plans, pricing policies and strategies, employment records and policies, operational methods, marketing plans and strategies, advertising plans and strategies, product development techniques and plans, business acquisition and divestiture plans, resources, sources of supply, suppliers and supplier contractual relationships and terms, technical processes, designs, inventions, research programs and results, source code, short-term and long-range planning, projections, information systems, sales objectives and performance, profits and profit margins, and seasonal plans, goals and objectives.

(c) Exclusions. Notwithstanding the foregoing, the terms “Trade Secret” and “Confidential Information” shall not include, and the obligations set forth in this Article IV shall not apply to, any information which: (i) can be demonstrated by Executive to have been known by Executive prior to Executive's employment by the Company; (ii) is or becomes generally available to the public through no act or omission of Executive; (iii) is obtained by Executive in good faith from a third party who discloses such information to Executive on a non-confidential basis without violating any obligation of confidentiality or secrecy relating to the information disclosed; or (iv) is independently developed by Executive outside the scope of Executive's employment without use of Confidential Information or Trade Secrets.

ARTICLE V

RESTRICTED SERVICES OBLIGATION

5.1 Acknowledgments. Executive acknowledges and agrees that the Company is one of the leading retail companies in the United States, with department stores throughout the United States, and that the Company compensates executives like Executive to, among other things, develop and maintain valuable goodwill and relationships on the Company's behalf (including relationships with customers, suppliers, vendors, employees and other associates) and to maintain business information for the Company's exclusive ownership and use. As a result, Executive acknowledges and agrees that the restrictions contained in this Article V are reasonable, appropriate and necessary for the protection of the Company's goodwill, customer, supplier, vendor, employee and other associate relationships and Confidential Information and Trade Secrets. Executive further acknowledges and agrees that the restrictions contained in this Article V will not pose an undue hardship on Executive or Executive's ability to find gainful employment. For purposes of this Article V, the term “Company” means Kohl's Department Stores, Inc. and its parent companies, subsidiaries and other affiliates.

5.2 Restricted Services Obligation. During the Initial Term and the Renewal Term and for the one (1) year period following termination, for whatever reason, of Executive's employment with the Company, Executive will not, directly or indirectly, provide Restricted Services (defined below) for or on behalf of any Competitive Business (defined below) or directly or indirectly, provide any Competitive Business with any advice or counsel in the nature of the Restricted Services.

5.3 Definitions. For purposes of this Article V, the following are defined terms:

(a) Restricted Services. “Restricted Services” shall mean services of any kind or character comparable to those Executive provided to the Company during the eighteen (18) month period immediately preceding Executive's last date of employment with the Company.

(b) Competitive Business. “Competitive Business” shall mean each of the following entities: J.C. Penney Company, Inc., Macy's, Inc., The Gap, Inc., Target Corporation, Sears Holdings Corporation, and any successors, subsidiaries or affiliates of these entities engaged in the operation of national retail department stores.

ARTICLE VI

BUSINESS IDEAS; NON-DISPARAGEMENT

6.1 Assignment of Business Ideas. Executive shall immediately disclose to the Company a list of all inventions, patents, applications for patent, copyrights, and applications for copyright in which Executive currently holds an interest. The

Company will own, and Executive hereby assigns to the Company, all rights in all Business Ideas. All Business Ideas which are or form the basis for copyrightable works shall be considered “works for hire” as that term is defined by United States Copyright Law. Any works that are not found to be “works for hire” are hereby assigned to the Company. While employed by the Company and for one (1) year thereafter, Executive will promptly disclose all Business Ideas to the Company and execute all documents which the Company may reasonably require to perfect its patent, copyright and other rights to such Business Ideas throughout the world. After Executive's employment with the Company terminates, for whatever reason, Executive will cooperate with the Company to assist the Company in perfecting its rights to any Business Ideas including executing all documents which the Company may reasonably require. For purposes of this Article VI, the term “Company” means Kohl's Department Stores, Inc. and its parent companies, subsidiaries and other affiliates.

6.2 Business Ideas. The term “Business Ideas” as used in this Agreement means all ideas, inventions, data, software, developments and copyrightable works, whether or not patentable or registrable, which Executive originates, discovers or develops, either alone or jointly with others while Executive is employed by the Company and for one (1) year thereafter and which are (a) related to any business known by Executive to be engaged in or contemplated by the Company, (b) originated, discovered or developed during Executive's working hours during his employment with the Company, or (c) originated, discovered or developed in whole or in part using materials, labor, facilities, Confidential Information, Trade Secrets, or equipment furnished by the Company.

6.3 Non-Disparagement. Executive agrees not to engage at any time in any form of conduct or make any statements or representations, or direct any other person or entity to engage in any conduct or make any statements or representations, that disparage, criticize or otherwise impair the reputation of the Company, its affiliates, parents and subsidiaries and their respective past and present officers, directors, stockholders, partners, members, agents and employees. Nothing contained in this Section 6.3 shall preclude Executive from providing truthful testimony or statements pursuant to subpoena or other legal process or in response to inquiries from any government agency or entity.

ARTICLE VII EMPLOYEE NON-SOLICITATION

During the term of Executive's employment with the Company and for one (1) year thereafter, Executive shall not directly or indirectly encourage any Company employee to terminate his employment with the Company unless Executive does so in the course of performing his duties for the Company and such encouragement is in the Company's best interests. For purposes of this Article VII, the term “Company” means Kohl's Department Stores, Inc. and its parent companies, subsidiaries and other affiliates.

ARTICLE VIII GENERAL PROVISIONS

8.1 Notices. Any and all notices, consents, documents or communications provided for in this Agreement shall be given in writing and shall be personally delivered, mailed by registered or certified mail (return receipt requested) or sent by courier, confirmed by receipt, and addressed as follows (or to such other address as the addressed party may have substituted by notice pursuant to this Section 8.1):

(a) If to the Company:

Kohl's Department Stores, Inc.
N56 W17000 Ridgewood Drive
Menomonee Falls, WI 53051
Attn: Kevin Mansell, Chairman, President, and CEO

(b) If to Executive:

Any notice to be given to the Executive may be addressed to him at the address as it appears on the payroll records of the Company or any subsidiary thereof.

Such notice, consent, document or communication shall be deemed given upon personal delivery or receipt at the address of the party stated above or at any other address specified by such party to the other party in writing, except that if delivery is refused or cannot be made for any reason, then such notice shall be deemed given on the third day after it is sent.

8.2 Executive Disclosures and Acknowledgments.

(a) Prior Obligations. Attached as Exhibit B is a list of prior obligations (written and oral), such as confidentiality agreements or covenants restricting future employment or consulting, that Executive has entered into which may restrict Executive's ability to perform Executive's duties as an employee for the Company.

(b) Confidential Information of Others. Executive certifies that Executive has not, and will not, disclose or use during Executive's time as an employee of the Company, any confidential information which Executive acquired as a result of any previous employment or under a contractual obligation of confidentiality or secrecy before Executive became an employee of the Company.

(c) Scope of Restrictions. By entering into this Agreement, Executive acknowledges the nature of the Company's business and the nature and scope of the restrictions set forth in Articles IV, V and VII, above, including specifically Wisconsin's Uniform Trade Secrets Act, presently § 134.90, *Wis. Stats.* Executive acknowledges and represents that the scope of such restrictions are appropriate, necessary and reasonable for the protection of the Company's business, goodwill, and property rights. Executive further acknowledges that the restrictions imposed will not prevent Executive from earning a living in the event of, and after, termination, for whatever reason, of Executive's employment with the Company. Nothing herein shall be deemed to prevent Executive, after termination of Executive's employment with the Company, from using general skills and knowledge gained while employed by the Company.

(d) Prospective Employers. Executive agrees, during the term of any restriction contained in Articles IV, V and VII, above, to disclose such provisions to any future or prospective employer. Executive further agrees that the Company may send a copy of this Agreement to, or otherwise make the provisions hereof known to, any such employer.

8.3 Effect of Termination. Notwithstanding any termination of this Agreement, the Executive, in consideration of his employment hereunder, shall remain bound by the provisions of this Agreement which specifically relate to periods, activities or obligations upon or subsequent to the termination of the Executive's employment.

8.4 Confidentiality of Agreement. Executive agrees that, with the exception of disclosures pursuant to Section 8.2 (d), above, Executive will not disclose, directly or indirectly, any non-public terms of this Agreement to any third party; provided, however, that following Executive's obtaining a promise of confidentiality for the benefit of the Company from Executive's tax preparer, accountant, attorney and spouse, Executive may disclose such terms to such of these individuals who have made such a promise of confidentiality. This provision shall not prevent Executive from disclosing such matters in testifying in any hearing, trial or other legal proceeding where Executive is required to do so.

8.5 Cooperation. Executive agrees to take all reasonable steps during and after Executive's employment with the Company to make himself/herself available to and to cooperate with the Company, at its request, in connection with any legal proceedings or other matters in which it is or may become involved. Following Executive's employment with the Company, the Company agrees to pay reasonable compensation to Executive and to pay all reasonable expenses incurred by Executive in connection with Executive's obligations under this Section 8.5.

8.6 Effect of Breach. In the event that Executive breaches any provision of this Agreement, Executive agrees that the Company may suspend all payments to Executive under this Agreement (including any Severance Payment), recover from Executive any damages suffered as a result of such breach and recover from Executive any reasonable attorneys' fees or costs it incurs as a result of such breach. In addition, Executive agrees that the Company may seek injunctive or other equitable relief, without the necessity of posting bond, as a result of a breach by Executive of any provision of this Agreement.

8.7 Entire Agreement. This Agreement contains the entire understanding and the full and complete agreement of the Parties and supersedes and replaces any prior understandings and agreements among the Parties with respect to the subject matter hereof, including without limitation the Original Agreement.

8.8 Headings. The headings of sections and paragraphs of this Agreement are for convenience of reference only and shall not control or affect the meaning or construction of any of its provisions.

8.9 Consideration. Execution of this Agreement is a condition of Executive's continued employment with the Company and Executive's continued employment by the Company, and the benefits provided to Executive under this Agreement, constitute the consideration for Executive's undertakings hereunder.

8.10 Amendment. This Agreement may be altered, amended or modified only in a writing, signed by both of the Parties hereto.

8.11 Assignability. This Agreement and the rights and duties set forth herein may not be assigned by Executive, but may be assigned by the Company, in whole or in part. This Agreement shall be binding on and inure to the benefit of each party and such party's respective heirs, legal representatives, successors and assigns.

8.12 Severability. If any court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then such invalidity or unenforceability shall have no effect on the other provisions hereof, which shall remain valid, binding and enforceable and in full force and effect, and such invalid or unenforceable provision shall be construed in a manner so as to give the maximum valid and enforceable effect to the intent of the Parties expressed therein.

8.13 Waiver of Breach. The waiver by either party of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either party.

8.14 Governing Law; Construction. This Agreement shall be governed by the internal laws of the State of Wisconsin, without regard to any rules of construction concerning the draftsman hereof.

8.15 Section 409A Compliance. The Company and Executive intend that any amounts or benefits payable or provided under this Agreement comply with the provisions of Section 409A of the Internal Revenue Code and the treasury regulations relating thereto so as not to subject Executive to the payment of the tax, interest and any tax penalty which may be imposed under Code Section 409A. The provisions of this Agreement shall be interpreted in a manner consistent with such intent. In furtherance thereof, to the extent that any provision hereof would otherwise result in Executive being subject to payment of tax, interest and tax penalty under Code Section 409A, the Company and Executive agree to amend this Agreement in a manner that brings this Agreement into compliance with Code Section 409A and preserves to the maximum extent possible the economic value of the relevant payment or benefit under this Agreement to Executive.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year written above.

KOHL'S DEPARTMENT STORES, INC.:

By: /s/ Kevin Mansell
Kevin Mansell,
Chairman, President and Chief Executive Officer

EXECUTIVE:

By: /s/ Kenneth G. Bonning
Kenneth G. Bonning

EXHIBIT A

BASE COMPENSATION

Executive's annual base compensation as of the date of this Agreement is Seven Hundred Fifteen Thousand Eight Hundred and no/100 Dollars (\$715,800).

EXHIBIT B

PRIOR OBLIGATIONS

None.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Earnings			
Income before income taxes	\$ 1,349	\$ 1,404	\$ 1,561
Fixed charges	524	517	509
Less: interest capitalized during period	(2)	(1)	(2)
	<u>\$ 1,871</u>	<u>\$ 1,920</u>	<u>\$ 2,068</u>
Fixed charges			
Interest (expensed or capitalized)	\$ 342	\$ 339	\$ 335
Portion of rent expense representative of interest	180	176	172
Amortization of deferred financing fees	2	2	2
	<u>\$ 524</u>	<u>\$ 517</u>	<u>\$ 509</u>
Ratio of earnings to fixed charges	3.6	3.7	4.1

Subsidiaries

<u>Name</u>	<u>State of Incorporation or Formation</u>
Kohl's Department Stores, Inc.	Delaware
Kohl's Illinois, Inc.*	Nevada
Kohl's Indiana, Inc.*	Delaware
Kohl's Indiana, L.P.	Delaware
Kohl's Michigan, L.P.	Delaware
Kohl's Value Services, Inc.*	Virginia
Kohl's Cares, LLC*	Wisconsin
KWAL, LLC	Wisconsin

*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 following Registration Statements (Form S-8 #33-49886, Form S-8 #333-26409, Form S-8 #33-84558, Form S-8 #333-105264, Form S-8 #333-143086, Form S-8 #333-167338 and Form S-3 #333-177252) of Kohl's Corporation, of our reports dated March 20, 2015, with respect to the consolidated financial statements of Kohl's Corporation and the effectiveness of internal control over financial reporting of Kohl's Corporation included in this Annual Report (Form 10-K) of Kohl's Corporation for the year ended January 31, 2015.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin

March 20, 2015

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

I, Kevin Mansell, certify that:

1. I have reviewed this 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 20, 2015

/s/ Kevin Mansell

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

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

I, Wesley S. McDonald, certify that:

1. I have reviewed this 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 20, 2015

/s/ Wesley S. McDonald

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

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

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

1. This Annual Report on Form 10-K of the Company for the annual period ended January 31, 2015 (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 20, 2015

/s/ Kevin Mansell

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

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

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

1. This Annual Report on Form 10-K of the Company for the annual period ended January 31, 2015 (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 20, 2015

/s/ Wesley S. McDonald

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