FORM 10-Q

KOHLS CORPORATION - KSS

Filed: September 05, 2008 (period: August 02, 2008)

Quarterly report which provides a continuing view of a company's financial position

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 2, 2008

OR

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

For the transition period from______ to______

Commission file number 1-11084

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

Wisconsin **(State or other jurisdiction of incorporation or organization)**	**39-1630919** **(I.R.S. Employer Identification No.)**
N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin **(Address of principal executive offices)**	**53051** **(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: August 30, 2008 Common Stock, Par Value $0.01 per Share, 304,557,267 shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	August 2, 2008 (Unaudited)	February 2, 2008 (Audited)	August 4, 2007 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	**$ 216,951**	$ 180,543	$ 229,921
Short-term investments	**70,631**	483,128	35,556
Merchandise inventories	**2,717,550**	2,855,733	2,802,643
Deferred income taxes	**71,863**	71,069	46,733
Other	**134,603**	133,416	163,159
Total current assets	**3,211,598**	3,723,889	3,278,012
Property and equipment, net	**6,951,127**	6,509,819	6,190,119
Long-term investments	**390,740**	—	—
Favorable lease rights, net	**201,573**	209,958	213,554
Goodwill	**9,338**	9,338	9,338
Other assets	**111,138**	107,078	60,978
Total assets	**$ 10,875,514**	$ 10,560,082	$ 9,752,001
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	**$ 1,023,258**	$ 835,985	$ 1,075,228
Accrued liabilities	**819,633**	798,508	859,502
Income taxes payable	**77,850**	124,254	133,223
Short-term debt	**—**	—	295,000
Current portion of long-term debt and capital leases	**13,991**	12,701	10,866
Total current liabilities	**1,934,732**	1,771,448	2,373,819
Long-term debt and capital leases	**2,049,661**	2,051,875	1,040,847
Deferred income taxes	**278,820**	262,451	246,484
Other long-term liabilities	**379,102**	372,705	258,388
Shareholders' equity:			
Common stock, 350,847 shares issued at August 2, 2008, 350,753 shares issued at February 2, 2008, and 350,639 shares issued at August 4, 2007	**3,508**	3,508	3,506
Paid-in capital	**1,934,843**	1,911,041	1,874,024
Treasury stock, at cost, 46,349 shares at August 2, 2008, 40,285 shares at February 2, 2008, and 32,856 shares at August 4, 2007	**(2,637,869)**	(2,376,331)	(2,002,778)
Retained earnings	**6,952,355**	6,563,385	5,957,711
Accumulated other comprehensive loss	**(19,638)**	—	—
Total shareholders' equity	**6,233,199**	6,101,603	5,832,463
Total liabilities and shareholders' equity	**$ 10,875,514**	$ 10,560,082	$ 9,752,001

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months (13 Weeks) Ended		Six Months (26 Weeks) Ended	
	August 2, 2008	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Net sales	**$ 3,725,490**	$ 3,589,210	**$ 7,349,749**	$ 7,161,250
Cost of merchandise sold (exclusive of depreciation shown separately below)	**2,250,552**	2,192,801	**4,539,761**	4,447,005
Gross margin	**1,474,938**	1,396,409	**2,809,988**	2,714,245
Operating expenses:				
Selling, general, and administrative	**929,821**	837,790	**1,852,567**	1,696,264
Depreciation and amortization	**132,681**	106,146	**262,658**	210,834
Preopening expenses	**5,887**	8,748	**16,787**	17,337
Operating income	**406,549**	443,725	**677,976**	789,810
Interest expense, net	**26,493**	10,541	**53,191**	20,688
Income before income taxes	**380,056**	433,184	**624,785**	769,122
Provision for income taxes	**144,041**	163,960	**235,815**	290,945
Net income	**$ 236,015**	$ 269,224	**$ 388,970**	$ 478,177
Net income per share:				
Basic:				
Basic	**$ 0.77**	$ 0.84	**$ 1.27**	$ 1.49
Average number of shares	**305,866**	320,488	**307,180**	321,132
Diluted:				
Diluted	**$ 0.77**	$ 0.83	**$ 1.26**	$ 1.48
Average number of shares	**306,708**	323,213	**308,038**	324,165

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at February 2, 2008	350,753	$ 3,508	$ 1,911,041	$ (2,376,331)	$ 6,563,385	$ —	$ 6,101,603
Net income	—	—	—	—	388,970	—	388,970
Other comprehensive loss:							
Unrealized loss on investments, net of tax of $12,397	—	—	—	—	—	(19,638)	(19,638)
Total comprehensive income							369,332
Share-based compensation	—	—	25,608	—	—	—	25,608
Treasury stock purchases	—	—	—	(261,538)	—	—	(261,538)
Exercise of stock options and other	94	—	1,343	—	—	—	1,343
Net income tax impact from exercise of stock options	—	—	(3,149)	—	—	—	(3,149)
Balance at August 2, 2008	**350,847**	**$ 3,508**	**$ 1,934,843**	**$ (2,637,869)**	**$ 6,952,355**	**$ (19,638)**	**$ 6,233,199**

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months (26 Weeks) Ended	
	August 2, 2008	**August 4, 2007 (Revised)**
Operating activities		
Net income	**$ 388,970**	$ 478,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt discount	**263,463**	211,208
Share-based compensation	**23,212**	25,005
Excess tax benefits from share-based compensation	**(22)**	(6,857)
Deferred income taxes	**27,973**	(3,589)
Other non-cash revenues and expenses	**13,853**	17,081
Changes in operating assets and liabilities:		
Merchandise inventories	**139,275**	(224,265)
Other current and long-term assets	**(4,272)**	(36,860)
Accounts payable	**189,859**	140,852
Accrued and other long-term liabilities	**(119,099)**	(94,167)
Income taxes	**(49,553)**	(93,183)
Net cash provided by operating activities	**873,659**	413,402
Investing activities		
Acquisition of property and equipment and favorable lease rights	**(557,799)**	(801,041)
Purchases of investments in auction rate securities	**(52,800)**	(2,908,249)
Sales of investments in auction rate securities	**77,200**	3,329,201
Net purchases of money-market investments	**(40,334)**	(25,278)
Proceeds from sale of property, plant and equipment	**651**	28,700
Other	**1,768**	(1,905)
Net cash used in investing activities	**(571,314)**	(378,572)
Financing activities		
Net borrowings under credit facilities	**—**	295,000
Capital lease payments	**(5,764)**	(13,961)
Treasury stock purchases	**(261,538)**	(374,362)
Excess tax benefits from share-based compensation	**22**	6,857
Proceeds from stock option exercises	**1,343**	92,387
Net cash (used in) provided by financing activities	**(265,937)**	5,921
Net increase in cash and cash equivalents	**36,408**	40,751
Cash and cash equivalents at beginning of period	**180,543**	189,170
Cash and cash equivalents at end of period	**$ 216,951**	$ 229,921
Supplemental information:		
Interest paid, net of capitalized interest	**$ 77,006**	$ 27,939
Income taxes paid	**257,450**	388,002

See accompanying Notes to Condensed Consolidated Financial Statements

KOHL'S CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and related footnotes included in our Form 10-K (Commission File No. 1-11084) filed with the Securities and Exchange Commission.

Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

We operate as a single business unit.

Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation as well as the presentation in our Annual Report on Form 10-K for the year ended February 2, 2008. The only significant reclassification was to the Statement of Cash Flows where "Acquisition of property and equipment and favorable lease rights" and "Accrued and other long-term liabilities" were reduced by $234 million for accrued, but unpaid, capital expenditures. This change reduced "Net cash provided by operating activities" and "Net cash used in investing activities" by $234 million, but had no impact on our "Net increase in cash and cash equivalents." Cash flows for the nine months ended November 3, 2007, which will be included in our Quarterly Report on Form 10-Q for the period ended November 1, 2008, are expected to include a similar reclassification totaling $74 million.

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

Cost of Merchandise Sold	Selling, General and Administrative Expenses
• 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	• Compensation and benefit costs including: – Stores – Headquarters, including buying and merchandising – Distribution centers • Occupancy and operating costs of retail, distribution and headquarter facilities

Cost of Merchandise Sold	Selling, General and Administrative Expenses
• Freight expenses associated with moving merchandise from our vendors to our distribution centers	• Freight expenses associated with moving merchandise from our distribution centers to our retail stores, and among distribution and retail facilities
• Shipping and handling expenses of E-Commerce sales	• Advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs
• Terms cash discount	• Net operations of servicing the Kohl's credit card
	• Other administrative costs

The classification of these expenses varies across the retail industry.

2. Debt

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

Maturing	Weighted Average Effective Rate	August 2, 2008	Weighted Average Effective Rate	February 2, 2008
		($ in Thousands)		
Senior debt: (a)				
2011	**6.59%**	**$ 400,000**	6.59%	$ 400,000
2017	**6.31%**	**650,000**	6.31%	650,000
2029	**7.36%**	**200,000**	7.36%	200,000
2033	**6.05%**	**300,000**	6.05%	300,000
2037	**6.89%**	**350,000**	6.89%	350,000
Total senior debt	**6.55%**	**1,900,000**	6.55%	1,900,000
Capital lease obligations		**171,181**		172,385
Unamortized debt discount		**(7,529)**		(7,809)
Less current portion		**(13,991)**		(12,701)
Long-term debt and capital leases		**$ 2,049,661**		$ 2,051,875

(a) Non-callable and unsecured notes and debentures

3. Share-Based Compensation

As of August 2, 2008, we have three long-term compensation plans pursuant to which share-based compensation may be granted. Our 1994 and 2003 long-term compensation plans provide for the granting of various forms of equity-based awards, including nonvested stock and options to purchase shares of our common stock, to officers and key employees. The 1997 Stock Option Plan for Outside Directors provides for granting of equity-based awards to outside directors.

The majority of stock options granted to employees vest in four equal annual installments. Remaining stock option grants vest in five to ten equal annual installments. Outside directors' stock options are typically granted upon a director's election or re-election to our Board of Directors. The vesting periods for outside directors' options are one to three years, depending on the length of the term to which the director was elected. Options that are surrendered or terminated without issuance of shares are available for future grants. All stock options have an exercise price equal to the fair market value of the common stock on the date of grant.

Share-based compensation transactions are accounted for in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-based Payment*, requiring us to recognize expense related to the fair value of our stock option awards. The fair value of all share-based awards is estimated on the date of grant, which is defined as the date the award is approved by our Board of Directors (or management with the appropriate authority).

Stock compensation cost is recognized for new, modified and unvested stock option awards, measured at fair value and recognized as compensation cost over the vesting period. The Black-Scholes option valuation model was used to estimate the fair value of each option award based on the following assumptions:

	Six Months Ended	
	August 2, 2008	**August 4, 2007**
Dividend yield	**0%**	0%
Volatility	**0.366**	0.304
Risk-free interest rate	**2.5%**	4.7%
Expected life in years	**5.3**	5.2
Weighted average fair value at grant date	**$ 15.96**	$ 27.50

We have also awarded nonvested restricted shares of common stock to eligible key employees. All awards have restriction periods tied primarily to employment. The awards vest over three to four years. The awards are expensed on a straight-line basis over the vesting period.

Total share-based compensation expense was $15.3 million for the three months ended August 2, 2008 and $15.5 million for the three months ended August 4, 2007. Total share-based compensation expense was $23.2 million for the six months ended August 2, 2008 and $25.0 million for the six months ended August 4, 2007.

Total unrecognized share-based compensation expense for all share-based payment plans was $143 million at August 2, 2008, of which approximately $31 million is expected to be recognized in the remainder of 2008, $51 million in 2009, $41 million in 2010, $17 million in 2011 and $3 million in 2012. Future compensation expense may be impacted by future grants, changes in forfeiture estimates and/or actual forfeitures which differ from estimated forfeitures.

4. Investments

Short-term investments as of August 2, 2008 consist primarily of investments in money-market funds. These investments are stated at cost, which approximates market.

Long-term investments as of August 2, 2008 consist of investments in auction rate securities (“ARS”). ARS are long-term debt instruments with interest rates reset through periodic short term auctions, which are typically held every 35 days.

Our ARS portfolio consists entirely of highly-rated, insured student loan backed securities. Approximately 95% of the principal and interest is insured by the federal government and the remainder is insured by highly-rated insurance companies. During the second quarter of 2008, $133.8 million of principal invested in ARS was downgraded to the equivalent of the Standard and Poor’s “AA” and “A” ratings. All of the remaining securities retain a “AAA” rating from two or more of the following major rating agencies: Moody’s, Standard & Poor’s and Fitch Ratings.

Beginning in February 2008, liquidity issues in the global credit markets resulted in the failure of auctions for substantially all of our ARS. A “failed” auction occurs when the amount of securities submitted for sale in the auction exceeds the amount of purchase bids. As a result, holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the terms of the debt instrument. A failed auction limits liquidity for holders until there is a successful auction or until such time as another market for ARS develops. ARS are generally callable by the issuer at any time. Scheduled auctions continue to be held until the ARS matures or is called. During the second quarter of 2008, we experienced one successful auction in which we sold $1.7 million of ARS at par.

To date, we have collected all interest payable on outstanding ARS when due and expect to continue to do so in the future. At this time, we have no reason to believe that any of the underlying issuers of our ARS or their insurers are presently at risk or that the reduced liquidity has had a significant impact on the underlying credit quality of the assets backing our ARS. While the recent auction failures limit our ability to liquidate these investments, we believe that the ARS failures will have no significant impact on our ability to fund ongoing operations and growth initiatives.

We intend to hold these ARS until a forecasted recovery of fair value up to the par value of the securities and have the ability to do so based on other sources of liquidity. In certain cases, holding the investments until recovery may mean until maturity, which range from 2015 to 2056. The weighted-average maturity date is 2036. Therefore, we have recognized a temporary impairment charge. As a result of the persistent failed auctions and the uncertainty of when these investments could be successfully liquidated at par, we have recorded all of our ARS as Long-term Investments within the Condensed Consolidated Balance Sheet at August 2, 2008.

Effective February 3, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The adoption had no impact on our Condensed Consolidated Financial Statements.

SFAS 157 requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges

Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals

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

As of August 2, 2008, the par value of our ARS was $422.8 million and the estimated fair value was $390.7 million. The fair value for our ARS is based on third-party pricing models and is classified as a Level 3 pricing category in accordance with SFAS 157. We utilized a discounted cash flow model to estimate the current fair market value for each of the securities we owned as there was no recent activity in the secondary markets in these types of securities. This model used unique inputs for each security including discount rate, interest rate currently being paid and maturity. The discount rate was calculated using the closest match available for other insured asset backed securities. A market failure scenario was employed as recent successful auctions of these securities were very limited.

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

	(In thousands)
Balance as of February 3, 2008	$ —
Transfers into Level 3	424,475
Sales (at par)	(1,700)
Unrealized losses	(32,035)
Balance as of August 2, 2008	$ 390,740

The $32.0 million of unrealized losses presented in the table above are reported net of deferred taxes of $12.4 million as a component of Accumulated Other Comprehensive Loss in the Condensed Consolidated Statement of Shareholders' Equity.

5. Contingencies

We are involved in various legal matters arising in the normal course of business. In the opinion of management, the outcome of such proceedings and litigation will not have a material adverse impact on our consolidated financial statements.

6. Net Income Per Share

The calculations of the numerator and denominator for basic and diluted net income per share are summarized as follows:

	Three Months Ended		Six Months Ended	
	August 2, 2008	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
	(In Thousands)			
Numerator - net income	**$ 236,015**	$ 269,224	**$ 388,970**	$ 478,177
Denominator - weighted average shares:				
Basic	**305,866**	320,488	**307,180**	321,132
Impact of dilutive employee stock options and non-vested stock (a)	**842**	2,725	**858**	3,033
Diluted	**306,708**	323,213	**308,038**	324,165

(a) Excludes 16.4 million options for the three months ended August 2, 2008, 4.9 million options for the three months ended August 4, 2007, 16.4 million options for the six months ended August 2, 2008 and 4.8 million options for the six months ended August 4, 2007 as the impact of such options was antidilutive.

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

Executive Summary

Our results for the quarter and year-to-date periods reflect negative comparable store sales due to the difficult economic environment, but also reflect strong management of inventory levels and expenses.

For the quarter, net sales increased 3.8% and comparable store sales decreased 4.6% compared to the prior year quarter. Year-to-date, net sales increased 2.6% and comparable store sales decreased 5.6% over the comparable prior year period. All regions and all lines of business reported negative comparable store sales.

Gross margin as a percent of net sales for the quarter increased 68 basis points compared to the prior year quarter to 39.6%. The year-to-date gross margin rate was 38.2%, a 33 basis point improvement over 37.9% in 2007. Strong inventory management, lower levels of clearance inventory, and increased penetration of private and exclusive brands contributed to the margin strength, despite the difficult economic environment. Ending inventory per store decreased 15.5% compared to the prior year quarter.

Selling, general and administrative expenses increased 11.0% compared to the prior year quarter. Year-to-date, selling, general and administrative expenses increased 9.2% compared to the prior year period. As expected, these expenses increased at a rate faster than sales, but at a slower rate than store growth of 14.7%.

Net income decreased 12.3% from the prior year to $236.0 million for the quarter and 18.7% to $389.0 million for the six months ended August 2, 2008. Diluted earnings per share decreased 7.2% from the comparable prior year quarter to $0.77. Year-to-date diluted earnings per share decreased 14.9% to $1.26.

As of August 2, 2008, we operated 957 stores, with 71.8 million square feet of selling space, in 47 states compared to 834 stores in 46 states, with 63.5 million square feet of selling space, as of August 4, 2007. During the second quarter of 2008, we opened a new distribution center in Ottawa, Illinois to support our store growth. We currently expect to open 47 additional stores in the second half of fiscal 2008, including our 1000th store and seven stores in the Miami-Ft. Lauderdale-West Palm Beach market. In 2009, we are planning to open approximately 50 new stores and remodel 60 stores, an increase from 36 remodels in 2008.

Results of Operations

Net Sales

	August 2, 2008	August 4, 2007	Increase $	Increase %
		(Dollars in Thousands)		
Net sales:				
Quarter	**$ 3,725,490**	$ 3,589,210	$ 136,280	3.8%
Year-to-date	**7,349,749**	7,161,250	188,499	2.6

New stores, including 28 stores in the first half of 2008 and 95 stores in the second half of 2007, contributed $299.9 million to the increase in net sales over the prior year quarter. Comparable store sales for the quarter, which are sales from stores (including E-Commerce sales and relocated or expanded stores) open throughout the full current and prior fiscal year periods, declined $163.6 million compared to the second quarter of last year. The 4.6% decrease in comparable store sales was the result of a 0.2% decrease in average transaction value and a 4.4% decrease in the number of transactions per store.

Year-to-date, new stores contributed $584.4 million to the $188.5 million increase in net sales over the prior year. Comparable store sales for the year declined $395.9 million compared to last year. The 5.6% decrease in comparable store sales was the result of a 0.9% decrease in average transaction value and a 4.7% decrease in the number of transactions per store.

All lines of business reported negative comparable store sales for both the quarter and year-to-date. Accessories and Men's reported the strongest comparable store sales for both periods. In Men's, basics, particularly hosiery, reported the strongest comparable store sales. Accessories reported solid positive comparable store sales in sterling silver jewelry, watches and beauty. Children's performed with the company average and was driven by infant/toddlers. Women's, Footwear and Home underperformed the company average for both the quarter and year-to-date. In Women's, updated sportswear and basics were the strongest categories. Children's shoes reported the strongest comparable store sales in Footwear. Home continues to be the most difficult line of business with soft home underperforming for the quarter.

We continue to be pleased with the performance of brands introduced in the first half of 2008 including Jumping Beans, an opening price point children's private brand; Gold Toe, which continues to help Men's, Women's and Children's hosiery outperform the company; the Elle brand; and the Bobby Flay line, an expansion of our Food Network brand platform. We are also very pleased with initial sales in our Abbey Dawn line, a new juniors' lifestyle brand inspired by Avril Lavigne. In addition, we plan to launch FILA Sport, a collection of women's, men's and children's apparel, footwear and accessories, in early Fall 2008.

All regions also reported negative comparable store sales for both the quarter and year-to-date periods. The Northeast outperformed the company average for both the quarter and year-to-date periods. The southern regions (South central, Southeast and Southwest) continue to struggle as sales in states most affected by issues in the housing market, including California, Arizona, Nevada and Florida, continue to be soft.

E-Commerce revenues were $65.6 million for the quarter, compared to $48.9 million for the second quarter of last year, an increase of 34.4%. Year-to-date, E-Commerce revenues were $132.8 million, compared to $101.3 million last year, an increase of 31.0%.

Gross Margin

	August 2, 2008	August 4, 2007	Increase $	Increase %
		(Dollars in Thousands)		
Gross margin:				
Quarter	**$ 1,474,938**	$ 1,396,409	$ 78,529	5.6%
Year-to-date	**2,809,988**	2,714,245	95,743	3.5
Gross margin as a percent of net sales:				
Quarter	**39.6%**	38.9%	—	—
Year-to-date	**38.2%**	37.9%	—	—

Newly-opened stores contributed $110.4 million in gross margin for the quarter and $205.1 million year-to-date. Comparable store gross margin decreased $31.9 million for the quarter and $109.4 million year-to-date. Gross margin as a percent of net sales was 39.6% for the three months ended August 2, 2008, compared to 38.9% for the three months ended August 4, 2007. For the year-to-date period, gross margin as a percent of net sales was 38.2% in 2008 and 37.9% in 2007.

Strong inventory management and increased penetration of private and exclusive brands contributed to the margin strength, despite the difficult economic environment.

Ending inventory per store decreased 15.5% compared to the prior year quarter, reflecting significant reductions in spring and summer seasonal transition inventories and clearance inventories. In addition to carrying a lower level of inventory per store, we continue to focus on receiving merchandise in season as needed through our cycle time reduction initiatives which also reduce our seasonal merchandise clearance inventories. Additionally, our ongoing markdown and size optimization initiatives continue to develop and have favorable impacts on our gross margin percentage.

Private and exclusive brands increased to 43.3% of net sales for the three months ended August 2, 2008 compared to 39.1% of net sales for the three months ended August 4, 2007. Year-to-date, private and exclusive brands represented 42.7% of net sales for 2008, a 430 basis point improvement over 38.4% in 2007.

Operating Expenses

	August 2, 2008	August 4, 2007	Increase $	Increase %
		(Dollars in Thousands)		
S,G&A:				
Quarter	**$ 929,821**	$ 837,790	$ 92,031	11.0%
Year-to-date	**1,852,567**	1,696,264	156,303	9.2
S,G&A as a percent of net sales:				
Quarter	**25.0%**	23.3%	—	—
Year-to-date	**25.2%**	23.7%	—	—

Selling, general and administrative expenses (“SG&A”) for the quarter increased 11.0% over the prior year quarter. Year-to-date, SG&A increased 9.2% over the prior year. Even though these increases were higher than the increases in sales, they were lower than new store growth of 14.7%.

SG&A as a percent of net sales decreased, or "leveraged," in credit for the quarter and year-to-date periods as a result of higher interest and late fees which were partially offset by higher bad debt expenses. Stores, advertising, distribution centers and corporate did not leverage for the period due to lower sales. Our desire to maintain a positive customer in-store experience and on-going efforts to drive additional traffic into our stores also contributed to higher SG&A.

Distribution costs, which we include in SG&A, were $37.8 million for the current year quarter and $33.8 million for the prior year quarter. For the year-to-date period, distribution costs were $75.3 million in 2008 and $69.2 million in 2007.

	August 2, 2008	August 4, 2007	Increase $	Increase %
		(Dollars in Thousands)		
Depreciation and amortization:				
Quarter	**$ 132,681**	$ 106,146	$ 26,535	25.0%
Year-to-date	**262,658**	210,834	51,824	24.6
Depreciation and amortization as a percent of net sales:				
Quarter	**3.6%**	3.0%	—	—
Year-to-date	**3.6%**	2.9%	—	—

The increases in depreciation and amortization for both the quarter and year-to-date periods are primarily attributable to the addition of new stores.

	August 2, 2008	August 4, 2007	Decrease $	Decrease %
		(Dollars in Thousands)		
Preopening expenses:				
Quarter	**$ 5,887**	$ 8,748	$ (2,861)	(32.7)%
Year-to-date	**16,787**	17,337	(550)	(3.2)

The decrease in preopening expenses for the quarter is a result of a decrease in the number of new stores opened in the second half of the year. In 2008, we plan to open 47 stores in October and November. In 2007, we opened 95 stores in October and November. The year-to-date change reflects the net impact of more new store openings in the first quarter of 2008 than the comparable prior year quarter, offset by the decrease in the number of new store openings in the second half of the year.

Operating Income

	August 2, 2008	August 4, 2007	Decrease $	Decrease %
		(Dollars in Thousands)		
Operating income:				
Quarter	**$ 406,549**	$ 443,725	$ (37,176)	(8.4)%
Year-to-date	**677,976**	789,810	(111,834)	(14.2)
Operating income as a percent of net sales:				
Quarter	**10.9%**	12.4%	—	—
Year-to-date	**9.2%**	11.0%	—	—

As a result of the above factors, operating income as a percent of net sales was 10.9% for the three months ended August 2, 2008 compared to 12.4% for the three months ended August 4, 2007. For the year-to-date period, operating income as a percent of net sales was 9.2% for 2008 compared to 11.0% for 2007.

Interest Expense, Net

	August 2, 2008	August 4, 2007	Increase $	Increase %
		(Dollars in Thousands)		
Interest expense, net:				
Quarter	**$ 26,493**	$ 10,541	$ 15,952	151.3%
Year-to-date	**53,191**	20,688	32,503	157.1

The increase in net interest expense for the quarter and year-to-date periods was primarily due to higher outstanding debt balances because of the $1 billion in new debt that was issued in September 2007.

Provision for Income Taxes

	August 2, 2008	August 4, 2007	Decrease $	Decrease %
		(Dollars in Thousands)		
Provision for income taxes:				
Quarter	**$ 144,041**	$ 163,960	$ (19,919)	(12.1)%
Year-to-date	**235,815**	290,945	(55,130)	(18.9)

Our effective tax rate was 37.9% for the three months ended August 2, 2008 compared to 37.8% for the three months ended August 4, 2007. For the year-to-date period, the effective tax rate was 37.7% for 2008 and 37.8% for 2007.

Seasonality & Inflation

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the last half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% of annual sales typically occur during the back-to-school season and 30% during the holiday season. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. In addition, quarterly results of operations depend significantly upon the timing and amount of sales and costs associated with the opening of new stores.

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

Financial Condition and Liquidity

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

	August 2, 2008	August 4, 2007	Increase (Decrease) in Cash $	%
	(Dollars in Thousands)			
Net cash provided by (used in):				
Operating activities	**$ 873,659**	$ 413,402	$ 460,257	111.3%
Investing activities	**(571,314)**	(378,572)	(192,742)	(50.9)
Financing activities	**(265,937)**	5,921	(271,858)	(4,591.4)

The changes in our cash flows reflect reduced inventory levels, capital expenditures and treasury stock purchases in 2008 compared to 2007. As a result of these reductions, we were able to reduce borrowings against our short-term lines of credit and hold, rather than liquidate investments.

Operating Activities. Despite the decrease in net income, cash provided by operations for the year-to-date period was $873.7 million, which is over 100% higher than the prior year. The primary sources of operating cash flow for the six months ended August 2, 2008 were a $189.9 million increase in accounts payable and a $139.3 million reduction in inventory. Short-term trade credit, in the form of extended payment terms for inventory purchases, represents a significant source of financing for merchandise inventories.

Merchandise inventories at August 2, 2008 decreased both in total and on an average per store basis compared to August 4, 2007 and February 2, 2008. These decreases were due to significant reductions in spring and summer seasonal transition inventories and clearance inventories. At August 2, 2008, total merchandise inventories decreased $85.1 million, or 3.0%, from August 4, 2007. On an average per store basis, merchandise inventories at August 2, 2008 decreased 15.5% from August 4, 2007. Compared to February 2, 2008, merchandise inventories at August 2, 2008 decreased $138.2 million, or 4.8%.

Accounts payable at August 2, 2008 decreased $52.0 million from August 4, 2007 and increased $187.3 million from February 2, 2008. Accounts payable as a percent of inventory was 37.7% at August 2, 2008, compared to 38.4% at August 4, 2007, reflecting reduced receipts as a result of our cycle time initiatives and a higher percentage of imports, which have a shorter payment period than other receipts.

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

	August 2, 2008	February 2, 2008	August 4, 2007
Working capital (In Thousands)	**$ 1,276,866**	$ 1,952,441	$ 904,193
Current ratio	**1.66:1**	2.10:1	1.38:1
Debt/capitalization	**24.9%**	25.3%	18.8%

The increases in working capital and the current ratio as of August 2, 2008 compared to August 4, 2007 were primarily due to lower short-term debt which was due to reduced treasury stock repurchases, inventory levels and capital expenditures in 2008 compared to 2007.

The increase in the debt/capitalization ratio as of August 2, 2008 compared to August 4, 2007 represents higher debt levels, partially offset by higher capitalization. The higher debt levels reflect higher long-term debt as a result of the $1 billion of long-term notes that were issued in September 2007, partially offset by the decrease in short-term debt as discussed above. The higher capitalization is the result of earnings, partially offset by share repurchases.

Investing Activities. Net cash used in investing activities was $571.3 million in the current year-to-date period compared to $378.6 million in the comparable prior year period. The increase in net cash used in investing activities is primarily attributable to a reduction in the net cash generated by net purchases and sales of investments, partially offset by a reduction in capital expenditures.

Net purchases and sales of investments used $15.9 million in 2008, compared to generating cash of $395.7 million in 2007. As of August 2, 2008, we had investments in auction rate securities (“ARS”) with a par value of $422.8 million and an estimated fair value of $390.7 million. ARS are long-term debt instruments with interest rates reset through periodic short term auctions, which are typically held every 35 days. Beginning in February 2008, liquidity issues in the global credit markets resulted in the failure of auctions for substantially all of our ARS. A “failed” auction occurs when the amount of securities submitted for sale in the auction exceeds the amount of purchase bids. As a result, holders are unable to liquidate their investment through the auction. A failed auction is not a default of the debt instrument, but does set a new interest rate in accordance with the terms of the debt instrument. A failed auction limits liquidity for holders until there is a successful auction or until such time as another market for ARS develops. ARS are generally callable by the issuer at any time. Scheduled auctions continue to be held until the ARS matures or is called. During the second quarter of 2008, we experienced one successful auction in which we sold $1.7 million of ARS at par.

To date, we have collected all interest payable on outstanding ARS when due and expect to continue to do so in the future. At this time, we have no reason to believe that any of the underlying issuers of our ARS or their insurers are presently at risk or that the reduced liquidity has had a significant impact on the underlying credit quality of the assets backing our ARS. While the recent auction failures limit our ability to liquidate these investments, we believe that the ARS failures will have no significant impact on our ability to fund ongoing operations and growth initiatives.

In August 2008, we finalized a new $150 million line of credit which will provide additional liquidity, if needed. This new line is backed by a portion of the ARS, bears interest at Fed Funds plus a spread and expires in December 2008. We do not currently expect to draw against this line.

Capital expenditures include costs for new store openings, store remodels, distribution center openings and other base capital needs. Capital expenditures totaled $557.8 million for the six months ended August 2, 2008, a $243.2 million decrease from the comparable prior year period. This decrease is primarily due to a decrease in the number of new store openings in 2008 compared to 2007. We expect to open 75 stores in 2008 compared to 112 stores which were opened in 2007. Total capital expenditures for fiscal 2008 are expected to be approximately $1.1 billion. The actual amount of our future annual capital expenditures will depend primarily on the number of new stores opened, the mix of owned, leased or acquired stores, the number of stores remodeled and the timing of distribution center openings.

Financing Activities. Our financing activities used cash of $265.9 million in the first six months of 2008 compared to generating cash of $5.9 million in the first six months of 2007. The change reflects $295.0 million in proceeds from borrowings on our credit facilities during the prior year and a $91.0 million reduction in proceeds from the exercise of stock options resulting from a lower rate of option exercises, partially offset by a $112.8 million decrease in cash used for treasury stock repurchases.

We have various facilities upon which we may draw funds, including a $900 million senior unsecured revolving facility, the $150 million line of credit which was finalized in August 2008 and two demand notes with aggregate availability of $50 million. There were no outstanding balances under these facilities at August 2, 2008. As of August 4, 2007, outstanding balances on these short-term credit facilities totaled $295.0 million. Weighted-average borrowings under these facilities were $26.4 million for the six months ended August 2, 2008 and $22.4 million for the six months ended August 4, 2007.

During the current quarter, we repurchased 2.6 million shares of our stock for approximately $111 million at an average price per share of $42.15 pursuant to our $2.5 billion share repurchase program. Year-to-date, we have repurchased 6.0 million shares for approximately $261 million at an average price per share of $43.19.

Free Cash Flow. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities less capital expenditures. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations. We believe, that free cash flow represents our ability to generate additional cash flow from our business operations.

The following table reconciles net cash provided by operating activities, a GAAP measure, to free cash flow, a non-GAAP measure, for the six months ended August 2, 2008 and August 4, 2007.

	August 2, 2008	August 4, 2007
Net cash provided by operating activities	**$ 873,659**	$ 413,402
Acquisition of property and equipment and favorable lease rights	**(557,799)**	(801,041)
Free cash flow	**$ 315,860**	$ (387,639)

Contractual Obligations

There have been no significant changes in the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended February 2, 2008.

Our various debt agreements contain certain covenants that limit, among other things, additional indebtedness, as well as require us to meet certain financial tests. As of August 2, 2008, we were in compliance with all financial covenants of the debt agreements and expect to remain in compliance for the upcoming year.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of August 2, 2008.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of our Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended February 2, 2008.

New Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect the adoption of this statement will have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141R, and other U.S. generally accepted accounting principles. This FSP is effective for our interim and annual financial statements beginning in fiscal 2009. We do not expect the adoption of this FSP will have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risks described in our Annual Report on Form 10-K for the year ended February 2, 2008.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

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

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

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

(b) *Changes in Internal Control Over Financial Reporting*

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no significant changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended February 2, 2008.

Forward-looking Statements

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events we expect or anticipate will occur in the future. Words such as “believes,” “expects,” “may,” “will,” “should,” “anticipates,” “plans,” and similar expressions are intended to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based on our management’s then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors, described in Item 1A of our Annual Report on Form 10-K filed with the SEC on March 21, 2008, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and we undertake no obligation to update them. An investment in our common stock or other securities carries certain risks. Investors should carefully consider the risks as stated in our Form 10-K and other risks which may be disclosed from time to time in our filings with the SEC before investing in our securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any securities during the quarter ended August 2, 2008, which were not registered under the Securities Act.

In September 2007, our board of directors authorized a $2.5 billion share repurchase program. We expect to execute this share repurchase program primarily in open market transactions, subject to market conditions, and expect to complete the program by the end of fiscal 2010. Funding for the new program will be from operating cash flow as well as the $1 billion in long-term debt financing issued in September 2007 and, therefore, is not expected to have a significant impact on our short or long-term liquidity.

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The following table contains information for both shares repurchased pursuant to our repurchase program 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 August 2, 2008:

Period	Total Number of Shares Purchased During Period	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands)
May 4 – May 31, 2008	401,680	$ 44.35	401,283	$ 1,959,000
June 1 – July 5, 2008	1,442,288	43.27	1,441,890	1,897,000
July 6 – August 2, 2008	789,526	38.99	787,191	1,866,000
Total	2,633,494	$ 42.15	2,630,364	$ 1,866,000

Item 6. Exhibits

10.1 Kohl's Corporation 2003 Long-Term Compensation Plan, Amended and Restated Effective as of August 12, 2008.

10.2 Letter to Kevin Mansell dated August 11, 2008, incorporated herein by reference to Exhibit 99.2 of the Company's Current Report on Form 8-K dated August 21, 2008.

10.3 Third Amendment to Employment Agreement between the Company and R. Lawrence Montgomery, dated August 20, 2008.

10.4 Second Amendment to Employment Agreement between the Company and Kevin Mansell, dated August 20, 2008.

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

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Kohl's Corporation (Registrant)
Date: September 4, 2008	/s/ Kevin Mansell
	Kevin Mansell President, Chief Executive Officer and Director
Date: September 4, 2008	/s/ Wesley S. McDonald
	Wesley S. McDonald Chief Financial Officer

KOHL'S CORPORATION

2003 LONG–TERM COMPENSATION PLAN

Amended and Restated Effective as of August 12, 2008

1. **Purpose**

The purpose of the Plan is to allow the Company to attract and retain key employees and directors of the Company and its subsidiaries and to provide motivation to these individuals to put forth maximum efforts toward the continued growth, profitability, and success of the Company and its Subsidiaries by providing incentives through the ownership and performance of the Company's Common Stock. Toward this objective, the Committee may grant various equity-based Awards to Participants on the terms and subject to the conditions set forth in the Plan. These Awards will provide Participants with a proprietary interest in the growth and performance of the Company.

2. **Definitions**

2.1. "Award" means any form of stock option, stock appreciation right, Stock Award, performance unit, performance shares or other incentive award granted under the Plan, whether singly, in combination, or in tandem, to a Participant by the Committee pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the Committee may establish by the Award Agreement or otherwise.

2.2. "Award Agreement" means a written agreement between the Company and a Participant that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Committee's exercise of its administrative powers.

2.3. "Board" means the Board of Directors of the Company.

2.4. "Cause" means termination of employment or service as a director upon:

(1) a Participant's repeated failure to perform his or her duties in a competent, diligent and satisfactory manner as determined by the Company's Chief Executive Officer in his reasonable judgment, (2) insubordination, (3) a Participant's commission of any material act of dishonesty or disloyalty involving the Company or a Subsidiary, (4) a Participant's chronic absence from work other than by reason of a serious health condition, (5) a Participant's commission of a crime which substantially relates to the circumstances of his or her position with the Company or a Subsidiary or which has material adverse effect on the Company or a Subsidiary, or (6) the willful engaging by a Participant in conduct which is demonstrably and materially injurious to the Company or a Subsidiary.

2.5. "Change of Control" shall have the meaning set forth in Paragraph 18 below.

2.6. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.7. "Committee" means the Compensation Committee of the Board, or such other committee of directors designated by the Board, authorized to administer the Plan under Paragraph 3 hereof. Membership of the Committee shall consist of not less than two (2) independent directors and shall otherwise comply with the requirements of the rules and regulations of the Securities and Exchange Commission, the stock exchange on which the Company's Common Stock is traded, Rule 16b-3 of the Exchange Act and Code Section 162(m).

2.8. "Common Stock" means $.01 par value common shares of the Company.

2.9. "Company" means Kohl's Corporation, a Wisconsin corporation.

2.10. "Disability" means the inability of a Participant to perform his or her normal duties as a full-time employee of the Company or a Subsidiary for a continuous period of ninety (90) days by reason of physical or mental illness or incapacity. If there is any dispute as to whether the termination of the Participant's employment was due to his or her physical or mental illness or incapacity, such question shall be submitted to a licensed physician for the purpose of making such determination. An examination of the Participant shall be made within thirty (30) days after written notice by the Committee or the Participant by a licensed physician selected by the Committee. The Participant shall submit to such examination and provide such information as such physician may request and the determination of such physician as to the question of the Participant's physical or mental condition shall be binding and conclusive on all parties concerned for purposes of this Plan. The disability shall be deemed to be continuing unless the Participant performs his or her regular duties for his or her employer for a continuous period of ninety (90) days.

2.11. "Exchange Act" means the Securities and Exchange Act of 1934, as amended.

2.12. "Market Value" of Common Stock shall mean the closing sale price of Common Stock on the New York Stock Exchange – Composite Transactions, the American Stock Exchange – Composite Transactions or other national or regional exchange, or the mean of the closing bid and asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers Automatic Quotation System ("NASDAQ").

2.13. "Participant" means an employee or member of the Board of Directors of the Company or a Subsidiary chosen by the Committee to receive an Award under this Plan.

2.14. "Plan" means the Kohl's Corporation 2003 Long –Term Compensation Plan, as amended.

2.15. "Retirement" means a Participant's termination of employment or service as a director other than for Cause after the later to occur of (a) attainment of age sixty (60); or (b) service with the Company and/or a Subsidiary for a continuous period of ten (10) years.

2.16. "Rule 16b-3" means Rule 16b-3 promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, as it may be amended from time to time, and any successor rule.

2.17. "Stock Award" means an award granted pursuant to Paragraph 10 hereof in the form of shares of Common Stock, restricted shares of Common Stock, and/or Units of Common Stock.

2.18. "Subsidiary" means a corporation or other business entity in which the Company directly or indirectly has a significant ownership interest, as determined by the Committee, in the Committee's sole discretion.

2.19. "Unit" means a bookkeeping entry used by the Company to record and account for the grant of the following Awards until such time as the Award is paid, cancelled, forfeited or terminated, as the case may be: Units of Common Stock, performance units, and performance shares which are expressed in terms of Units of Common Stock.

3. **Administration**

The Plan shall be administered by the Committee. Subject to the terms of the Plan, the Committee shall have the authority to: (a) interpret the Plan; (b) establish such rules and regulations as it deems necessary for the proper operation and administration of the Plan; (c) select Participants to receive Awards under the Plan; (d) determine the form of an Award, whether a stock option, stock appreciation right, Stock Award, performance unit, performance share, or other incentive award established by the Committee in accordance with the Plan, the number of shares or Units subject to the Award, all the terms, conditions, restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement; (e) determine whether Awards will be granted singly, in combination or in tandem; (f) determine the performance goals, if any, which will be applicable to the Award; (g) grant waivers of Plan terms, conditions, restrictions, and limitations; (h) accelerate the vesting, exercise, or payment of an Award or the performance period of an Award when such action or actions would be in the best interest of the Company; and (i) take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan. In addition, in order to enable Participants who are foreign nationals or are employed outside the United States or both to receive Awards under the Plan, the Committee may adopt such amendments, procedures, regulations, subplans and the like as are necessary or advisable, in the opinion of the Committee, to effectuate the purposes of the Plan.

Subject to Section 23, the Committee shall also have the authority to grant Awards in replacement of Awards previously granted under this Plan or any other executive compensation plan of the Company or a Subsidiary.

All determinations of the Committee shall be made by a majority of its members, and its determinations shall be final, binding and conclusive on the Company, Participants and any persons claiming an interest through a Participant. The Committee, in its discretion, may delegate its authority and duties under the Plan to the Chief Executive Officer and/or to other senior officers of the Company under such conditions and/or limitations as the Committee may establish; provided, however, that only the Committee may select and grant Awards to Participants who are subject to Section 16 of the Exchange Act.

4. **Eligibility**

Any employee or member of the Board of Directors of the Company or a Subsidiary chosen by the Committee shall be eligible to receive an Award.

5. **Awards Available**

The aggregate number of shares of Common Stock which may be issued under the Plan pursuant to the exercise or grant of Awards shall not exceed 31,000,000 shares of Common Stock, subject to adjustment as provided in Paragraph 20 hereof, all of which may be incentive stock options. Shares of Common Stock issued hereunder may be treasury shares or authorized but unissued shares, or a combination of the two. In no event (a) shall the aggregate number of shares subject to Awards granted under the Plan that are not stock options or stock appreciation rights, as set forth in Paragraphs 8 and 9 hereof respectively, exceed 3,000,000 shares (subject to adjustment as provided in Paragraph 20 hereof), (b) shall any Participant be eligible to receive options or SARs, as defined in Paragraph 9, below, for more than 1,500,000 shares during any twelve-month period (subject to adjustment as provided in Paragraph 20 hereof), (c) shall any one Participant be eligible to receive an aggregate amount of Awards, other than options, restricted shares of Common Stock which vest based on the continued performance of services (i.e., time-based vested restricted stock), SARs or performance units, in an amount in excess of $2,500,000 (valuing the shares of Common Stock at their Market Value and other Awards at their fair market value as determined by the Committee in its sole discretion, on the business day immediately preceding the date of grant) during any twelve-month period or (d) shall any one Participant be eligible to receive an aggregate amount of Awards of performance units during any fiscal year with a maximum cash payout in excess of $2,500,000. For purposes of determining the maximum number of shares available for issuance under the Plan, any shares which have been issued as Stock Awards or performance shares, as set forth in Paragraph 12 hereof, which are forfeited to the Company shall be treated, following such forfeiture, as shares which have not been issued. Notwithstanding anything herein to the contrary, any shares related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such shares, are settled in cash in lieu of shares, or are exchanged with the Committee's permission, prior to the issuance of shares, for Awards not involving shares, shall be available again for grant under this Plan. Shares subject to an Award under the Plan may not again be made available for issuance under the Plan if such shares: (x) were subject to a stock option or a stock-settled stock appreciation right and were not issued upon the net settlement or net exercise of such stock option or stock appreciation right, (y) were delivered to or withheld by the Company to pay the exercise price of a stock option or the withholding taxes related to any Award, or (z) were repurchased on the open market with the proceeds of a stock option exercise.

6. **Term**

The Plan shall become effective as of the date of its approval by the Company's shareholders. Awards shall not be granted pursuant to the Plan after March 1, 2017.

7. **Participation**

The Committee shall select, from time to time, those Participants who, in the opinion of the Committee, can further the Plan's purposes. Once a Participant is so selected, the Committee shall determine the type or types of Awards to be made to the Participant and shall establish in the related Award Agreements the terms, conditions, restrictions and/or limitations, if any, applicable to the Awards in addition to those set forth in this Plan and the administrative rules and regulations issued by the Committee. Notwithstanding the foregoing, the term of Awards granted pursuant to the Plan before May 2, 2007 shall not exceed fifteen (15) years, with the exception of incentive stock options, where the term shall not exceed ten (10) years (five (5) years in the case of a greater than 10% shareholder) and the term of Awards granted pursuant to the Plan on or after May 2, 2007, shall not exceed ten (10) years, with the exception of incentive stock options, where the term shall not exceed five (5) years in the case of a greater than 10% shareholder.

8. **Stock Options**

(a) **Grants**. Awards may be granted in the form of stock options. These stock options may be incentive stock options within the meaning of Section 422 of the Code or nonqualified stock options (i.e., stock options which are not incentive stock options), or a combination of both.

(b) **Terms and Conditions of Options**. An option shall be exercisable in whole or in such installments and at such times as may be determined by the Committee. The price at which a share of Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but shall be no less than 100% of the Market Value of a share of Common Stock, as determined by the Committee, on the date of grant. The exercise price of a stock option shall not be reduced by the Committee other than pursuant to Paragraph 20 hereof, without the consent of the Company's shareholders.

(c) **Restrictions Relating to Incentive Stock Options**. Stock options issued in the form of incentive stock options shall, in addition to being subject to all applicable terms, conditions, restrictions and/or limitations established by the Committee, comply with Section 422 of the Code. Further, the per share option price of an incentive stock option shall not be less than 100% (or 110% in the case of a greater than 10% shareholder) of the fair market value of a share of Common Stock, as determined by the Committee, on the date of the grant. Also, each option shall expire not later than ten years (or five years in the case of a 10% or more shareholder) from its date of grant. All or any portion of an option designated as an incentive stock option which does not meet the requirements of Section 422 of the Code, including those set forth herein, will be treated as a nonqualified stock option.

(d) **Additional Terms and Conditions**. The Committee may, by way of the Award Agreement or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any stock option Award, provided they are not inconsistent with the Plan.

(e) **Exercise Payment**. At the election of the Committee, upon exercise, the option price of a stock option may be paid in cash, shares of Common Stock either directly or by attestation, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting Common Stock and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise a stock option.

9. **Stock Appreciation Rights**

(a) **Grants**. Awards may be granted in the form of stock appreciation rights ("SARs"). A SAR may be granted in tandem with all or a portion of a related stock option under the Plan (a "Tandem SAR"), or may be granted separately (a "Freestanding SAR"). A Tandem SAR may be granted either at the time of the grant of the related stock option or any time thereafter during the term of the stock option. SARs shall entitle the recipient to receive a payment equal to the appreciation in Market Value of a stated number of shares of Common Stock from the exercise price to the Market Value on the date of exercise. In the case of SARs granted in tandem with stock options granted prior to the grant of such SARs, the appreciation in value is from the option price of such related stock option to the Market Value on the date of exercise.

(b) **Terms and Conditions of Tandem SARs**. A Tandem SAR shall be exercisable to the extent, and only to the extent, that the related stock option is exercisable, and the "exercise price" of such a SAR (the base from which the value of the SAR is measured at its exercise) shall be the option price under the related stock option. If a related stock option is exercised as to some or all of the shares covered by the Award, the related Tandem SAR, if any, shall be cancelled automatically to the extent of the number of shares covered by the stock option exercise.

Upon exercise of a Tandem SAR as to some or all of the shares covered by the Award, the related stock option shall be cancelled automatically to the extent of the number of shares covered by such exercise, and such shares shall again be eligible for grant in accordance with Paragraph 5 hereof, except to the extent any shares of Common Stock are issued to settle the SAR.

(c) **Terms and Conditions of Freestanding SARs**. The "exercise price" of a Freestanding SAR shall be established by the Committee, but shall be no less than 100% of the market value of a share of Common Stock, as determined by the Committee, on the date of grant. A Freestanding SAR shall be exercisable in whole or in such installments and at such times as may be determined by the Committee.

(d) **Deemed Exercise**. The Committee may provide that a SAR shall be deemed to be exercised at the close of business on the scheduled expiration date of such SAR, if at such time the SAR by its terms remains exercisable and, if so exercised, would result in a payment to the holder of such SAR.

(e) **Additional Terms and Conditions**. The Committee may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions and/or limitations, if any, of any SAR Award, provided they are not inconsistent with the Plan.

10. Stock Awards

(a) **Grants**. Awards may be granted in the form of Stock Awards. Stock Awards shall be awarded in such numbers and at such times during the term of the Plan as the Committee shall determine.

(b) **Award Restrictions**. Stock Awards shall be subject to such terms, conditions, restrictions, and/or limitations, if any, as the Committee deems appropriate including, but not by way of limitation, performance goal requirements, restrictions on transferability and continued employment. The Committee may modify or accelerate the delivery of a Stock Award under such circumstances as it deems appropriate.

(c) **Rights as Shareholders**. During the period in which any restricted shares of Common Stock are subject to the restrictions imposed under Paragraph 10(b), the Committee may, in its discretion, grant to the Participants to whom such restricted shares have been awarded all or any of the rights of a shareholder with respect to such shares, including, but not by way of limitation, the right to vote such shares and to receive dividends.

(d) **Evidence of Award**. Any Stock Award granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates.

11. **Performance Units**

(a) **Grants**. Awards may be granted in the form of performance units. Performance units, as that term is used in this Plan, shall refer to Units valued by reference to designated criteria established by the Committee, other than Common Stock.

(b) **Performance Criteria**. Performance units shall be contingent on the attainment during a performance period of certain performance goals. The length of the performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such goals have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance goals may be revised by the Committee, at such times as it deems appropriate during the performance period, in order to take into consideration any unforeseen events or changes in circumstances; provided, however, that no revisions shall be permitted where performance goals have been set in accordance with Paragraph 13 below so as to comply with the performance-based compensation provisions under Code Section 162(m) if such a revision would cause the performance units to lose their qualification as performance-based compensation thereunder.

(c) **Additional Terms and Conditions**. The Committee may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of performance units, provided they are not inconsistent with the Plan.

12. **Performance Shares**

(a) **Grants**. Awards may be granted in the form of performance shares. Performance shares, as that term is used in this Plan, shall refer to shares of Common Stock or Units which are expressed in terms of Common Stock.

(b) **Performance Criteria**. Performance shares shall be contingent upon the attainment during a performance period of certain performance goals. The length of the performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such goals have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance goals may be revised by the Committee, at such times as it deems appropriate during the performance period, in order to take into consideration any unforeseen events or changes in circumstances; provided, however, that no revisions shall be permitted where performance goals have been set in accordance with Paragraph 13 below so as to comply with the performance-based compensation provisions under Code Section 162(m) if such a revision would cause the performance shares to lose their qualification as performance-based compensation thereunder.

(c) **Additional Terms and Conditions**. The Committee may, by way of the Award Agreement or otherwise, determine such other terms, conditions, restrictions and/or limitations, if any, of any Award of performance shares, provided they are not inconsistent with the Plan.

13. **Performance Goals**

Notwithstanding any other provision hereof, the Committee may establish performance goals in connection with the grant of any Award hereunder. Performance goals established by the Committee may be based upon the performance of the Market Value of the Common Stock in relation to its historical performance and the performance of applicable market indices and market peer groups, total sales, comparable store sales, return on equity, return on investment and/or net income of the Company. Such performance goals may be set on a pre-tax or after-tax basis, may be applied on an absolute or relative basis, and may be determined with or without regard to changes in accounting or extraordinary, unusual or nonrecurring items, as specified by the Committee upon the grant of an Award. The Committee may, in its discretion, determine whether an Award will be paid under any one or more of the performance goals. Such performance goals shall be set by the Committee so as to comply with the performance-based compensation provisions under Code 162(m), and may be (but need not be) different for each performance period. The Committee may set different goals for different Participants and for different Awards, and performance goals may include standards for minimum attainment, target attainment, and maximum attainment. In all cases, however, performance goals shall include a minimum performance standard below which no part of the relevant Award will be earned. After the end of a performance period, the Committee shall certify in writing prior to payment of the Award that the relevant performance goals and any other material terms of the Award were in fact satisfied.

14. **Payment of Awards**

At the discretion of the Committee, payment of Awards may be made in cash, Common stock, a combination of cash and Common Stock, or any other form of property as the Committee shall determine, other than stock options and Stock Awards, which shall be made in Common Stock. In addition, payment of Awards may include such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, in the case of Awards paid in the form of Common Stock, restrictions on transfer and forfeiture provisions. Further, payment of Awards may be made in the form of a lump sum or installments, as determined by the Committee.

15. **Dividends and Dividend Equivalents**

Except with respect to stock options and stock appreciation rights, the Committee may choose, at the time of the grant of the award or any time thereafter up to the time of the Award’s payment, to include as part of such Award an entitlement to receive dividends or dividend equivalents, subject to such terms, conditions, restrictions, and/or limitations, if any, as the Committee may establish. Dividends and dividend equivalents shall be paid in such form and manner (i.e., lump sum or installments), and at such time as the Committee shall determine. All dividends or dividend equivalents which are not paid currently may, at the Committee's discretion, accrue interest, be reinvested into additional shares of Common Stock or, in the case of dividends or dividend equivalents credited in connection with performance shares, be credited as additional performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to such Award. Notwithstanding the foregoing, for any Award that is governed by Section 409A of the Code regarding nonqualified deferred compensation, the Committee shall establish the schedule of any payments of dividends or dividend equivalents in accordance with the requirements of Section 409A of the Code or any guidance promulgated thereunder.

16. **Deferral of Awards**

At the discretion of the Committee, payment of a Stock Award, performance share, performance unit, dividend, dividend equivalent, or any portion thereof may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery of a written, irrevocable election by the Participant on a form provided by the Company. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that such deferrals comply with all applicable requirements of Section 409A of the Code or any guidance promulgated thereunder. Deferred payments shall be paid in a lump sum or installments, as determined by the Committee in accordance with the requirements of Section 409A of the Code or any guidance promulgated thereunder. The Committee may also credit interest, at such rates to be determined by the Committee, on cash payments that are deferred and credit dividends or dividend equivalents on deferred payments denominated in the form of Common Stock.

17. **Termination of Service**

If a Participant's service with the Company or a Subsidiary terminates for a reason other than death, Disability, Retirement, or any approved reason, all unexercised, unearned, and/or unpaid Awards, including, but not by way of limitation, Awards earned, but not yet paid, all unpaid dividends and dividend equivalents, and all interest accrued on the foregoing shall be cancelled or forfeited, as the case may be, unless the Participant's Award Agreement provides, or the Committee determines, otherwise. The Committee shall have the authority to promulgate rules and regulations to (a) determine what events constitute Disability, Retirement, or termination for an approved reason for purposes of the Plan, and (b) determine the treatment of a Participant under the Plan in the event of the Participant's death, Disability, Retirement, or termination for an approved reason.

18. **Change of Control**

(a) **Impact**.

(i) For Awards granted before May 2, 2007, in the event of a Change of Control (as defined below), the following acceleration and valuation provisions shall apply:

(A) All Awards outstanding on the date such Change of Control is determined to have occurred shall become immediately vested and fully exercisable and, if there were performance goals, that such performance goals had been attained at the target level or the equivalent thereof;

(B) All Awards which are not paid in Common Stock will be cashed out at the "Change of Control Price" (as defined below) reduced by the exercise price, if any, applicable to such Awards; and

(C) The Committee may, in its discretion, make such other provision relating to any Award, any unpaid dividend or dividend equivalent and all interest accrued thereon, any performance goal, or any Award deferred under Paragraph 16 hereof which the Committee may deem equitable, including, but not limited to, adjusting the terms of an Award to reflect the Change of Control or causing the Award to be assumed, or new rights to be substituted therefore, by another entity.

(ii) For Awards granted on or after May 2, 2007, in the event of a Change of Control (as defined below), the Committee, in its discretion, may provide that:

(A) All Awards outstanding on the date such Change in Control is determined to have occurred shall become immediately vested and fully exercisable and, if there were performance goals, the Committee may provide that such performance goals are attained at the target level or the equivalent thereof;

(B) Awards outstanding which are not paid in Common Stock shall be cashed out at the "Change in Control Price" (as defined below) reduced by the exercise price, if any applicable to such Awards; and / or

(C) Other provisions be made relating to any Award which the Committee deems equitable, including but not limited to, adjusting the terms of an Award to reflect the Change of Control or causing the Award to be assumed, or new rights to be substituted therefore, by another entity.

(b) **Definitions**.

(i) "Change of Control" means the occurrence of (1) the acquisition (other than from the Company) by any person, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than the Company, a subsidiary of the Company, or any employee benefit plan or plans sponsored by the Company or any subsidiary of the Company, directly or indirectly, of beneficial ownership (within the meaning of Exchange Act Rule 13d-3) of 33% or more of the then outstanding shares of common stock of the Company or voting securities representing 33% or more of the combined voting power of the Company's then outstanding voting securities ordinarily entitled to vote in the election of directors unless the Incumbent Board (as defined below), before such acquisition or within 30 days thereafter, deems such acquisition not to be a Change of Control; or (2) individuals who, as of the date this Plan is adopted by the Board, constitute the Board (as of such date, the "Incumbent Board") ceasing for any reason to constitute at least a majority of such Board; provided, however, that any person becoming a director subsequent to the date this Plan is adopted by the Board whose election, or nomination for election by the shareholders of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be for purposes of the Plan, considered as though such person were a member of the Incumbent Board but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest which was (or, if threatened, would have been) subject to Exchange Act Rule 14a-12(c); or (3) the consummation of any merger, consolidation or share exchange of the Company with any other corporation, other than a merger, consolidation or share exchange which results in more than 60% of the outstanding shares of the common stock, and voting securities representing more than 60% of the combined voting power of then outstanding voting securities entitled to vote generally in the election of directors, of the surviving, consolidated or resulting corporation being then beneficially owned, directly or indirectly, by the persons who were the Company's shareholders immediately prior to such transaction in substantially the same proportions as their ownership, immediately prior to such transaction, of the Company's then outstanding Common Stock or then outstanding voting securities, as the case may be; or (4) the consummation of any liquidation or dissolution of the Company or a sale or other disposition of all or substantially all of the assets of the Company.

(ii) "Change of Control Price" means, as determined by the Committee, (1) the highest Market Value at any time within the 60-day period immediately preceding the date of determination of the Change of Control Price by the Committee, (2) the highest price paid or offered per share of Common Stock, as determined by the Committee, in any bona fide transaction or bona fide offer related to the Change of Control of the Company at any time within such 60-day period, or (3) some lower price as the Committee, in its discretion, determines to be a reasonable estimate of the fair market value of a share of Common Stock.

19. **Nonassignability**

No Awards or any other payment under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code), assignment, pledge, or encumbrance, and during the lifetime of the Participant, only the Participant may exercise rights under the Plan. Following the death of the Participant, such individual, trust or estate who or which by designation of the Participant or operation of law succeeds to the rights of the Participant under the Plan upon the Participant's death, may exercise the Participant's rights to the extent they are exercisable under the Plan following the death of the Participant. All beneficiary designations shall be made in such form and subject to such limitations as may from time to time be acceptable to the Committee and delivered to and accepted by the Committee.

20. **Adjustment Provisions**

If there is any change in the number of outstanding shares of Common Stock through the declaration of stock dividends, stock splits or the like, the number of shares available for Awards, the shares subject to any Award and the option prices or exercise prices of Awards shall be automatically adjusted. If there is any change in the number of outstanding shares of Common Stock through any change in the capital of the Company, or through any other transaction referred to in Section 424(a) of the Code, the Committee shall make appropriate adjustments in the maximum number of shares of Common Stock which may be issued under the Plan and any adjustments and/or modifications to outstanding Awards as it deems appropriate. In the event of any other change in the capital structure or in the Common Stock of the Company, or in the event of a merger, consolidation, combination or exchange of shares, or the like, as a result of which Common Stock is changed into another class, or securities of another person, cash or other property, the exercise price, consideration to be received, and other terms of an Award shall be adjusted as deemed equitable by the Committee, in its sole discretion. The Committee shall have authority to provide for, in appropriate cases upon the effectiveness of the transaction, (a) waiver, in whole or in part, of remaining restrictions for vesting or earning, and (b) the conversion of outstanding Awards into cash or other property to be received in the transactions immediately or over the periods the Award would have vested or been earned. Any adjustment, waiver, conversion or the like carried out by the Committee under this Paragraph shall be conclusive and binding for all purposes of the Plan. Notwithstanding the foregoing, any increase in the number of shares of Common Stock subject to the Plan shall, if required under Rule 16b-3 or Code Section 162(m), be subject to approval of the Company's shareholders.

21. **Withholding Taxes**

The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Participant to pay to it such tax prior to and as a condition of the making of such payment. In no event shall the Company withhold, or allow the Participant to pay more than the minimum amount required by law. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by withholding from any payment of Common Stock due as a result of such Award, or by permitting the Participant to deliver to the Company, shares of Common Stock having a fair market value, as determined by the Committee, equal to the amount of such required withholding taxes.

22. **Noncompetition Provision**

Unless the Award Agreement specifies otherwise, a Participant shall forfeit all unexercised, unearned, and/or unpaid Awards, including, but not by way of limitation, Awards earned but not yet paid, all unpaid dividends and dividend equivalents, and all interest, if any, accrued on the foregoing if, (a) in the opinion of the Committee, the Participant, at any time during the period of Participant's employment and for one (1) year thereafter, without the written consent of the Company, engages directly or indirectly in any manner or capacity as principal, agent, partner, officer, director, employee, or otherwise, in any business or activity competitive with the business conducted by the Company or any Subsidiary, in the geographic area in which the Company does business; or (b) the Participant performs any act or engages in any activity which in the opinion of the Chief Executive Officer of the Company is inimical to the best interests of the Company. In addition, the Committee may, in its discretion, condition the deferral of any Award, dividend, or dividend equivalent under Paragraph 16 hereof on a Participant's compliance with the terms of this Paragraph 22, and cause such a Participant to forfeit any payment which is so deferred if the Participant fails to comply with the terms hereof.

23. **Amendments to Awards**

The Committee may at any time unilaterally amend or terminate and cash out any unexercised or unpaid Award, whether earned or unearned, including, but not by way of limitation, Awards earned but not yet paid, and/or substitute another Award of the same or different type, to the extent it deems appropriate; provided, however, that without the prior approval of the Company's shareholders and except as provided in Section 18, stock options or SARS issued under this Plan will not be repriced, replaced, repurchased for cash at any time when the Market Value of a share of Common Stock is lower than the exercise price of a previously granted stock option or the "exercise price" of a previously granted SAR, or regranted through cancellation, or by lowering the exercise price of a previously granted stock option or the "exercise price" of a previously granted SAR; and provided further that any amendment to (but not termination of) an outstanding Award which, in the opinion of the Committee, is materially adverse to the Participant, or any amendment or termination which, in the opinion of the Committee, may subject the Participant to liability under Section 16 of the Exchange Act, shall require the Participant's consent.

24. **Regulatory Approvals and Listings**

Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Stock Awards or any other Award resulting in the payment of Common Stock prior to (a) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (b) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed, and (c) the completion of any registration or other qualification of said shares under any state or federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

25. **No Rights to Continued Service or Grants**

Participation in the Plan shall not give any Participant any right to remain in the employ of the Company or any Subsidiary or to continue as a director of the Company or any Subsidiary. The Company or, in the case of service with a Subsidiary, the Subsidiary, reserves the right to terminate any Participant at any time. Further, the adoption of this Plan shall not be deemed to give any Participant or any other person any right to be selected as a Participant or to be granted an Award or additional Awards.

26. **Amendment**

The Board may suspend or terminate the Plan at any time, but the termination or suspension shall not, without the consent of a Participant, adversely affect the rights of such Participant under an outstanding Award then held by the Participant, except to the extent permitted by Paragraph 23. In addition, the Board may, from time to time, amend the Plan in any manner, but may not without shareholder approval adopt any amendment that requires shareholder approval under Rule 16b-3, Code Section 162(m), any applicable stock exchange rule, or any other applicable provision of securities and/or tax law.

27. **Governing Law**

The Plan shall be governed by and construed in accordance with the laws of the State of Wisconsin without regard to its conflicts of law provisions.

28. **No Right, Title, or Interest in Company Assets**

No Participant shall have any right in any fund or in any specific asset of the Company by reason of being a Participant under this Plan, nor any rights as a shareholder as a result of participation in the Plan until the date of issuance of a stock certificate in the Participant's name, and, in the case of restricted shares of Common Stock, such rights are granted to the Participant under Paragraph 10(c) hereof. To the extent any person acquires a right to receive payments from the Company under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company.

THIRD AMENDMENT TO EMPLOYMENT AGREEMENT

This Third Amendment to Employment Agreement is made as of the 20th day of August, 2008 by and between KOHL'S DEPARTMENT STORES, INC., a Delaware corporation ("Corporation"), and R. Lawrence Montgomery ("Executive").

WHEREAS, Corporation and Executive are parties to an Employment Agreement dated January 31, 1998, as amended pursuant to that First Amendment to Employment Agreement dated as of November 15, 2000 and that Second Amendment to Employment Agreement dated as of January 31, 2003 (collectively, the "Agreement");

WHEREAS, Corporation and Executive wish to amend the Agreement as set forth below.

NOW, THEREFORE, in consideration of good and valuable consideration, Corporation and Executive hereby agree as follows:

1. Article I of the Agreement is amended to read, in its entirety, as follows:

ARTICLE I
Employment Duties

During the term of Executive's employment hereunder, the Corporation shall employ Executive and Executive shall serve as Chairman of the Corporation. At the will of the Board of Directors, Executive shall serve as the Chairman of the Board. Executive shall supervise and manage various corporate strategic initiatives and shall have supervision and control over, and responsibility for, the general management of such aspects of the day-to-day operation of the Corporation as may from time to time be prescribed by the Board of Directors of the Corporation; provided, however, that such duties are reasonably consistent with the duties normally performed by a Chairman. Executive's principal place of employment shall be at the Corporation's headquarters in Menomonee Falls, Wisconsin; provided, however, that Executive acknowledges and agrees that he may from time to time be required to travel outside Milwaukee, Wisconsin on behalf of the Corporation. Executive shall devote his entire working time and efforts to the business affairs of the Corporation and its affiliates and shall faithfully and to the best of his ability perform his duties hereunder, provided that Executive may take reasonable amounts of time to serve on corporate, civil or charitable boards or committees and such other boards or committees as shall be approved by the Corporation's Board of Directors if such activities do not interfere with the performance of Executive's duties hereunder. Executive hereby agrees to serve as an officer of the Corporation and of affiliates of the Corporation as part of his contemplated duties hereunder without additional compensation therefor.

2. The terms of this Third Amendment shall become effective on August 20, 2008. Except as otherwise set forth in this Third Amendment, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment as of this 20 th of August, 2008.

EXECUTIVE:	KOHL'S DEPARTMENT STORES, INC.
/s/ R. Lawrence Montgomery	By: /s/ Kevin Mansell
R. Lawrence Montgomery	Kevin Mansell President, Chief Executive Officer

SECOND AMENDMENT TO
EMPLOYMENT AGREEMENT

This Second Amendment to Employment Agreement is made as of the 20th day of August, 2008 by and between KOHL'S DEPARTMENT STORES, INC., a Delaware corporation ("Corporation"), and KEVIN MANSELL ("Executive").

WHEREAS, Corporation and Executive are parties to an Employment Agreement dated February 1, 1999, as amended pursuant to that Amendment to Employment Agreement dated as of January 31, 2004 (collectively, the "Agreement");

WHEREAS, Corporation and Executive wish to amend the Agreement as set forth below.

NOW, THEREFORE, in consideration of good and valuable consideration, Corporation and Executive hereby agree as follows:

1. Article I of the Agreement is amended to read, in its entirety, as follows:

ARTICLE I
Employment Duties

During the term of Executive's employment hereunder, the Corporation shall employ Executive and Executive shall serve as President and Chief Executive Officer of the Corporation. Subject to the authority and direction of the Chairman and the Board of Directors of the Corporation, Executive shall have supervision and control over, and responsibility for, the general management and day-to-day operation of the Corporation. Executive shall also have such other powers and duties as may from time to time be prescribed by the Board of Directors of the Corporation; provided, however, that such duties are reasonably consistent with the duties normally performed by a President and Chief Executive Officer. Executive's principal place of employment shall be at the Corporation's headquarters in Menomonee Falls, Wisconsin; provided, however, that Executive acknowledges and agrees that he may from time to time be required to travel outside Milwaukee, Wisconsin on behalf of the Corporation. Executive shall devote his entire working time and efforts to the business affairs of the Corporation and its affiliates and shall faithfully and to the best of his ability perform his duties hereunder, provided that Executive may take reasonable amounts of time to serve on corporate, civil or charitable boards or committees and such other boards or committees as shall be approved by the Corporation's Board of Directors if such activities do not interfere with the performance of Executive's duties hereunder. Executive hereby agrees to serve as an officer of the Corporation and of affiliates of the Corporation as part of his contemplated duties hereunder without additional compensation therefor.

2. Section 3.1 of the Agreement is amended to read, in its entirety, as follows:

3.1.Salary. The Corporation shall pay to the Executive an annual base salary in the amount of One Million One Hundred Fifty Thousand Dollars ($1,150,000.00) during the Employment Term (“Annual Base Salary”). The Executive’s Annual Base Salary shall be payable in equal installments not less frequently than monthly. Executive’s Annual Base Salary shall be reviewed by the Board of Directors of the Corporation at least annually and may be increased by such amount as the Board of Directors, in its sole discretion, may determine, taking into consideration the profitability of the Corporation relative to its business plan and such other factors as the Board of Directors may deem relevant for that purpose. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

3. Section 9.3 of the Agreement is amended to read, in its entirety, as follows:

9.3.Notice. Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be sufficiently given and received in all respects when personally delivered or when deposited in the United States mail, certified or registered mail, postage prepaid, return receipt requested, addressed as follows:

IF TO THE CORPORATION:	Kohl’s Department Stores, Inc. N56 W17000 Ridgewood Drive Menomonee Falls, WI 53051 Attention: Chairman
With a Copy to:	Kohl’s Department Stores, Inc. N56 W17000 Ridgewood Drive Menomonee Falls, WI 53051 Attention: General Counsel
IF TO THE EXECUTIVE:	Kevin Mansell 5370 North Lake Drive Whitefish Bay, WI 53217

4. The terms of this Second Amendment shall become effective on August 20, 2008. Except as otherwise set forth in this Second Amendment, the Agreement shall remain in full force and effect.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of this 20th of August, 2008.

EXECUTIVE:		KOHL'S DEPARTMENT STORES, INC.
/s/ Kevin Mansell	By:	/s/ R. Lawrence Montgomery
Kevin Mansell		R. Lawrence Montgomery Chairman

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

I, Kevin Mansell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kohl's Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 4, 2008

/s/ Kevin Mansell

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

Exhibit 31.2

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

I, Wesley S. McDonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kohl's Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 4, 2008

/s/ Wesley S. McDonald

Wesley S. McDonald
Chief Financial Officer

Exhibit 32.1

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

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

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended August 2, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 4, 2008

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

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

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

1. the Quarterly Report on Form 10-Q of the Company for the quarterly period ended August 2, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 4, 2008

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