KOHLS Corp
Form 10-K
March 22, 2013

## UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended February 2, 2013
or
.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from $\qquad$ to $\qquad$
Commission file number 1-11084

## KOHL'S CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of incorporation or organization)

N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin
(Address of principal executive offices)

39-1630919
(I.R.S. Employer Identification No.)

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
Securities registered pursuant to Section 12(g) of the
Act:
Name of each exchange on which registered
New York Stock Exchange
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.
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 July 27, 2012, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was approximately $\$ 11.4$ billion (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date). At March 13, 2013, the Registrant had outstanding an aggregate of $222,010,520$ 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 16, 2013 are incorporated into Parts II and III.

## Table of Contents

## KOHL'S CORPORATION

INDEX
PARTI ..... 3
Item 1. Business ..... $\underline{3}$
Item 1A. Risk Factors ..... 6
Item 1B. Unresolved Staff Comments ..... 9
Item 2. Properties ..... $\underline{9}$
Item 3. Legal Proceedings ..... 12
Item 4. Mine Safety Disclosures ..... 12
PART II ..... 13
Item 5. Market for Registrant's Common Equity. Related Stockholder Matters and Issuer Purchases of Equit ..... 13
Item 6. Selected Consolidated Financial Data ..... 16
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ..... 17
Item 7A. Quantitative and Qualitative Disclosures About Market Risk ..... 30
Item 8. Financial Statements and Supplementary Data ..... $\underline{30}$
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures ..... $\underline{30}$
Item 9A. Controls and Procedures ..... $\underline{31}$
Item 9B. Other Information ..... $\underline{32}$
PART III ..... $\underline{33}$
Item 10. Directors, Executive Officers and Corporate Governance ..... $\underline{33}$
Item 11. Executive Compensation ..... $\underline{34}$
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ..... 35
Item 13. Certain Relationships and Related Transactions, and Director Independence ..... $\underline{35}$
Item 14. Principal Accountant Fees and Services ..... $\underline{35}$
PART IV ..... $\underline{35}$
Item 15. Exhibits and Financial Statement Schedules ..... $\underline{35}$
Signatures ..... $\underline{36}$
Exhibit Index ..... 37
Index to Consolidated Financial Statements ..... F-1

## Table of Contents

## PART I

## Item 1. Business

Kohl's Corporation (the "Company" or "Kohl's") was organized in 1988 and is a Wisconsin corporation. As of February 2, 2013, we operated 1,146 family-oriented department stores and a website (www.Kohls.com) that sell moderately priced apparel, footwear and accessories for women, men and children; soft home products such as sheets and pillows; and housewares. Our product offerings include quality private and exclusive brands which are found "Only at Kohl's" as well as national brands which appeal to classic, modern classic and contemporary customers. 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 $31^{\text {st }}$ 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.

| Fiscal Year | Ended | Number of |
| :--- | :--- | :--- |
| 2012 | February 2, 2013 | Weeks |
| 2011 | January 28, 2012 | 52 |
| 2010 | January 29, 2011 | 52 |

For discussion of our financial results, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
Merchandise
Our merchandise mix by line of business and brand type over the last three years are reflected in the table below:

|  | 2012 |  | 2011 |  | 2010 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Line of Business |  |  |  |  |  |  |
| Women's | 31 | $\%$ | 31 | $\%$ | 31 | $\%$ |
| Men's | 19 | $\%$ | 19 | $\%$ | 19 | $\%$ |
| Home | 18 | $\%$ | 19 | $\%$ | 19 | $\%$ |
| Children's | 13 | $\%$ | 13 | $\%$ | 12 | $\%$ |
| Accessories | 10 | $\%$ | 10 | $\%$ | 10 | $\%$ |
| Footwear | 9 | $\%$ | 8 | $\%$ | 9 | $\%$ |
| Total | 100 | $\%$ | 100 | $\%$ | 100 | $\%$ |
|  |  |  |  |  |  |  |
| Brand | 52 | $\%$ | 50 | $\%$ | 48 | $\%$ |
| Private and Exclusive | 48 | $\%$ | 50 | $\%$ | 52 | $\%$ |
| National | 100 | $\%$ | 100 | $\%$ | 100 | $\%$ |

Our private brands generally are at lower price-points than our other brands. Most of our private brands are well-known established brands such as Apt. 9, Croft \& Barrow, Jumping Beans, SO and Sonoma Life + Style. Exclusive brands generally are at higher price-points and 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.
We frequently launch new brands in order to maintain freshness in our inventory assortment and drive customer traffic to our stores and website. In 2012, we launched Rock \& Republic and Princess Vera Wang. In 2011, we launched the Jennifer Lopez and Marc Anthony brands, the largest launch in our company history. Recently, we have launched our DesigNation concept, which will feature limited-edition collections from premier designers including Narciso Rodriguez which launched in November 2012. In Spring 2013, we will feature a collection by Derek Lam.

## Table of Contents

Omni-Channel Shopping Experience
Practical, easy shopping is about convenience. It's about providing customers the options which allow them to shop when they want and from where they want.
At Kohl's, in-store convenience includes a neighborhood location close to home, convenient parking, easily-accessible entry, knowledgeable and friendly associates, wide aisles, a functional store layout, shopping carts/strollers and fast, centralized checkouts. Though our stores have fewer departments than traditional, full-line department stores, the physical layout of the store and our focus on strong in-stock positions in style, color and size is aimed at providing a convenient shopping experience for an increasingly time-starved customer.
On-line convenience begins with an easy-to-navigate, on-line shopping experience for the growing percentage of our customers that prefer shopping on-line. Kohls.com was launched in 2001 and has experienced substantial growth, growing at an annual growth rate of over $40 \%$ over the past three years. On-line sales exceeded $\$ 1.4$ billion and accounted for approximately $7 \%$ of our total sales in 2012 . Our website currently carries over three times as many product offerings as our stores, with a primary focus on extended sizes, product line extensions, and web-exclusive product lines.
We also are expanding our ability to meet the ever-changing needs of an increasingly technologically-savvy customer. Our in-store kiosks allow customers to order items from our stores and have them shipped to their homes with no shipping charges. All of our stores are equipped with Wi-Fi. We continue to improve our digital and mobile sales platforms. We are also building the infrastructure which will allow us to ship on-line orders from our stores. During Holiday 2012, we shipped selected on-line orders from our store distribution centers rather than our E-Commerce fulfillment centers.

## Stores

As of year-end 2012, we operated 1,146 stores. We have stores in all 48 of the continental United States and Alaska. Our stores are located in every large and intermediate sized market in the United States.
Our new store program targets profitable growth opportunities through fill-in stores in our better performing markets and opportunistic acquisitions, when available. We opened stores in 20 new locations, relocated 1 store in Michigan and closed 1 store in Ohio during 2012. In 2013, we expect to open 12 new stores. Substantially all of the new stores opened in 2012 and expected to open in 2013 are small stores ( 55,000 to 68,000 square feet).
Remodels are also an important part of our store strategy as we believe it is extremely important to maintain our existing store base. We completed 50 store remodels in 2012 and plan to remodel approximately 30 stores in 2013. We have temporarily slowed our remodel program as we continue to evaluate and test different categories and space allocations in our stores.
Low-Cost Operating Structure
An important aspect of our pricing strategy and overall profitability is a culture focused on maintaining a low-cost structure. Critical elements of this low-cost structure are our unique store format, lean staffing levels, sophisticated management information systems and operating efficiencies which are the result of centralized buying, advertising and distribution.
We remain focused on providing the solid infrastructure needed to ensure consistent, low-cost execution. We proactively invest in distribution capacity and regional management to facilitate growth in new and existing markets as well as on-line. Our central merchandising organization tailors merchandise assortments to reflect regional climates and preferences. Technological systems and improvements support our low-cost culture by enhancing productivity and providing the information needed to make key merchandising decisions.
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 Sates, ship merchandise to each store by contract carrier several times a week. We also operate four fulfillment centers that service our E-Commerce business.
See Item 2, "Properties," for additional information about our distribution centers.
Employees

As of February 2, 2013, we employed approximately 135,000 associates, including approximately 30,000 full-time and 105,000 part-time associates. The number of associates varies during the year, peaking during the back-to-school and holiday

4

## Table of Contents

seasons. None of our associates are represented by a collective bargaining unit. We believe our relations with our associates are very good.

## Competition

The retail industry is highly competitive. Management considers style, quality and price to be the most significant competitive factors in the industry. Merchandise mix, service, customer experience and convenience are also key competitive factors. Our primary competitors are traditional department stores, upscale mass merchandisers and specialty stores. On-line only retailers are also becoming an increasing source of competition. 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 2012. 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 230 additional registered trademarks, trade names and service marks, most of which are used in 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.

5

## Table of Contents

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 simil expressions are intended to identify forward-looking statements. In addition, statements covering our future sales or financial performance and our plans, performance and other objectives, expectations or intentions are forward-looking statements, such as statements regarding our liquidity, debt service requirements, planned capital expenditures, future store openings, adequacy of capital resources and reserves and statements contained in the "2013 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 obligations to update them.
Our sales and gross margin 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.
$\bullet$ 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, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels.
Recent economic conditions have caused disruptions and significant volatility in financial markets, increased rates of default and bankruptcy and declining consumer and business confidence, which has led to decreased levels of consumer spending, particularly on discretionary items. A continued or incremental slowdown in the U.S. economy and the uncertain economic outlook could continue to adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. As all of our stores are located in the United States, we are especially susceptible to deteriorations in the U.S. economy.
Consumer confidence is also affected by the domestic and international political situation. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the United States, could lead to a decrease in spending by consumers.

- Actions by our competitors.

The retail business is highly competitive. We compete for customers, associates, locations, merchandise, services and other important aspects of our business with many other local, regional and national retailers. Those competitors, some of which have a greater market presence than Kohl's, include traditional store-based retailers, internet and catalog businesses and other forms of retail commerce. Unanticipated changes in the pricing and other practices of those competitors may adversely affect our performance.
-Our inability to offer merchandise our customers want 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.
All of our vendors must comply with applicable laws and our required Terms of Engagement. Our ability to find qualified vendors and access products in a timely and efficient manner is a significant challenge which is typically even more difficult with respect to goods sourced outside the United States. Political or financial instability, trade
restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, and the ability to access suitable merchandise on acceptable terms are beyond our control and could adversely impact our performance.

## Table of Contents

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.
-Increases in the price of merchandise, raw materials, fuel and labor or their reduced availability could increase our cost of goods.
We could again experience inflation in our merchandise, raw materials, fuel and labor costs as we did during 2011. The cost of cotton, which is a key raw material in many of our products, had the most dramatic increase in 2011. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, acreage devoted to cotton crops and crop yields, weather, supply conditions, transportation costs, energy prices, work stoppages, government regulation and government policy, economic climates, market speculation and other unpredictable factors. Fluctuations in the price and availability of fuel, labor and raw materials, such as cotton, could again affect our cost of goods and an inability to mitigate these cost increases, unless sufficiently offset with our pricing actions, might cause a decrease in our profitability; while any related pricing actions might cause a decline in our sales volume. Additionally, any decrease in the availability of raw materials could impair our ability to meet our production or purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel and labor may also have an adverse impact on our cash and working capital needs as well as those of our suppliers.
-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, which we expect will create and maintain customer loyalty, increase the number 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 and we devote significant resources to promoting and protecting them. We develop and promote private and exclusive brands that have generated national recognition. In some cases, the brands or the marketing of such brands are tied to or affiliated with well-known individuals. Damage to the reputations (whether or not justified) of our brand names or any affiliated individuals, could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in sales, earnings, and shareholder value.

- 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.
The efficient operation of our business is dependent on our information systems. In particular, we rely on our information systems to effectively manage sales, distribution, merchandise planning and allocation functions. We also generate sales though the operations of our Kohls.com website. The failure of our information systems to perform as designed could disrupt our business and harm sales and profitability.
-Weather conditions could adversely affect consumer shopping patterns.
Because a significant portion of our business is apparel and subject to weather conditions in our markets, our operating results may be adversely affected by severe or unexpected weather conditions. Frequent or unusually heavy snow, ice or rain storms; natural disasters such as earthquakes, tornadoes, floods and hurricanes; or extended periods of unseasonable temperatures in our markets 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 develop and maintain a relevant omni-channel experience for our customers.

Omni-channel retailing is rapidly evolving as our customers become increasingly technologically savvy. Computers, mobile phones, tablets and other similar devices are progressively becoming a more important aspect of the shopping experience. Additionally, the internet and other new technologies facilitate competitive entry and comparison shopping. We strive to offer an omni-channel shopping experience for our customers and use social media as a way to interact with our customers and enhance their shopping experiences. If we are unable to make, improve, or develop relevant customer-

7

## Table of Contents

facing technology in a timely manner, our ability to compete with other retailers and to meet our customer expectations may suffer. Consequently, our results of operations could be adversely affected.
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. This seasonality causes our operating results and cash needs to vary considerably from quarter to quarter.
Growth in our E-Commerce business could adversely affect some of our operating metrics.
In recent years, we have experienced significant growth in our E-Commerce business. Some of this growth has resulted in lower sales in our stores. Though this has no impact on our consolidated sales, it has had a negative effect on our net income as a percentage of sales as our stores are currently more profitable than our E-Commerce business. This profitability variance is due to a variety of factors including, but not limited to, a higher mix of lower margin merchandise in our E-Commerce business, shipping costs, and investments to provide the infrastructure necessary to grow the E-Commerce business. Though we are aggressively working to improve the profitability of our E-Commerce business, there can be no assurances that our E-Commerce business will become as profitable as our stores. 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 rating were lowered, 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 were to become significantly constrained or costs of capital increased significantly due to lowered credit ratings, prevailing industry conditions, the volatility of the capital markets or other factors, then 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 have been sold to 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 employees 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. Our ability to meet our labor
needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact our ability to attract and retain quality associates could adversely affect our performance.

8

## Table of Contents

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 employee morale. Additionally, we are regularly involved in various litigation matters that arise in the ordinary course of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance.
Unauthorized disclosure of sensitive or confidential customer information could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business.
As part of our normal course of business, we collect, process and retain sensitive and confidential customer, employee and company information. The protection of this data is extremely important to us, our employees 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 February 2, 2013, we operated 1,146 stores 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 square feet and serve trade areas of 100,000 to 150,000 people. Our "urban" stores, currently located in the New York and Chicago markets, serve very densely populated areas of up to 500,000 people and average approximately 125,000 gross square feet of retail space.

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

## Table of Contents

The following tables summarize key information about our stores.

|  | Number of Stores |  |  | $\begin{array}{l}\text { Selling } \\ \text { Square }\end{array}$ |
| :--- | :--- | :--- | :--- | :--- |
|  |  | Net | 2012 |  |
| Footage |  |  |  |  |$)$

## Table of Contents

| Number of Stores |  | Selling |
| :---: | :--- | :--- |
| 2011 | Net <br> Change | Square |
|  | Chata | Footage |
|  |  | 2012 |
|  |  | (In |
|  |  | Thousands) |

Southeast Region:

| Alabama | 13 | - | 13 | 859 |
| :--- | :--- | :--- | :--- | :--- |
| Florida | 52 | 1 | 53 | 3,874 |
| Georgia | 34 | 1 | 35 | 2,554 |
| Kentucky | 16 | - | 16 | 1,127 |
| Mississippi | 5 | - | 5 | 378 |
| North Carolina | 29 | 2 | 31 | 2,195 |
| South Carolina | 14 | 1 | 15 | 1,033 |
| Tennessee | 20 | - | 20 | 1,398 |
| Total Southeast | 183 | 5 | 188 | 13,418 |
| West Region: |  |  |  |  |
| Alaska | 1 | - | 1 | 73 |
| Arizona | 26 | - | 26 | 1,953 |
| California | 128 | - | 128 | 9,206 |
| Colorado | 24 | - | 24 | 1,835 |
| Idaho | 5 | - | 5 | 328 |
| Montana | 2 | - | 2 | 117 |
| Nevada | 12 | - | 12 | 851 |
| New Mexico | 5 | - | 5 | 326 |
| Oregon | 10 | - | 10 | 649 |
| Utah | 12 | - | 12 | 874 |
| Washington | 17 | 1 | 18 | 1,190 |
| Wyoming | 2 | - | 2 | 98 |
| Total West | 244 | 1 | 245 | 17,500 |
| Total Kohl's | 1,127 | 19 | 1,146 | 83,098 |


|  | Number of Stores by Store Type |  |  |  | Number of Stores by Location |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2011 | Net <br> Additions | 2012 |  | 2011 | Net <br> Additions | 2012 |
| Prototype | 987 | - | 987 | Strip centers | 764 | 7 | 771 |
| Small | 135 | 19 | 154 | Community \& regional malls | 83 | 2 | 85 |
| Urban | 5 | - | 5 | Freestanding | 280 | 10 | 290 |
|  | 1,127 | 19 | 1,146 |  | 1,127 | 19 | 1,146 |
|  | Number of Stores by Ownership |  |  |  | Number of Stores by Building Type |  |  |
|  | 2011 | Net <br> Additions | 2012 |  | 2011 | Net <br> Additions | 2012 |
| Owned | 403 | 4 | 407 | One-story | 1,035 | 18 | 1,053 |
| Leased* | 724 | 15 | 739 | Two-story | 92 | 1 | 93 |
|  | 1,127 | 19 | 1,146 |  | 1,127 | 19 | 1,146 |

Edgar Filing: KOHLS Corp - Form 10-K

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


## Table of Contents

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

| Location | Year Opened | Square <br> Footage | States Serviced | Approximate Store Capacity |
| :---: | :---: | :---: | :---: | :---: |
| Retail: |  |  |  |  |
|  |  |  | Indiana, Kentucky, Michigan, New |  |
| Findlay, Ohio | 1994 | 780,000 | York, Ohio, Pennsylvania, West Virginia | 185 |
| Winchester, Virginia | 1997 | 420,000 | Delaware, Maryland, New Jersey, North Carolina, Pennsylvania, | 135 |
|  |  |  | Tennessee, Virginia, West Virginia Arkansas, Colorado, Illinois, Iowa, |  |
| Blue Springs, Missouri | 1999 | 540,000 | Kansas, Kentucky, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Wyoming | 110 |
| Corsicana, Texas | 2001 | 540,000 | Arkansas, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas | 115 |
| Mamakating, New York | 2002 | 605,000 | Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont | 145 |
| San Bernardino, California | 2002 | 575,000 | Arizona, California, Colorado, Nevada, Utah | 110 |
| Macon, Georgia | 2005 | 560,000 | Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee | 150 |
| Patterson, California | 2006 | 360,000 | Alaska, California, Idaho, Montana, Nevada, Oregon, Utah, Washington | 110 |
| Ottawa, Illinois | 2008 | 328,000 | Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Wisconsin | 155 |
| E-Commerce: |  |  |  |  |
| Monroe, Ohio | 2001 | 1,200,000 | - | - |
| San Bernardino, California | 2010 | 970,000 | - | - |
| Edgewood, Maryland | 2011 | 1,450,000 | - | - |
| DeSoto, Texas | 2012 | 1,200,000 | - | - |

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 are incidental to our ordinary course of business.

Item 4. Mine Safety Disclosures
Not applicable

12

## Table of Contents

## PART II

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

Our Common Stock has been traded on the New York Stock Exchange since May 19, 1992, under the symbol "KSS." The prices in the table set forth below indicate the high and low sales prices of our Common Stock per the New York Stock Exchange Composite Price History and our quarterly cash dividends per common share for each quarter in 2012 and 2011.

|  | 2012 <br> High | Low | Dividend | 2011 <br> High | Low | Dividend |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  |  |  |  |  |  |  |
| Fourth Quarter | $\$ 55.11$ | $\$ 41.81$ | $\$ 0.32$ | $\$ 56.65$ | $\$ 45.46$ | $\$ 0.25$ |
| Third Quarter | 53.77 | 49.72 | 0.32 | 55.44 | 42.14 | 0.25 |
| Second Quarter | 51.25 | 43.13 | 0.32 | 57.39 | 49.09 | 0.25 |
| First Quarter | 52.19 | 45.56 | 0.32 | 55.92 | 50.48 | 0.25 |

We have filed with the Securities and Exchange Commission ("SEC"), as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K, the Sarbanes-Oxley Act Section 302 certifications. In 2012, Kevin Mansell, our Chief Executive Officer, submitted a certification with the New York Stock Exchange ("NYSE") in accordance with Section 303A. 12 of the NYSE Listed Company Manual stating that, as of the date of the certification, he was not aware of any violation by us of the NYSE's corporate governance listing standards.
On February 27, 2013, our Board of Directors approved a dividend of $\$ 0.35$ per share which will be paid on March 27, 2013 to shareholders of record as of March 13, 2013. In 2012, we paid aggregate cash dividends of $\$ 300$ million.
(b) Holders

As of March 13, 2013, there were approximately 4,450 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 16, 2013 Annual Meeting of Shareholders, which information is incorporated herein by reference.

## Table of Contents

(d) Performance Graph

The graph below compares our cumulative five-year stockholder return to that of the Standard \& Poor's 500 Index and the S\&P 500 Department Stores Index. The S\&P 500 Department Stores Index was calculated by Capital IQ, a Standard \& Poor's business and includes Kohl's; JCPenney Company, Inc.; Dillard's, Inc.; Macy's, Inc.; Nordstrom Inc.; and Sears Holding Corporation. The graph assumes investment of $\$ 100$ on February 2, 2008 and reinvestment of dividends. The calculations exclude trading commissions and taxes.

|  | Feb 2, | Jan 31, | Jan 30, | Jan 29, | Jan 28, | Feb 2, |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Company / Index | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Kohl's Corporation | $\$ 100.00$ | $\$ 79.93$ | $\$ 109.67$ | $\$ 111.47$ | $\$ 103.73$ | $\$ 105.04$ |
| S\&P 500 Index | 100.00 | 60.63 | 80.72 | 97.88 | 103.10 | 121.25 |
| S\&P 500 Department Stores Index | 100.00 | 47.24 | 78.97 | 90.57 | 102.42 | 105.59 |

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

We did not sell any equity securities during 2012 which were not registered under the Securities Act.
(f) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Since first authorizing our share repurchase program in 2007, our Board of Directors have increased the authorization in 2011 and again in November 2012. Purchases under the repurchase program may be made in the open market, through block trades and other negotiated transactions. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions and to complete the program by the end of Fiscal 2015. There is no fixed termination date for the repurchase program, and the program may be suspended, discontinued or accelerated at any time.

14

## Table of Contents

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 February 2, 2013:

| Period | Total | Average | Total Number of Shares | Approximate |
| :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |
|  | Number |  | Purchased as | Shares that May |
|  | of Shares | Price | Part of | $\begin{aligned} & \text { Shares } \\ & \text { Yet Be } \end{aligned}$ |
|  | Purchased | Paid Per | Publicly | Purchased |
|  | During | Share | Announced | Under the Plans |
|  | Period |  | Plans or | or Programs |
|  |  |  | Programs | (In Millions) |
| October 28 - November 24, 2012 | 1,375,849 | \$52.23 | 1,373,900 | \$ 3,445 |
| November 25 - December 29, 2012 | 3,884,107 | 44.06 | 3,882,828 | 3,274 |
| December 30, 2012 - February 2, 2013 | 3,584,989 | 42.72 | 3,584,364 | 3,121 |
| Total | 8,844,945 | \$44.79 | 8,841,092 | \$ 3,121 |

15

## Table of Contents

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.

| 2012(a) | 2011 | 2010 | 2009 |  | 2008 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars |  |  |  |  |  |
| Data) |  |  |  |  |  |

Statement of Income Data:
Net sales
Cost of merchandise sold
Gross margin
Selling, general and administrative expenses
Depreciation and amortization
Operating income
Interest expense, net
Income before income taxes
Provision for income taxes
Net income
Net income per share:
Basic
Diluted
Dividends per share
Operating Data:
Net sales growth
Comparable store sales growth (b)
Net sales per selling square foot (c)
As a percent of sales:
Gross margin
Operating income
Net income
Total square feet of selling space (in thousands)
Number of stores open (end of period)
Return on average shareholders' equity (d)
Balance Sheet Data (end of period):
Working capital
Property and equipment, net
Total assets
Long-term debt
Capital lease and financing obligations
Shareholders' equity

| $\$ 19,279$ | $\$ 18,804$ | $\$ 18,391$ | $\$ 17,178$ | $\$ 16,389$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 12,289 | 11,625 | 11,359 | 10,680 | 10,334 |  |
| 6,990 | 7,179 | 7,032 | 6,498 | 6,055 |  |
| 4,267 | 4,243 | 4,190 | 3,951 | 3,769 |  |
| 833 | 778 | 750 | 688 | 632 |  |
| 1,890 | 2,158 | 2,092 | 1,859 | 1,654 |  |
| 329 | 299 | 304 | 301 | 275 |  |
| 1,561 | 1,859 | 1,788 | 1,558 | 1,379 |  |
| 575 | 692 | 668 | 585 | 522 |  |
| $\$ 986$ | $\$ 1,167$ | $\$ 1,120$ | $\$ 973$ | $\$ 857$ |  |
|  |  |  |  |  |  |
| $\$ 4.19$ | $\$ 4.33$ | $\$ 3.69$ | $\$ 3.19$ | $\$ 2.80$ |  |
| $\$ 4.17$ | $\$ 4.30$ | $\$ 3.66$ | $\$ 3.17$ | $\$ 2.80$ |  |
| $\$ 1.28$ | $\$ 1.00$ | - | - | - |  |
|  |  |  |  |  |  |
| 2.5 | $\%$ | 2.2 | $\%$ | 7.1 | $\%$ |

The retail calendar for fiscal January 2013 included a fifth week, resulting in a 53-week year. During this 53 rd

${ }^{(a)}$ interest was approximately $\$ 2$ million; net income was approximately $\$ 15$ million and diluted earnings per share was approximately $\$ 0.06$.
Comparable store sales growth is based on sales for stores (including relocated or remodeled stores) which were
(b) open throughout both the full current and prior year periods and E-Commerce. Fiscal 2012 comparable store sales growth compares the 52 weeks ended January 26, 2013 to the 52 weeks ended January 28, 2012.
(c)

Net sales per selling square foot is based on stores open for the full current period, excluding E-Commerce. 2012 excludes the impact of the 53rd week.
(d) Average shareholders' equity is based on a 5-quarter average for 2012, 2011, and 2010, and the two most recent year-end balances for 2009 and 2008.

## Table of Contents

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

## Executive Summary

Total net sales for 2012 were $\$ 19.3$ billion, a $2.5 \%$ increase over 2011. Comparable store sales increased $0.3 \%$ over 2011. E-Commerce revenues increased over $40 \%$ to $\$ 1.4$ billion. Comparable sales were driven by higher average unit prices which were substantially offset by fewer transactions.
Gross margin declined approximately 190 basis points to $36.3 \%$ of sales for 2012. The decrease reflects lower prices as we focused on improving value to our customer during the year and due to late and lower than expected Holiday sales which resulted in deeper price cuts.
Expenses were well-managed during the year. Our stores organization continues to drive payroll efficiencies. We also reported significant leverage in our corporate operations, primarily due to lower incentive costs.
For 2012, net income was $\$ 986$ million, or $\$ 4.17$ per diluted share, compared to $\$ 1.2$ billion, or $\$ 4.30$ per diluted share for 2011.
We operated 1,146 stores as of year-end. In 2012, we opened 21 new stores, including one relocated store, closed one store and remodeled 50 stores.
2013 Outlook
Our current expectations for fiscal 2013 compared to 2012 are as follows:

Total sales
Comparable store sales
Gross margin as a percent of sales
SG\&A
Earnings per diluted share
Our guidance assumes share repurchases of $\$ 1$ billion at an average price of $\$ 50$ per share.

Increase 0-2\%
Increase 0-2\%
Increase 15-30 bp
Increase 1.5-3\%
\$4.15-\$4.45

We expect to open approximately 12 new stores in 2013 - nine in the Spring and three in the Fall. Eleven of the new stores will be "small" stores with less than 64,000 square feet of retail space. We are temporarily reducing the number of remodels to approximately 30 stores in 2013 as we continue to evaluate and test different categories and space allocations in our stores.
Results of Operations
53rd Week.
The retail calendar for fiscal January 2013 included a fifth week, resulting in a 53 -week year. During this $53^{\text {rd }}$ 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 $\$ 0.06$. Our comparable store sales in 2012 exclude the impact of the 53 rd week and compare the 52 weeks ended January 26, 2013 to the 52 weeks ended January 28, 2012.

## Table of Contents

Net sales.

|  | 2012 | 2011 | 2010 |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Net sales (In Millions) | $\$ 19,279$ | $\$ 18,804$ | $\$ 18,391$ |  |  |
| Sales growth: |  |  |  |  |  |
| Total | 2.5 | $\%$ | 2.2 | $\%$ | 7.1 |
| Comparable stores (a) | 0.3 | $\%$ | 0.5 | $\%$ | 4.4 |
| Net sales per selling square foot (b) | $\$ 213$ | $\$ 220$ | $\$ 222$ | $\%$ |  |

(a)Includes sales for stores (including relocated or remodeled stores) which were open throughout both the full current and prior year periods and E-Commerce. Fiscal 2012 comparable store 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 is based on stores open for the full current period, excluding E-Commerce. 2012 excludes the impact of the 53 rd week.
The changes in net sales were due to the following:

| 2012 | 2011 |  |
| :--- | :--- | :--- |
| $\$$ | $\%$ | $\%$ |
| (Dollars in Millions) |  |  |

Comparable store sales:
Stores
E-Commerce (a)
Total (b)
New stores and other revenues
Net change before 53rd week
Sales in 53rd week
Increase in net sales

| $\$(354$ | $)$ | $(2.0$ | $) \%$ | $\$(175$ | $)$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 411 | 41.8 | $\%$ | 267 | 37.2 | $) \%$ |
| 57 | 0.3 | $\%$ | 92 | 0.5 |  |
| 249 | - |  | 321 | - |  |
| 306 | 1.6 | $\%$ | 413 | 2.2 | $\%$ |
| 169 | - |  | - | - |  |
| $\$ 475$ | 2.5 | $\%$ | $\$ 413$ | 2.2 | $\%$ |

(a)Excludes shipping and other revenues
(b) Fiscal 2012 comparable store sales growth compares the 52 weeks ended January 26, 2013 to the 52 weeks ended (b) January 28, 2012.

Drivers of the changes in comparable store sales were as follows:
Selling price per unit
Units per transaction
Average transaction value
Number of transactions
Comparable store sales

| 2012 |  | 2011 |  |
| :--- | :--- | :--- | :--- |
| 1.8 | $\%$ | 6.6 | $\%$ |
| - |  | $(4.9$ | $)$ |
| 1.8 |  | 1.7 |  |
| $(1.5$ | $)$ | $(1.2$ | $)$ |
| 0.3 | $\%$ | 0.5 | $\%$ |

The increases in selling price per unit are the result of changes in our pricing strategy. During the Fall of 2011, we increased our prices as we passed higher apparel costs on to our customers. During 2012, we reduced our prices, especially in the fourth quarter as sales were below expectations, but prices remained higher than 2011. Units per transaction was flat in 2012 and number of transactions declined in part due to insufficient inventory levels in the first several months of 2012 to meet the sales demand which resulted from the price reductions.

From a regional perspective, all regions were slightly negative for the year with no significant variations between the regions. E-Commerce revenue, which includes shipping and other revenues and the 53rd week, increased $\$ 432$ million to $\$ 1.4$ billion for 2012 . The increase is primarily due to increased transactions.

Private and exclusive brand penetration increased approximately 160 basis points to $52 \%$ of sales for the year. Most of the penetration increase was a result of recently-added exclusive brands, including Jennifer Lopez, Marc Anthony, and Rock \& Republic. FILA Sport and LC Lauren Conrad also reported significantly higher sales and contributed to the
increased penetration.

## Table of Contents

By line of business, Children's and Men's reported the strongest comparable store sales growth for the year. Children's was led by strength in toys and Men's was led by casual sportswear and pants and active. Footwear outperformed the Company average with the strongest sales in women's and athletic shoes. Comparable store sales in the Accessories, Women's and Home categories declined slightly for the year. Sterling silver jewelry reported the strongest increase in the Accessories business. In Women's, updated/contemporary sportswear and active were the strongest categories. Bedding had the largest increase in the Home business.
Net sales per selling square foot (which is based on stores open for the full current period and excludes E-Commerce and the 53rd week in 2012), decreased $\$ 7$ to $\$ 213$ in 2012. The decrease is primarily due to a $2 \%$ decrease in sales at our comparable stores.
Net sales for 2011 increased $2.2 \%$ over 2010 and comparable store sales increased $0.5 \%$. From a line of business perspective, Accessories and Home reported the strongest comparable store sales in 2011. Children's and Men's outperformed the Company average for the year, while Women's and Footwear trailed the Company average. The Northeast region reported the strongest comparable store sales for 2011. E-Commerce revenue, which includes shipping and other revenues, increased \$269 million to \$1 billion in 2011.

Gross margin.

|  | 2012 | 2011 | 2010 |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Gross margin | (Dollars in Millions) |  |  |  |  |
| As a percent of net sales | $\$ 6,990$ | $\$ 7,179$ | $\$ 7,032$ |  |  |
|  | 36.3 | $\%$ | 38.2 | $\%$ | 38.2 |

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

The following table summarizes gross margin as a percent of sales by channel:

|  | Stores | E-Commerce |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2012 |  |  |  |  |  |  |
| Merchandise margin | 37.2 | \% | 35.4 | \% | 37.1 | \% |
| Shipping impact | - |  | (10.3 | ) | (0.8 | ) |
| Gross margin | 37.2 | \% | 25.1 | \% | 36.3 | \% |
| 2011 |  |  |  |  |  |  |
| Merchandise margin | 38.9 | \% | 36.4 | \% | 38.8 | \% |
| Shipping impact | - |  | (11.3 | ) | (0.6 | ) |
| Gross margin | 38.9 | \% | 25.1 | \% | 38.2 | \% |
| Increase (Decrease) |  |  |  |  |  |  |
| Merchandise margin | (176) bp |  | (95) bp |  | (166) bp |  |
| Shipping impact | - |  | 88 |  |  | ) |
| Gross margin | (176) bp |  | (7) bp |  | (192) bp |  |

## Table of Contents

The following table summarizes the drivers of the changes in gross margin as a percent of sales:
Merchandise Margin:

Stores
E-Commerce
E-Commerce shipping
Total decrease
(168 )bp
(7)
(17 )
(192 ) bp

The decreases in merchandise margin are primarily due to reductions in selling price to drive customer traffic, especially during the holiday season, and higher apparel costs, especially in the first six months of 2012, which were only partially offset by higher selling prices early in the year. The decrease in gross margin attributable to E-Commerce shipping are primarily due to growth in this business as shipping losses as a percent of sales were lower in 2012 than in 2011. Our E-Commerce business currently has a lower gross margin than our stores due to the mix of products sold on-line and free or related shipping promotions. As our E-Commerce business grows, it also has a more significant impact on our overall gross margin results.
Gross margin for 2011 increased $\$ 147$ million, or $2 \%$, over 2010. Gross margin as a percent of net sales decreased 6 basis points from 2011 to 2010 as inventory management, increased penetration of private and exclusive brands (which have a higher gross margin rate than national brands), and ongoing markdown and size optimization initiatives were more than offset by lower gross margin during the fourth quarter holiday season due to the extremely competitive landscape and sales which were below expectations. Sales of private and exclusive brands reached $50 \%$ of net sales in 2011, an increase of approximately 240 basis points over 2010.
Selling, general and administrative expenses.

Selling, general, and administrative expenses As a percent of net sales

| 2012 | 2011 |  | 2010 |
| :--- | :--- | :--- | :--- |
| (Dollars in Millions) |  |  |  |
| $\$ 4,267$ | $\$ 4,243$ |  | $\$ 4,190$ |
| 22.1 | $\%$ | 22.6 | $\%$ |
| 22.8 |  |  |  |

Selling, general and administrative expenses ("SG\&A") include compensation and benefit costs (including stores, headquarters, buying and merchandising and distribution centers); occupancy and operating costs of our retail, distribution and corporate facilities; freight expenses associated with moving merchandise from our distribution centers to our retail stores and among distribution and retail facilities; advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; net revenues from our Kohl's credit card operations; and other administrative revenues and expenses. SG\&A also includes the costs incurred prior to new store openings, such as advertising, hiring and training costs for new employees, processing and transporting initial merchandise, and rent expense. We do not include depreciation and amortization in SG\&A. The classification of these expenses varies across the retail industry.
SG\&A for 2012 increased $\$ 24$ million, or $1 \%$ over 2011. The increase in SG\&A is due primarily to higher distribution costs, increased marketing, investments in technology and infrastructure related to our E-Commerce business and the extra week in the 2012 retail calendar. These increases were partially offset by lower incentive costs. SG\&A as a percent of sales decreased, or "leveraged," by approximately 40 basis points in 2012.
Store payroll costs leveraged in 2012 due to continued implementation of electronic signs and strong payroll management. Other store expenses including both rent-related expenses and variable costs, such as electricity and remodel expenses, as a percent of net sales also declined.
Corporate operations reported significant leverage, primarily due to lower incentive costs.
Distribution costs totaled $\$ 245$ million for 2012, $\$ 202$ million for 2011, and $\$ 187$ million for 2010 and did not leverage in 2012. The increase in 2012 is primarily due to growth in our E-Commerce business. Information technology costs also did not leverage due to continued investments in our technology infrastructure.

Net revenues from our credit card operations were $\$ 388$ million in 2012, $\$ 347$ million in 2011, and $\$ 180$ million in 2010. The increase in 2012 compared to 2011 is due to higher average receivables which contributed to higher revenues during the year. Offsetting these increases in were higher costs associated with a new credit card servicing platform.

Edgar Filing: KOHLS Corp - Form 10-K

## Table of Contents

Marketing costs as a percent of sales for 2012 were comparable to the prior year as 2011 included expenses to support the Jennifer Lopez and Marc Anthony brand launches - the largest launches in our history. The 53rd week in 2012 also had a positive impact on marketing costs as a percent of sales.
SG\&A for 2011 increased $\$ 53$ million, or $1 \%$, over 2010, but decreased as a percentage of net sales. SG\&A increased primarily due to store growth, increased advertising, and investments in technology and infrastructure related to our E-Commerce business. These increases were partially offset by higher revenues in our credit card portfolio due to higher average receivables and a more favorable revenue sharing percentage under our April 2011 agreement with Capital One, National Association ("Capital One").

Other Expenses.

| Depreciation and amortization | $\$ 833$ | $\$ 778$ | $\$ 750$ |  |
| :--- | :--- | :--- | :--- | :--- |
| Interest expense, net | 329 | 299 | 304 |  |
| Provision for income taxes | 575 | 692 | 668 |  |
| Effective tax rate | 36.8 | $\%$ | 37.2 | $\%$ |
|  | 37.4 | $\%$ |  |  |

The increases in depreciation and amortization are primarily due to recent computer software and hardware additions which have a short amortization period as well as the addition of new stores, remodels and the opening of our fourth E-Commerce fulfillment center in DeSoto, Texas.
Net interest expense, including $\$ 2$ million in the 53rd week of 2012, increased $\$ 30$ million, or $10 \%$, over 2011. The increase in interest expense is primarily due to the net increase in our outstanding long-term debt. Net interest expense for 2011 decreased $\$ 5$ million from 2010. The decrease was attributable to the repayment of debt totaling $\$ 400$ million in March and October 2011 and the subsequent issuance of $\$ 650$ million of debt in October 2011 at a lower interest rate.
The decrease in the effective tax rate for 2012 was primarily due to favorable settlements of state tax audits in the first six months of the year.
Inflation
Although we expect that our operations will be influenced by general economic conditions, including rising food, fuel and energy prices, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected by such factors in the future. We experienced $10-15 \%$ increases in apparel costs in 2011. In 2012, we saw modest increases in apparel costs in the first six months and mid-single-digit decreases in the last six months of the year. In 2013, we expect to see modest decreases in apparel costs.

## Liquidity and Capital Resources

Our primary ongoing cash requirements are for capital expenditures for new stores, remodels and IT spending and for seasonal and new store inventory purchases. Share repurchases and dividend payments to shareholders are currently other significant usages of cash. These payments are discretionary and can be discontinued at any time should we require cash for other uses. Our primary sources of funds are cash flow provided by operations, short-term trade credit and our lines of credit. Short-term trade credit, in the form of extended payment terms for inventory purchases, often represents a significant source of financing for merchandise inventories. Seasonal cash needs may be met by cash on hand and/or the line of credit available under our revolving credit facility. Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.
As of February 2, 2013, we had cash and cash equivalents of $\$ 537$ million. We generated $\$ 381$ million of free cash flow in 2012. (See the Free Cash Flow discussion later in this Liquidity and Capital Resources section for additional discussion of this non-GAAP financial measure.)

$$
\begin{aligned}
& 2012 \\
& \text { (In Millions) }
\end{aligned} 2011 \quad 2010
$$

Net cash provided by (used in):

Edgar Filing: KOHLS Corp - Form 10-K
Operating activities
$\$ 1,265 \quad \$ 2,139 \quad \$ 1,750$

Investing activities
(660 ) (802 ) (757

Financing activities
(1,273 ) (2,409 ) (983

## Table of Contents

Operating activities.
Cash provided by operations decreased $41 \%$ in 2012 to $\$ 1.3$ billion. The decrease is primarily the result of lower earnings, a decrease in deferred taxes related to depreciation and higher inventory levels.

Total inventory per store increased $15 \%$ over January 28, 2012. Excluding E-Commerce, inventory per store increased $12 \%$ to $\$ 3.1$ million per store as of February 2,2013 compared to $\$ 2.8$ million per store as of January 28, 2012. The higher inventory levels were intended to support holiday sales in 2012, however, the merchandise did not sell as expected.
Accounts payable as a percent of inventory was $34.9 \%$ at February 2, 2013, compared to $38.3 \%$ at year-end 2011. The decrease is primarily due to slower inventory turnover.
Cash provided by operations increased $\$ 389$ million from $\$ 1.8$ billion in 2010 to $\$ 2.1$ billion in 2011. The increase was primarily due to changes in accounts payable activities and deferred taxes related to depreciation. Accounts payable as a percent of inventory was $38.3 \%$ at January 28, 2012, compared to $37.3 \%$ at year-end 2010 . The change is primarily due to expiration of vendor financing initiatives.

Investing activities.
Net cash used in investing activities decreased $\$ 142$ million to $\$ 660$ million in 2012, primarily due to lower capital expenditures. Capital expenditures totaled $\$ 785$ million for 2012 , a $\$ 142$ million decrease from 2011. This decrease is primarily due to fewer remodels and new stores, partially offset by higher technology spending.
The following table summarizes expected and actual capital expenditures by major category:

Computer hardware and software
Fixtures and store improvements
Remodels/relocations
New stores
Distribution centers
Other
Total

| 2013 |  |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Estimate |  | 2012 |  | 2011 |  | 2010 |  |  |
| 38 | $\%$ | 33 |  | $\%$ | 18 | $\%$ | 17 | $\%$ |
| 24 |  | 18 |  | 7 |  | 12 |  |  |
| 19 |  | 14 |  | 26 |  | 30 |  |  |
| 11 |  | 18 |  | 27 |  | 28 |  |  |
| 2 |  | 14 |  | 15 |  | 10 |  |  |
| 6 |  | 3 |  | 7 |  | 3 |  |  |
| 100 | $\%$ | 100 | $\%$ | 100 | $\%$ | 100 | $\%$ |  |

We expect total capital expenditures of approximately $\$ 700$ million in fiscal 2013. The expected decrease from 2012 is primarily due to a decrease in new store openings (approximately 12 expected in 2013 compared to 21 in 2012) and less spending on E-Commerce building construction. These decreases will be partially offset by an expected increase in IT spending. The actual amount of our future capital expenditures will depend primarily on the number and timing of new stores, distribution centers and E-Commerce fulfillment centers opened and remodeled; the mix of owned, leased or acquired stores; and IT spending. We do not anticipate that our expansion plans will be limited by any restrictive covenants in our financing agreements.
Sales of long-term investments generated cash of $\$ 109$ million in 2012 and $\$ 145$ million in 2011. As of February 2, 2013, we had investments in auction rate securities ("ARS") with a par value of $\$ 83$ million and an estimated fair value of $\$ 52$ million. Since 2008, the market for ARS has diminished. This has limited our ability to liquidate these investments, but we do not believe that it will have a significant impact on our ability to fund ongoing operations and growth initiatives. To date, we have collected all interest receivable on outstanding ARS when due and expect to continue to do so in the future. Substantially all redemptions to date were made at par.
Net cash used in investing activities increased $\$ 45$ million to $\$ 802$ million in 2011 , primarily due to an increase in capital expenditures, partially offset by higher ARS sales. Capital expenditures totaled $\$ 927$ million for 2011, a $\$ 126$ million increase over 2010. This increase is primarily due to higher capital spending for new stores, remodels, E-Commerce fulfillment centers, and a call center in Texas.
Financing activities.
Our financing activities used cash of $\$ 1.3$ billion in 2012 and $\$ 2.4$ billion in 2011 . The decrease is primarily due to lower share repurchases.

Edgar Filing: KOHLS Corp - Form 10-K

## Table of Contents

We repurchased 26 million shares of our common stock for approximately $\$ 1.3$ billion in 2012 and 46 million shares for approximately $\$ 2.3$ billion in 2011. The shares were purchased as part of our share repurchase program. In November 2012, our Board of Directors increased the share repurchase authorization under our existing share repurchase program by $\$ 3.2$ billion, to $\$ 3.5$ billion. We expect to repurchase shares in open market transactions, subject to market conditions, over the next three years.

We repaid long-term debt of $\$ 300$ million in March 2011 and $\$ 100$ million in October 2011. In October 2011, we issued $\$ 650$ million of $4.00 \%$ notes with semi-annual interest payments beginning in May 2012. In September 2012, we issued $\$ 350$ million of $3.25 \%$ notes with semi-annual interest payments beginning in February 2013.
We have various facilities upon which we may draw funds, including a 5 -year, $\$ 1$ billion senior unsecured revolving credit facility which we entered into in June 2011. The credit facility includes 16 lenders which have each committed between $\$ 30$ and $\$ 110$ million each. The $\$ 1$ billion facility replaced a $\$ 900$ million facility which was scheduled to expire in October 2011. We also have a demand note with availability of $\$ 30$ million. There were no draws on these facilities during 2012 or 2011.
Our credit ratings have been unchanged since September 2007 when we issued $\$ 1$ billion in debt. As of February 2, 2013, our ratings were as follows:

|  | Moody's | Standard \& Poor's Fitch |
| :--- | :--- | :--- |
| Long-term debt | Baa1 | 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 2012, we paid cash dividends of $\$ 300$ million as detailed in the following table:
Declaration date
Record date
Payment date
Amount per common share

| First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| :--- | :--- | :--- | :--- |
| February 22 | May 9 | August 7 | November 7 |
| March 7 | June 6 | September 5 | December 5 |
| March 28 | June 27 | September 26 | December 26 |
| $\$ 0.32$ | $\$ 0.32$ | $\$ 0.32$ | $\$ 0.32$ |

On February 27, 2013 our Board of Directors approved a dividend of $\$ 0.35$ per common share which will be paid on March 27, 2013 to shareholders of record as of March 13, 2013.
Our financing activities used cash of $\$ 2.4$ billion in 2011 and $\$ 983$ million in 2010. The increase is primarily due to treasury stock purchases in the fourth quarter of 2011.
Key financial ratios.
The following ratios provide certain measures of our liquidity, capital structure and return on investments.

|  | 2012 | 2011 | 2010 |  |
| :--- | :--- | :--- | :--- | :--- |
| Liquidity Ratios: |  |  |  |  |
| Working capital (In Millions) | $\$ 2,184$ | $\$ 2,222$ | $\$ 2,888$ |  |
| Current ratio | $\$ .86$ | 1.85 | 2.03 |  |
| Free Cash Flow (a) | $\$ 381$ | $\$ 1,135$ | $\$ 892$ |  |
| Return on Investment Ratios: | 4.1 |  | 4.8 |  |
| Ratio of earnings to fixed charges | 6.9 | $\%$ | 8.1 | $\%$ |
| Return on Assets | 16.8 | $\%$ | 18.8 | $\%$ |
| Return on Gross Investment (a) |  |  | 19.2 | $\%$ |
| Capital Structure Ratios: | 42.9 | $\%$ | 39.5 | $\%$ |
| (a) | 2.23 | 1.99 | 1.97 | $\%$ |
| Debt/capitalization |  |  |  |  |
| Adjusted Debt to EBITDAR (a) |  |  |  |  |

## Table of Contents

Liquidity ratios.
The 2012 working capital and current ratio were generally consistent with 2011. The decrease in working capital and the current ratio as of year-end 2011 compared to year-end 2010 were primarily due to lower cash balances as a result of repurchasing $\$ 2.3$ billion of our common stock in 2011.

The decrease in free cash flow is primarily a result of lower cash provided by operating activities, as discussed above. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations (which generally represent landlord reimbursements of construction costs) less 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.
Return on investment ratios.
Our ratio of earnings to fixed charges and our return on assets were lower for 2012 than 2011 primarily due to lower earnings in 2012. Our 2011 ratios were comparable to 2010 ratios. See Exhibit 12.1 to this Annual Report on Form $10-\mathrm{K}$ for the calculation of our ratio of earnings to fixed charges and the key financial ratio calculations below for the return on assets calculation.

Our Return on Gross Investment ("ROI") has decreased as investments in stores, distribution centers and technology increased more than profitability. 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. See the key financial ratio calculations section below. Capital structure ratios.

Our debt agreements contain various covenants including limitations on additional indebtedness and a maximum permitted leverage ratio. As of February 2, 2013, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2013. See the key financial ratio calculations section below for our debt covenant calculation.

Our debt/capitalization ratio has increased primarily due to an increase in our outstanding debt and lower capitalization as a result of share repurchases.

Our Adjusted Debt to EBITDAR ratio increased for 2012 primarily due to higher outstanding debt, including a $\$ 350$ million debt issuance in September 2012. Our 2011 ratio was comparable to our 2010 ratio. 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 between 2 and 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. 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.

Edgar Filing: KOHLS Corp - Form 10-K

## Table of Contents

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).

|  | 2012 | 2011 |  | 2010 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | (Dollars in Millions) |  |  |  |  |
| Net cash provided by operating activities | \$1,265 | \$2,139 |  | \$1,750 |  |
| Acquisition of property \& equipment | (785 | ) $(927$ |  | (801 |  |
| Capital lease \& financing obligation payments | (111 | ) $(91$ |  | (84 | ) |
| Proceeds from financing obligations | 12 | 14 |  | 27 |  |
| Free cash flow | \$381 | \$1,135 |  | \$892 |  |
| The following table includes our ROI and return on assets (the most comparable GAAP measure) calculations: |  |  |  |  |  |
|  | 2012 | 2011 |  | 2010 |  |
|  | (Dollars in Millions) |  |  |  |  |
| Net income | \$986 | \$ 1,167 |  | \$1,120 |  |
| Net interest | 329 | 299 |  | 304 |  |
| Provision for income taxes | 575 | 692 |  | 668 |  |
| Depreciation and amortization | 833 | 778 |  | 750 |  |
| Rent expense | 265 | 265 |  | 264 |  |
| EBITDAR | \$2,988 | \$3,201 |  | \$3,106 |  |
| Average: (a) |  |  |  |  |  |
| Total assets | \$14,266 | \$14,434 |  | \$15,090 |  |
| Cash equivalents and long-term investments (b) | (677 | ) $(1,421$ |  | (2,478 | ) |
| Deferred tax and other assets | (126 | ) (124 |  | (115 | ) |
| Accumulated depreciation and amortization | 4,943 | 4,473 |  | 3,980 |  |
| Accounts payable | (1,622 | ) $(1,439$ |  | (1,441 | ) |
| Accrued liabilities | (1,079 | ) $(1,068$ |  | (995 | ) |
| Other long-term liabilities | (478 | ) (458 |  |  | ) |
| Capitalized rent (c) | 2,573 | 2,598 |  | 2,546 |  |
| Gross Investment ("AGI") | \$17,800 | \$16,995 |  | \$16,174 |  |
| Return on Assets ("ROA") (d) | 6.9 | \% 8.1 | \% |  | \% |
| Return on Gross Investment ("ROI") (e) | 16.8 | \% 18.8 | \% | 19.2 | \% |
| (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 |  |  |  |  |  |

## 25

## Table of Contents

The following table includes our leverage ratio calculation, as defined by our debt agreements as of February 2, 2013:

|  | (Dollars in Millions) <br> Total Debt <br> Permitted Exclusions <br> Subtotal |
| :--- | :--- |
| Rent x 8 | a |
| Included Indebtedness | 4,553 |
| Net Worth | 2,120 |
| Investments (accounted for under equity method) | $\$ 6,673$ |
| Subtotal | $\$ 6,048$ |
| Included Indebtedness | - |
| Capitalization | 6,048 |
| Leverage Ratio (a) | 6,673 |
| Maximum permitted Leverage Ratio | $\$ 12,721$ |
| (a) Included Indebtedness divided by Capitalization | 0.52 |

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

|  | 2012 | 2011 | 2010 |  |
| :--- | :--- | :--- | :--- | :--- |
|  | (Dollars in Millions) |  |  |  |
| Total Debt | $\$ 4,553$ | $\$ 4,244$ | $\$ 3,999$ |  |
| Adjusted Rent (a) | 2,120 | 2,117 | 2,111 |  |
| Adjusted Debt | $\$ 6,673$ | $\$ 6,361$ | $\$ 6,110$ |  |
| Total Equity | $\$ 6,048$ | $\$ 6,508$ | $\$ 7,850$ |  |
| EBITDAR (b) | 2,988 | 3,201 | 3,106 |  |
| Debt/capitalization (c) | 42.9 | $\%$ | 39.5 | $\%$ |
| Adjusted Debt to EBITDAR (d) | 2.23 | 1.99 | 1.97 |  |

(a) Represents 8 times annual rent
(b) See details in ROI calculation above
(c) Total debt divided by total debt and shareholders' equity
(d) Adjusted debt divided by EBITDAR

## Table of Contents

## Contractual Obligations

Our contractual obligations as of February 2, 2013 were as follows:

|  | Total <br> Than 1 <br> Year |  |  | $1-3$ <br> Years | $3-5$ <br> Years |
| :--- | :--- | :--- | :--- | :--- | :--- |
| More <br> than 5 <br> Years |  |  |  |  |  |
| (In Millions) |  |  |  |  |  |

Our leases typically require that we pay real estate taxes, insurance and maintenance costs in addition to the (a) minimum rental payments included in the table above. Such costs vary from period to period and totaled $\$ 165$ million for 2012, $\$ 161$ million for 2011 and $\$ 168$ million for 2010. The lease term includes cancelable option periods where failure to exercise such options would result in economic penalty.
Our purchase obligations consist mainly of purchase orders for merchandise. Amounts committed under open
(b) purchase orders for merchandise are cancelable without penalty prior to a date that precedes the vendors' scheduled shipment date.
(c) Our other commitments include legally binding minimum lease and interest payments for stores opening in 2013 or c) later, as well as payments associated with technology agreements.

We have not included $\$ 126$ 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 2012.
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.

## Table of Contents

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, distribution centers and E-Commerce fulfillment 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 2012, 2011 or 2010. 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, we do not believe that a markdown reserve was required as of February 2, 2013. 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 and conditions 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 February 2, 2013, estimated liabilities for workers' compensation and general liability claims,
excluding administrative expenses and before pre-funding, were approximately $\$ 86$ 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

## Table of Contents

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 February 2, 2013, we had recorded approximately $\$ 14$ million for medical, pharmacy and dental claims which were incurred in 2012 and expected to be paid in 2013. Historically, our actuarial estimates have not been materially different from actual results.
Effective January 1, 2012, we are self-insured for a portion of our property losses. Reserves related to property losses were not significant as of February 2, 2013.
Impairment of Assets
As of February 2, 2013, our investment in buildings and improvements, before accumulated depreciation, was $\$ 14$ 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 $\$ 108$ million as of February 2, 2013 and $\$ 101$ million as of January 28, 2012.
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 February 2, 2013, 739 of our 1,146 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.

## Table of Contents

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 2012 is at fixed interest rates and, therefore, is not affected by changes in interest rates. When our long-term debt instruments mature, we may refinance them at then existing market interest rates, which may be more or less than interest rates on the maturing debt.
Cash equivalents and long-term investments earn interest at variable rates and are affected by changes in interest rates. During 2012, average investments were $\$ 900$ million and average yield was $0.3 \%$. If interest rates on the average 2012 variable rate cash equivalents and long-term investments increased by 100 basis points, our annual interest income would also increase by approximately $\$ 9$ million assuming comparable investment levels.
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 can not 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

## Table of Contents

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 February 2, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on this assessment, our management has concluded that as of February 2, 2013, 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.

## Table of Contents

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 February 2, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Kohl's Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Kohl's Corporation maintained, in all material respects, effective internal control over financial reporting as of February 2, 2013, 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 the Company as of February 2, 2013 and January 28, 2012, 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 February 2, 2013 of Kohl's Corporation and our report dated March 22, 2013 expressed an unqualified opinion thereon.

## /s/ ERNST \& YOUNG LLP

Milwaukee, Wisconsin

March 22, 2013
Item 9B. Other Information
None

32

## Table of Contents

## 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 16, 2013 Annual Meeting of Shareholders ("our 2013 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 2013 Proxy, which information is incorporated herein by reference.
Our executive officers as of March 13, 2013 were as follows:

Name
Kevin Mansell
Don Brennan
John Worthington
Kenneth Bonning
Peggy Eskenasi
Wesley S. McDonald
Richard D. Schepp

Age Position
60 Chairman, Chief Executive Officer, President and Director
52 Chief Merchandising Officer
49 Chief Administrative Officer
55 Senior Executive Vice President
57 Senior Executive Vice President
50 Senior Executive Vice President, Chief Financial Officer
52 Senior Executive Vice President, General Counsel, Secretary 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.
Mr. Brennan was promoted to Chief Merchandising Officer in November 2010 and is responsible for all merchandising divisions, product development, merchandise planning and allocation, as well as E-Commerce. Previously, he had served as Senior Executive Vice President since September 2007. Mr. Brennan began his retail career in 1982.
Mr. Worthington was promoted to Chief Administrative Officer in November 2010 and is responsible for store operations, store administration, merchandise presentation, loss prevention, real estate, information systems and purchasing. Previously, he had served as Senior Executive Vice President since September 2007. Mr. Worthington began his retail career in 1989.
Mr. Bonning was promoted to Senior Executive Vice President in May 2011 and is responsible for logistics and information systems. Previously, he had served as Executive Vice President, Logistics, Facilities and Store Planning from October 2006 to May 2011 and as Executive Vice President, Logistics from February 2004 to October 2006. Mr. Bonning began his retail career in 1985.
Ms. Eskenasi was promoted to Senior Executive Vice President in November 2010 and oversees all product development. Previously, she had served as Executive Vice President—Product Development since October 2004. Ms. Eskenasi began her retail career in 1977.

Mr. McDonald was promoted to Senior Executive Vice President, Chief Financial Officer in November 2010 and is responsible for financial planning and analysis, investor relations, financial reporting, accounting operations, tax, treasury, 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, General Counsel and Secretary in May 2011 and is responsible for legal affairs and internal audit. He previously served as Executive Vice President—General Counsel, Secretary from August 2001 to May 2011. Mr. Schepp began his retail career in 1992.

## Table of Contents

Members of our Board of Directors as of March 13, 2013 were as follows:

Kevin Mansell
Chairman, President and Chief Executive
Officer,
Kohl's Corporation
Peter Boneparth ${ }^{(b)}$ (c)
Senior Advisor,
Irving Capital Partners
Steven A. Burd ${ }^{(b)}$ (c)
Chairman and Chief Executive Officer,
Safeway Inc.
John F. Herma ${ }^{\text {(a) (c) }}$
Former Chief Operating Officer and Secretary,
Kohl's Corporation
Dale E. Jones ${ }^{(b)}$ (c)
Vice Chairman and Partner of the CEO and Board Practice in the Americas, Heidrick and Struggles

William S. Kellogg
Former Chairman and Chief Executive Officer, Kohl's Corporation
(a)Audit Committee member
(b)Compensation Committee member
(c)Governance \& Nominating Committee member

* Denotes Chair

John E. Schlifske ${ }^{(a)(c)}$
Chairman and Chief Executive Officer
Northwestern Mutual Life Insurance
Company
Frank V. Sica ${ }^{(b) *}{ }^{(c)}$
Managing Partner, Tailwind Capital

Peter M. Sommerhauser
Shareholder,
Godfrey \& Kahn, S.C. Law Firm
Stephanie A. Streeter ${ }^{(a)}{ }^{(c)}{ }^{*}$
Chief Executive Officer and Director
Libbey, Inc

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

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

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

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 2013 Proxy, including the Compensation Discussion and Analysis, which information is incorporated herein by reference.

## Table of Contents

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 2013 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 2013 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 2013 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.

35

## Table of Contents

## Signatures

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

Kohl's Corporation
By:
/S/ KEVIN MANSELL
Kevin Mansell
Chairman, President, Chief Executive Officer and Director
(Principal Executive Officer)
/S/ WESLEY S. MCDONALD
Wesley S. McDonald
Senior Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)
Dated: March 22, 2013
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/ STEVEN A. BURD
Steven A. Burd
Director
/S/ JOHN F. HERMA
John F. Herma
Director
/S/ DALE E. JONES
Dale E. Jones
Director
/S/ WILLIAM S. KELLOGG
William S. Kellogg
Director
/S/ FRANK V. SICA
Frank V. Sica
Director
/S/ PETER M. SOMMERHAUSER
Peter M. Sommerhauser
Director
/S/ STEPHANIE A. STREETER
Stephanie A. Streeter
Director
/S/ NINA G. VACA
Nina G. Vaca
Director
/S/ STEPHEN E. WATSON
Stephen E. Watson
Director
/S/ JOHN E. SCHLIFSKE
John E. Schlifske
Director

## Table of Contents

Exhibit Number

## Description

3.1 Amended and Restated Articles of Incorporation of the Company, incorporated her
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 October 5, 2011.

Credit Agreement dated as of June 23, 2011 by and among the Company, the Lenders party thereto, Bank of America, N.A., as the Administrative Agent and as an Issuing Bank and a Swing Line Lender, U.S.

Certain other long-term debt is described in Note 2 of the Notes to Consolidated Financial Statements. rights of holders of any such long-term debt described in Note 2 and not filed herewith.

Private Label Credit Card Program Agreement dated as of August 11, 2010 by and between Kohl's
10.1 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.

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.*

Kohl's Corporation 2005 Deferred Compensation Plan, as amended and restated effective January 1, 10.3 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.*
Bank National Association, as an Issuing Bank, a Swing Line Lender and a Syndication Agent, Wells Fargo Bank, National Association, as an Issuing Bank, a Swing Line Lender and a Syndication Agent, and Morgan Stanley Bank, N.A., as the Documentation Agent, incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on June 28, 2011.

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.*

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 $10-\mathrm{K}$ for the fiscal year ended January 29, 2005.*

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.*

1992 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.13 of the Company's registration statement on Form S-1 (File No. 33-46883).*

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.*

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.*

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.*

## Table of Contents

Exhibit Number

## Description

Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Annex A to
10.11 the Proxy Statement on Schedule 14A filed on March 26, 2010 in connection with the Company's 2010 Annual Meeting.*

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.*

Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term
10.13 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.*

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.*

Form of Outside Director Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long
10.15 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.*
12.1 Ratio of Earnings to Fixed Charges.
21.1 Subsidiaries of the Registrant.
23.1 Consent of Ernst \& Young LLP.

## Table of Contents

Exhibit $\quad$ Description
Number

Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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.

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.

39
Table of Contents
Index to Consolidated Financial Statements
Page
Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm ..... F-2
Consolidated Balance Sheets ..... F-3
Consolidated Statements of Income ..... F-4
Consolidated Statements of Comprehensive Income ..... F-4
Consolidated Statements of Changes in Shareholders' Equity ..... F-5
Consolidated Statements of Cash Flows ..... F-6
Notes to Consolidated Financial Statements ..... F-7
Schedules have been omitted as they are not applicable.
F-1

## Table of Contents

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 February 2, 2013 and January 28, 2012, 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 February 2, 2013. 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 February 2, 2013 and January 28, 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 2, 2013, 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 February 2, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2013 expressed an unqualified opinion thereon.
/s/ ERNST \& YOUNG LLP
Milwaukee, Wisconsin
March 22, 2013

F-2

## Table of Contents

## KOHL'S CORPORATION

CONSOLIDATED BALANCE SHEETS
(Dollars In Millions)

|  | February 2, 2013 | $\begin{aligned} & \text { January 28, } \\ & 2012 \end{aligned}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Current assets: |  |  |
| Cash and cash equivalents | \$ 537 | \$ 1,205 |
| Merchandise inventories | 3,748 | 3,216 |
| Deferred income taxes | 122 | 109 |
| Other | 312 | 299 |
| Total current assets | 4,719 | 4,829 |
| Property and equipment, net | 8,872 | 8,905 |
| Long-term investments | 53 | 153 |
| Other assets | 261 | 261 |
| Total assets | \$ 13,905 | \$ 14,148 |
| Liabilities and Shareholders' Equity |  |  |
| Current liabilities: |  |  |
| Accounts payable | \$ 1,307 | \$ 1,233 |
| Accrued liabilities | 986 | 1,147 |
| Income taxes payable | 137 | 133 |
| Current portion of capital lease and financing obligations | 105 | 94 |
| Total current liabilities | 2,535 | 2,607 |
| Long-term debt | 2,492 | 2,141 |
| Capital lease and financing obligations | 1,956 | 2,009 |
| Deferred income taxes | 362 | 423 |
| Other long-term liabilities | 512 | 460 |
| Shareholders' equity: |  |  |
| Common stock - 360 and 358 million shares issued | 4 | 4 |
| Paid-in capital | 2,454 | 2,339 |
| Treasury stock, at cost, 138 and 111 million shares | (7,243 ) | (5,977 |
| Accumulated other comprehensive loss | (45 ) | (53 |
| Retained earnings | 10,878 | 10,195 |
| Total shareholders' equity | 6,048 | 6,508 |
| Total liabilities and shareholders' equity | \$ 13,905 | \$ 14,148 |
| See accompanying Notes to Consolidated Financial Statements |  |  |

F-3

## Table of Contents

## KOHL'S CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(In Millions, Except per Share Data)

|  | 2012 | 2011 | 2010 |
| :--- | :--- | :--- | :--- |
| Net sales | $\$ 19,279$ | $\$ 18,804$ | $\$ 18,391$ |
| Cost of merchandise sold (exclusive of depreciation shown separately below) | 12,289 | 11,625 | 11,359 |
| Gross margin | 6,990 | 7,179 | 7,032 |
| Operating expenses: |  |  |  |
| Selling, general, and administrative | 4,267 | 4,243 | 4,190 |
| Depreciation and amortization | 833 | 778 | 750 |
| Operating income | 1,890 | 2,158 | 2,092 |
| Interest expense, net | 329 | 299 | 304 |
| Income before income taxes | 1,561 | 1,859 | 1,788 |
| Provision for income taxes | 575 | 692 | 668 |
| Net income | $\$ 986$ | $\$ 1,167$ | $\$ 1,120$ |
| Net income per share: | $\$ 4.19$ | $\$ 4.33$ | $\$ 3.69$ |
| Basic | $\$ 4.17$ | $\$ 4.30$ | $\$ 3.66$ |

See accompanying Notes to Consolidated Financial Statements
KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Millions)

|  | 2012 | 2011 | 2010 |
| :--- | :--- | :--- | :--- |
| Net income | $\$ 986$ | $\$ 1,167$ | $\$ 1,120$ |
| Other comprehensive income (loss), net of tax: |  |  | $(1)$ |
| Unrealized gains (losses) on investments | 5 | 13 | $(30$ |
| Interest rate derivatives: | - | - |  |
| Unrealized loss arising during period | 3 | 1 | - |
| Reclassification adjustment for interest expense included in net income | 8 | $(16$ | $(1)$ |
| Other comprehensive income (loss) | $\$ 994$ | $\$ 1,151$ | $\$ 1,119$ |

See accompanying Notes to Consolidated Financial Statements

F-4

## Table of Contents

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

|  | Common <br> Stock |  | Paid-In | Treasury Stock |  | Accumulated Other Comprehensiv |  | Retained |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Capital | Share | s Amount | Income | Loss) | Earnings | Total |
| Balance at January 30, 2010 | 353 | \$4 | \$2,085 | (46 | ) $\$(2,639)$ | \$ (36 | ) | \$8,181 | \$7,595 |
| Comprehensive income (loss) | - | - | - | - | - | (1 | ) | 1,120 | 1,119 |
| Stock options and awards | 2 | - | 145 | - | - | - |  | - | 145 |
| Net income tax impact from exercise of stock options | - | - | (5 ) | ) - | - | - |  | - | (5 |
| Treasury stock purchases | - | - | - | (18 | ) (1,004 ) | - |  | - | (1,004) |
| Balance at January 29, 2011 | 355 | 4 | 2,225 | (64 | ) $(3,643$ | (37 | ) | 9,301 | 7,850 |
| Comprehensive income (loss) | - | - | - | - | - | (16 | ) | 1,167 | 1,151 |
| Stock options and awards | 3 | - | 121 | - | - | - |  | - | 121 |
| Net income tax impact from exercise of stock options | - | - | (7 ) | ) - | - | - |  | - |  |
| Dividends paid ( $\$ 1.00$ per common share) | - | - | - | - | 2 | - |  | (273 | (271 ) |
| Treasury stock purchases | - | - | - | (47 | (2,336 | - |  | - | (2,336) |
| 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 | 2 | - | 123 | - | - | - |  | - | 123 |
| Net income tax impact from exercise of stock options | - | - | (8) | ) - | - | - |  | - | (8 |
| Dividends paid ( $\$ 1.28$ per common share) | - | - | - | - | 3 | - |  | (303 ) | ) (300 ) |
| Treasury stock purchases | - | - | - | (27 | ) (1,269 ) | - |  | - | $(1,269)$ |
| Balance at February 2, 2013 | 360 | \$4 | \$2,454 | (138) | ) $\$(7,243)$ | \$ (45 | ) | \$ 10,878 | \$6,048 |
| See accompanying Notes to Consoli | ted Fi | ancia | tatements |  |  |  |  |  |  |

F-5

## Table of Contents

## KOHL'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

|  | 2012 | 2011 |  | 2010 |
| :---: | :---: | :---: | :---: | :---: |
| Operating activities |  |  |  |  |
| Net income | \$986 | \$ 1,167 |  | \$ 1,120 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |
| Depreciation and amortization | 833 | 778 |  | 750 |
| Share-based compensation | 50 | 57 |  | 66 |
| Excess tax benefits from share-based compensation | (4 | ) $(2$ |  | (3 |
| Deferred income taxes | (79 | ) 144 |  | 39 |
| Other non-cash revenues and expenses | 29 | 39 |  | 36 |
| Changes in operating assets and liabilities: |  |  |  |  |
| Merchandise inventories | (523 | ) (160 |  | (107 |
| Other current and long-term assets | (37 | ) (42 |  | (50 |
| Accounts payable | 74 | 96 |  | (50 |
| Accrued and other long-term liabilities | (60 | ) 63 |  | 12 |
| Income taxes | (4 | ) (1 |  | (63 |
| Net cash provided by operating activities | 1,265 | 2,139 |  | 1,750 |
| Investing activities |  |  |  |  |
| Acquisition of property and equipment | (785 | ) $(927$ |  | (801 |
| Sales of investments in auction rate securities | 109 | 145 |  | 42 |
| Other | 16 | (20 |  | 2 |
| Net cash used in investing activities | (660 | ) 802 |  | (757 |
| Financing activities |  |  |  |  |
| Treasury stock purchases | (1,293 | ) $(2,311$ |  | (1,004 |
| Dividends paid | (300 | ) (271 | ) | - |
| Proceeds from issuance of debt | 350 | 646 |  | - |
| Deferred financing costs | (3 | ) 8 |  | - |
| Interest rate hedge payment | - | (48 |  | - |
| Long-term debt payments | - | (400 |  | - |
| Proceeds from financing obligations | 12 | 14 |  | 27 |
| Capital lease and financing obligation payments | (111 | ) (91 |  | (84 |
| Proceeds from stock option exercises | 68 | 58 |  | 75 |
| Excess tax benefits from share-based compensation | 4 | 2 |  | 3 |
| Net cash used in financing activities | (1,273 | ) $(2,409$ |  | (983 |
| Net decrease in cash and cash equivalents | (668 | ) $(1,072$ |  | 10 |
| Cash and cash equivalents at beginning of period | 1,205 | 2,277 |  | 2,267 |
| Cash and cash equivalents at end of period | \$537 | \$1,205 |  | \$2,277 |
| Supplemental information: |  |  |  |  |
| Interest paid, net of capitalized interest | \$318 | \$297 |  | \$304 |
| Income taxes paid | 654 | 550 |  | 689 |
| Non-Cash Investing and Financing Activities |  |  |  |  |
| Property and equipment acquired through capital lease and financing obligations See accompanying Notes to Consolidated Financial Statements | \$63 | \$79 |  | \$107 |

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Business and Summary of Accounting Policies

## Business

As of February 2, 2013, Kohl's Corporation operated 1,146 family-oriented department stores and a website (www.Kohls.com) that feature exclusive and national brand apparel, footwear, accessories, soft home products and housewares targeted to middle-income customers. Our stores are located in 49 states.
Our authorized capital stock consists of 800 million shares of $\$ 0.01$ par value common stock and 10 million shares of $\$ 0.01$ par value preferred stock.
Consolidation
The consolidated financial statements include the accounts of Kohl's Corporation and its subsidiaries including Kohl's Department Stores, Inc., its primary operating company. All intercompany accounts and transactions have been eliminated.
Accounting Period
Our fiscal year ends on the Saturday closest to January $31^{\text {st }}$ 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.

| Fiscal year | Ended | Number of |
| :--- | :--- | :--- |
| 2012 | February 2, 2013 | 53 |
| 2011 | January 28, 2012 | 52 |
| 2010 | January 29, 2011 | 52 |

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 $\$ 84$ million at February 2, 2013 and $\$ 72$ million at January 28, 2012.
Long-term Investments
Long-term investments consist primarily of investments in auction rate securities ("ARS") which are classified as available-for-sale securities and recorded at fair value.

## Merchandise Inventories

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

## F-7

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| 1. Business and Summary of Accounting Policies (continued) |  |  |
| :--- | :--- | :--- |
| $\left.\begin{array}{lll}\text { Property and Equipment } \\ \text { Property and equipment consist of the following: } & \text { Feb 2, } & \text { Jan 28, } \\ & 2013 & 2012 \\ & \text { (In Millions) } \\ & \$ 1,089 & \$ 1,081 \\ \text { Land } & 7,575 & 7,318 \\ \text { Buildings and improvements: } & 1,820 & 1,792 \\ \text { Owned } & 2,517 & 2,367 \\ \text { Leased } & 849 & 700 \\ \text { Store fixtures and equipment } & 130 & 204 \\ \text { Computer hardware and software } & 13,980 & 13,462 \\ \text { Construction in progress } & (5,108 & (4,557 \\ \text { Total property and equipment } & \$ 8,872 & \$ 8,905\end{array}\right)$ |  |  |

Construction in progress includes land and improvements for locations not yet opened and for the expansion and remodeling of existing locations in process at the end of each year.
Property and equipment is recorded at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leased property and improvements to leased property are amortized on a straight-line basis over the term of the lease or useful life of the asset, whichever is less. The annual provisions for depreciation and amortization generally use the following ranges of useful lives:

| Buildings and improvements | $5-40$ 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 when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts. No material impairments were recorded in 2012, 2011, or 2010 as a result of the tests performed.
Accrued Liabilities
Accrued liabilities consist of the following:

|  | Feb 2, <br> Jan 28, <br> 2013 |  |
| :--- | :--- | :--- |
|  | (In Millions) |  |
| Various liabilities to customers | $\$ 275$ | $\$ 302$ |
| Payroll and related fringe benefits | 101 | 202 |
| Sales, property and use taxes | 153 | 166 |
| Accrued construction costs | 65 | 105 |
| Credit card liabilities | 120 | 79 |
| Other | 272 | 293 |
|  | $\$ 986$ | $\$ 1,147$ |

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

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

We have corrected the presentation of $\$ 17$ million of deferred revenues that were previously recorded as a reduction to merchandise inventory as of January 28, 2012.
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. The lifetime medical payment limit of $\$ 1.5$ million per plan participant was eliminated on December 31, 2010. Total estimated liabilities for workers' compensation, general liability and employee-related health benefits, excluding administrative expenses and before pre-funding, were approximately $\$ 100$ million at February 2, 2013 and $\$ 94$ million at January 28, 2012. Although these amounts are actuarially determined based on analysis of historical trends, the amounts that we will ultimately disburse could differ from these estimates.
For our property portfolio, we are self-insured for the first $\$ 250,000$ of the claim plus $15 \%$ of additional losses up to $\$ 30$ million. Effective January 1, 2013, the deductible was reduced to $10 \%$ of additional losses up to $\$ 30$ million.

## Long-term Liabilities

Other long-term liabilities consist of the following:

|  | Feb 2, | Jan 28, |
| :--- | :--- | :--- |
|  | 2013 | 2012 |
| (In Millions) |  |  |,

Treasury Stock
We account for repurchases of common stock using the cost method with common stock in treasury classified in the Consolidated Balance Sheets as a reduction of shareholders' equity.
Accumulated Other Comprehensive Loss and Other Comprehensive Income (Loss)
Accumulated other comprehensive loss consists of the following:

Balance at January 29, 2011
Other comprehensive income (loss)
Balance at January 28, 2012
Other comprehensive income
Balance at February 2, 2013

| Unrealized |
| :--- |
| Gains |
| (Losses) on |
| Investments |
| (In Millions) |
| $\$(37$ |
| 13 |
| $(24$ |
| 5 |
| $\$(19$ |

F-9

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 1. Business and Summary of Accounting Policies (continued)

The tax effects of each component of other comprehensive income (loss) are as follows:
2012 $2011 \quad 2010$
(In Millions)

Unrealized gains (losses) on investments:
Before-tax amounts $\quad \$ 9 \quad \$ 21 \quad \$(2)$

Tax (expense) benefit
After-tax amounts
Interest rate derivatives:
Before-tax amounts
Tax (expense) benefit
After-tax amounts
Other comprehensive income (loss)

## Revenue Recognition

Revenue from the sale of merchandise at our stores is recognized at the time of sale, net of any returns. E-Commerce sales are recorded based on estimated receipt of merchandise by the customer. Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales taxes.
Revenue from gift card sales is recognized when the gift card is redeemed. Gift card breakage revenue is based on historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by a customer is remote.
Cost of Merchandise Sold and Selling, General and Administrative Expenses
The following table illustrates the primary costs classified in Cost of Merchandise Sold and Selling, General and Administrative Expenses:

Cost of Merchandise Sold

- Total cost of products sold including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs
- Inventory shrink
- Markdowns
- Freight expenses associated with moving merchandise from our vendors to our distribution centers
- Shipping and handling expenses of E-Commerce sales
- Terms cash discount

Selling, General and
Administrative Expenses

- Compensation and benefit costs including:
- 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 among distribution and retail facilities
- Advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs
- Costs incurred prior to new store openings, such as advertising, hiring and training costs for new
employees, processing and transporting initial merchandise, and rent expense
- Other administrative revenues and expenses

The classification of these expenses varies across the retail industry.

F-10

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

## 1. Business and Summary of Accounting Policies (continued)

## 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.
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.

## 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:

Gross advertising costs
Vendor allowances
Net advertising costs
Net advertising costs as a percent of net sales


F-11

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 1. Business and Summary of Accounting Policies (continued) <br> 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:

|  | 2012 <br> (In Millions, Except per Share |  |  |
| :--- | :--- | :--- | :--- |
|  | Data) |  |  |
| Numerator—net income | $\$ 986$ | $\$ 1,167$ | $\$ 1,120$ |
| Denominator—weighted average shares | 235 | 270 | 304 |
| Basic | 2 | 1 | 2 |
| Impact of dilutive employee stock options (a) | 237 | 271 | 306 |
| Diluted |  |  |  |
| Net income per share: | $\$ 4.19$ | $\$ 4.33$ | $\$ 3.69$ |
| Basic | $\$ 4.17$ | $\$ 4.30$ | $\$ 3.66$ |

(a) Excludes 14 million options for 2012, 11 million options for 2011 and 8 million options for 2010 as the impact of ${ }^{(a)}$ such options was antidilutive.

Share-Based Awards
Stock-based compensation expense, including stock options and nonvested stock awards, 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.
2. Debt

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

|  | February 2, 2013 |  | January 28, 2012 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Maturing | Effective Rate <br> (Dollars | Outstanding Millions) | Effective <br> Rate |  | Outstanding |
| 2017 | 6.31 | \% \$650 | 6.31 | \% | \$650 |
| 2021 | 4.81 | \% 650 | 4.81 | \% | 650 |
| 2023 | 3.25 | \% 350 | - |  | - |
| 2029 | 7.36 | \% 200 | 7.36 | \% | 200 |
| 2033 | 6.05 | \% 300 | 6.05 | \% | 300 |
| 2037 | 6.89 | \% 350 | 6.89 | \% | 350 |
| Total senior debt | 5.63 | \% 2,500 | 6.01 | \% | 2,150 |
| Unamortized debt discount |  | (8 | ) |  | (9 |
| Long-term debt |  | \$2,492 |  |  | \$2,141 |

In September 2012, we issued $\$ 350$ million of $3.25 \%$ notes with semi-annual interest payments beginning February 2013. The notes mature on February 1, 2023.

F-12

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

## 2. Debt (continued)

In October 2011, we issued $\$ 650$ million of $4.00 \%$ notes with semi-annual interest payments beginning May 2012. The notes mature on November 1, 2021. In anticipation of this debt issuance, we entered into interest rate hedges in December 2010 and May 2011 to hedge our exposure to the risk of increases in interest rates on $\$ 400$ million of debt. In conjunction with the debt issuance, we paid $\$ 48$ million, the fair market value of the hedges, to settle the hedges. The unrealized loss on the hedges is recognized as interest expense at a rate of $\$ 5$ million per year over the ten-year life of the debt.
We have various facilities upon which we may draw funds, including a five-year, $\$ 1$ billion senior unsecured revolving credit facility which we entered into in June 2011. The credit facility includes 16 lenders which have each committed between $\$ 30$ million and $\$ 110$ million. We also have a demand note with availability of $\$ 30$ million. There were no draws on these facilities during 2012 or 2011.
Our debt agreements contain various covenants including limitations on additional indebtedness and certain financial tests. As of February 2, 2013, we were in compliance with all covenants of the debt agreements.
We also have outstanding trade letters of credit and stand-by letters of credit totaling approximately $\$ 76$ million at February 2, 2013, issued under uncommitted lines with two banks.

## 3. Fair Value Measurements

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

Level 1: $\quad$ Financial instruments with unadjusted, quoted prices listed on active market exchanges.
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
Level 2: 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.

Financial instruments that are not actively traded on a market exchange. This category includes Level 3: situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

Our cash and cash equivalents are classified as a Level 1 pricing category. The carrying value of our cash and cash equivalents approximates fair value because maturities are three months or less.

Our long-term investments consist primarily of investments in auction rate securities ("ARS"). The par value of our long-term investments was $\$ 84$ million as of February 2, 2013 and $\$ 193$ million as of January 28, 2012. The estimated fair value of these securities was $\$ 53$ million as of February 2, 2013 and $\$ 153$ million as of January 28, 2012.

All ARS are classified as a Level 3 pricing category. The fair value for our ARS were based on third-party pricing models which utilized a discounted cash flow model for each of the securities as there was no recent activity in the secondary markets in these types of securities. This model used a combination of observable inputs which were developed using publicly available market data obtained from independent sources and unobservable inputs that reflect our own estimates of the assumptions that market participants would use in pricing the investments. Observable inputs include interest rate currently being paid, maturity and credit ratings.

Unobservable inputs include expected redemption date and discount rate. We assumed a seven-year redemption period in valuing our ARS. We intend to hold our ARS until maturity or until we can liquidate them at par value. Based on our other sources of income, we do not believe we will be required to sell them before recovery of par value. In some cases, holding the security until recovery may mean until maturity, which ranges from 2037 to 2039. The discount rate was calculated using the closest match available for other insured asset backed securities. Discount rates ranged from $8.13 \%$ to $10.83 \%$. The weighted-average discount rate was $9.12 \%$. A market failure scenario was employed as recent successful auctions of these securities were very limited. Assuming a longer redemption period and a higher discount rate would result in a lower fair market value. Similarly, assuming a shorter redemption period and a lower discount rate would result in a higher fair market value.

F-13

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 3. Fair Value Measurements (continued)

The following table presents a rollforward of our long-term investments:

|  | (In Millions) |  |  |
| :---: | :---: | :---: | :---: |
| Balance at beginning of year | \$ 153 |  | \$277 |
| Sales | (109 | ) | (145 |
| Unrealized gains | 9 |  | 21 |
| Balance at end of year | \$ 53 |  | \$ 153 |

Our senior debt is classified as a Level 1 pricing category and had an estimated fair market value of $\$ 2.7$ billion at February 2, 2013 and $\$ 2.4$ billion at January 28, 2012.
4. Lease Commitments

Rent expense charged to operations was $\$ 265$ million for both 2012 and 2011 and $\$ 264$ million for 2010. In addition, we are often required to pay real estate taxes, insurance and maintenance costs. These items are not included in the rent expenses listed above. Many store leases include multiple renewal options, exercisable at our option, that generally range from four to eight additional five-year periods.
Future minimum lease payments at February 2, 2013 are as follows:
$\left.\begin{array}{lll} & \begin{array}{l}\text { Capital } \\ \text { Lease } \\ \text { and }\end{array} & \begin{array}{l}\text { Operating } \\ \text { Leases }\end{array} \\ & \begin{array}{l}\text { Financing } \\ \text { Obligations }\end{array} \\ & \text { (In Millions) }\end{array}\right]$

## 5. Benefit Plans

We 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. ESOP expenses totaled $\$ 13$ million for 2012, $\$ 21$ million for 2011 and $\$ 20$ million for 2010. Shares of our stock held by the ESOP are included as shares outstanding for purposes of the net income per share computations.
We also have a defined contribution savings plan covering all full-time and certain part-time associates. Participants in this plan may invest up to $100 \%$ of their base compensation, subject to certain statutory limits. We match $100 \%$ of the first $5 \%$ of each participant's contribution. Defined contribution plan expense, net of forfeitures, was $\$ 39$ million for 2012, $\$ 36$ million for 2011 and $\$ 34$ million for 2010.
We also offer a non-qualified deferred compensation plan to a group of executives which provides for pre-tax compensation deferrals up to $100 \%$ of salary and/or bonus. Deferrals and credited investment returns are $100 \%$ vested. The expense for 2012, 2011, and 2010 was immaterial.

Edgar Filing: KOHLS Corp - Form 10-K

F-14

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

## 6. Income Taxes

Deferred income taxes consist of the following:

|  | Feb 2, <br> 2013 | Jan 28, <br> (In Millions) |
| :--- | :--- | :---: |
| Deferred tax liabilities: | $\$ 1,405$ | $\$ 1,480$ |
| Property and equipment |  |  |
| Deferred tax assets: | 23 | 19 |
| Merchandise inventories | 217 | 213 |
| Accrued and other liabilities, including stock options | 810 | 823 |
| Capital lease and financing obligations | 86 | 78 |
| Accrued step rent liability | 12 | 15 |
| Unrealized loss on investments | 17 | 18 |
| Unrealized loss on interest rate swap | 1,165 | 1,166 |
| Net deferred tax liability | $\$ 240$ | $\$ 314$ |

We have corrected the presentation of $\$ 37$ million of short-term deferred tax assets that were previously recorded as long-term deferred tax liabilities as of January 28, 2012.
The components of the provision for income taxes are as follows:

Current federal

| 2012 | 2011 | 2010 |
| :--- | :--- | :--- |
| (In Millions) |  |  |
| $\$ 590$ | $\$ 497$ | $\$ 561$ |
| 60 | 60 | 69 |
| $(66$ | $)$ | 124 |
| $(9$ | $)$ | 11 |
| $\$ 575$ | $\$ 692$ | 3 |

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:

|  | 2012 |  | 2011 |  | 2010 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Provision at statutory rate | 35.0 | $\%$ | 35.0 | $\%$ | 35.0 | $\%$ |
| State income taxes, net of federal tax benefit | 2.2 |  | 2.7 | 2.7 |  |  |
| Tax-exempt interest income | $(0.1$ | $)$ | - |  | $(0.3$ | $)$ |
| Federal HIRE Act tax credit | - |  | $(0.4$ | $)$ | - |  |
| Other Federal tax credits | $(0.3$ | $)$ | $(0.1$ | $)$ | - |  |
| Provision for income taxes | 36.8 | $\%$ | 37.2 | $\%$ | 37.4 | $\%$ |

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 2012 tax years. State returns subject to examination vary depending upon the state. Generally, the 2009 through 2012 tax years are subject to state examination; however, in some instances, earlier periods are presently being audited. 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.

F-15

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

## 6. Income Taxes (continued)

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

|  | 2012 | 2011 |
| :---: | :---: | :---: |
|  | (In M | ons) |
| Balance at beginning of year | \$ 101 | \$96 |
| Increases due to: |  |  |
| Tax positions taken in prior years | 1 | 8 |
| Tax positions taken in current year | 22 | 24 |
| Decreases due to: |  |  |
| Tax positions taken in prior years | (9 | (9 |
| Settlements with taxing authorities | (1 | ) (12 |
| Lapse of applicable statute of limitations | (6 | (6 |
| Balance at end of year | \$108 | \$101 |

Not included in the unrecognized tax benefits reconciliation above are gross unrecognized accrued interest and penalties of $\$ 18$ million at February 2, 2013 and $\$ 17$ million at January 28, 2012. Interest and penalty expense was $\$ 1$ million for 2012 and $\$ 4$ million for 2011.
Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $\$ 75$ million as of February 2, 2013 and $\$ 69$ million as of January 28, 2012.
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.

## 7. Stock-Based Compensation

We currently grant share-based compensation pursuant to the Kohl's Corporation 2010 Long-Term Compensation Plan, which provides for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of our common stock, to officers, key employees and directors. As of February 2, 2013, there were 18.5 million shares authorized and 13.9 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 since 2009 vest in five equal annual installments and the majority of stock options granted to employees prior to 2009 vest in four equal annual installments. Outside directors' stock options are typically granted upon a director's election or re-election to our Board of Directors and vest over the term to which the director was elected, generally one year. 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.

F-16

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
7. 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:

| Dividend yield | 2012 | 2011 | 2010 |
| :--- | :--- | :--- | :--- |
| Volatility | $2.6 \%$ | $1.8 \%$ | - |
| Risk-free interest rate | $33.7 \%$ | $33.1 \%$ | $33.5 \%$ |
| Expected life in years | $1.0 \%$ | $2.0 \%$ | $2.3 \%$ |
| Weighted average fair value at grant date | 5.5 | 5.5 | 5.5 |

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 2012, 2011, and 2010:

|  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | 2012 | Shares | Weighted <br> Average <br> Exercise | Shares |  | Weighted <br> Average <br> Exercise | | Shares |
| :--- |
| Price |

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 $\$ 20$ million in 2012, $\$ 16$ million in 2011 and $\$ 25$ million in 2010.
Additional information related to stock options outstanding and exercisable at February 2, 2013, segregated by exercise price range, is summarized below:


Edgar Filing: KOHLS Corp - Form 10-K
Intrinsic value (in thousands)
\$25,033
\$21,368

F-17

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 7. Stock-Based Compensation (continued)

The intrinsic value of outstanding and exercisable stock options represents the excess of our closing stock price on February 2, 2013 ( $\$ 46.01$ ) over the exercise price multiplied by the applicable number of stock options.
Nonvested stock awards
We have also awarded shares of nonvested common stock to eligible key employees and to our Board of Directors. Substantially all awards have restriction periods tied primarily to employment and/or service. Nonvested stock awarded to employees generally vests over five years. Beginning in 2011, we also grant performance-vested restricted shares to selected members of senior management. Vesting of performance-vested shares is contingent upon achievement of certain performance criteria, such as designated net income levels or sales levels that exceed those of a group of our peers. Upon the satisfaction of the contingency, the performance-vested shares vest in accordance with a designated timetable, generally over a five-year period from the date of grant. 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, for 2012, 2011, and 2010:

| 2012 |  | 2011 |  | 2010 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Shares | Weighted | Shares | Weighted Average | Shares | Weighted Average |
|  | Average |  |  |  |  |
|  | Grant |  | Grant |  | Grant |
|  | Date Fair |  | Date Fair |  | Date Fair |
|  | Value |  | Value |  | Value |
| (Shares in Thousands) |  |  |  |  |  |
| 1,946 | \$51.11 | 1,116 | \$49.30 | 883 | \$45.44 |
| 1,038 | 48.86 | 1,198 | 52.34 | 498 | 55.24 |
| (492 | ) 49.77 | (308 | ) 49.28 | (219 | ) 47.52 |
| (169 | ) 50.04 | (60 | ) 51.31 | (46 | ) 47.75 |
| 2,323 | \$50.47 | 1,946 | \$51.11 | 1,116 | \$49.30 |


| Balance at beginning of year | 1,946 | $\$ 51.11$ | 1,116 | $\$ 49.30$ | 883 | $\$ 45.44$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Granted | 1,038 | 48.86 | 1,198 | 52.34 | 498 | 55.24 |
| Vested | $(492$ | $)$ | 49.77 | $(308$ | $) 49.28$ | $(219$ |
| Forfeited | $(169$ | $)$ | 50.04 | $(60$ | $) 51.31$ | 47.52 |
| Balance at end of year | 2,323 | $\$ 50.47$ | 1,946 | $\$ 51.11$ | 1,116 | $\$ 49.30$ |

The aggregate fair value of awards at the time of vesting was $\$ 24$ million in 2012, $\$ 16$ million in 2011 and $\$ 12$ million in 2011.
Other required disclosures
Stock-based compensation expense for both stock options and nonvested stock awards is included in Selling, General and Administrative expense in our Consolidated Statements of Income. Such expense totaled $\$ 50$ million for 2012, $\$ 57$ million for 2011 and $\$ 66$ million for 2010. At February 2, 2013, we had approximately $\$ 152$ million of unrecognized share-based compensation expense (before forfeitures and capitalization), which is expected to be recognized over a weighted-average period of 3.2 years.

## F-18

## KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

## 8. 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.

## 9. Quarterly Financial Information (Unaudited)

Each quarterly period below was a 13-week accounting period, with the exception of the fourth quarter of 2012, which was a 14 -week period.

|  | 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | First | Second | Third | Fourth |
|  | (In Millions, Except per Share Data) |  |  |  |
| Net sales | \$4,243 | \$4,205 | \$4,490 | \$6,342 |
| Gross margin | \$1,524 | \$1,642 | \$ 1,712 | \$2,112 |
| Net income | \$154 | \$240 | \$215 | \$378 |
| Basic shares | 243 | 238 | 233 | 227 |
| Basic net income per share | \$0.63 | \$1.01 | \$0.92 | \$1.66 |
| Diluted shares | 245 | 239 | 235 | 228 |
| Diluted net income per share | \$0.63 | \$1.00 | \$0.91 | \$1.66 |
|  | 2011 |  |  |  |
|  | First | Second | Third | Fourth |
|  | (In Millions, Except per Share Data) |  |  |  |
| Net sales | \$4,162 | \$4,248 | \$4,376 | \$6,018 |
| Gross margin | \$1,586 | \$1,728 | \$1,688 | \$2,177 |
| Net income | \$201 | \$299 | \$211 | \$455 |
| Basic shares | 288 | 276 | 264 | 251 |
| Basic net income per share | \$0.70 | \$1.08 | \$0.80 | \$ 1.82 |
| Diluted shares | 290 | 278 | 265 | 252 |
| Diluted net income per share | \$0.69 | \$ 1.08 | \$0.80 | \$1.81 |

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

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

F-19

