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KOHL'S Corp
Form 10-K
March 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 28, 2017

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 39-1630919
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

N56 W17000 Ridgewood Drive, Menomonee Falls, Wisconsin 53051
(Address of principal executive offices) (Zip Code)

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

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

Title of each class Name of each exchange on which registered
Common Stock, \$.01 Par Value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

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

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

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

Yes No .

At July 29, 2016, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was approximately \$7.5 billion (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date). At March 8, 2017, the Registrant had outstanding an aggregate of 172,356,294 shares of its Common Stock.

Documents Incorporated by Reference:

Portions of the Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on May 10, 2017 are incorporated into Part III.

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PART I

Item 1. Business

Kohl's Corporation (the "Company," "Kohl's," "we," "our" or "us") was organized in 1988 and is a Wisconsin corporation. As of January 28, 2017, we operated 1,154 Kohl's department stores, a website (www.Kohls.com), 12 FILA outlets, and three Off-Aisle clearance centers. Our Kohl's stores and website sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our Kohl's stores generally carry a consistent merchandise assortment with some differences attributable to local preferences. Our website includes merchandise that is available in our stores, as well as merchandise that is available only on-line.

Our merchandise mix includes both national brands and private and exclusive brands that are available only at Kohl's. National brands generally have higher selling prices, but lower gross margins, than private and exclusive brands. Most of our private brands are well-known established brands such as Apt. 9, Croft & Barrow, Jumping Beans, SO and Sonoma Goods for Life. Despite having lower selling prices, private brands generally have higher gross margins than exclusive and national brands. Exclusive brands are developed and marketed through agreements with nationally-recognized brands. Examples of our exclusive brands include Food Network, Jennifer Lopez, Marc Anthony, Rock & Republic and Simply Vera Vera Wang. Exclusive brands have selling prices that are generally lower than national brands, but higher than private brands. Their gross margins are generally higher than national brands, but lower than private brands.

The following tables summarize our sales penetration by line of business and brand type over the last three years: Our fiscal year ends on the Saturday closest to January 31st each year. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. The following fiscal periods are presented in this report.

Fiscal Year Ended	Number of Weeks
2016	January 28, 2017 52
2015	January 30, 2016 52
2014	January 31, 2015 52

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

Distribution

We receive substantially all of our store merchandise at our nine retail distribution centers. A small amount of our merchandise is delivered directly to the stores by vendors or their distributors. The retail distribution centers, which are strategically located throughout the United States, ship merchandise to each store by contract carrier several times a week. On-line sales may be picked up in our stores or are shipped from a Kohl's fulfillment center, retail distribution center or store; by a third-party fulfillment center; or directly by a third-party vendor.

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

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Employees

As of January 28, 2017, we employed approximately 138,000 associates, including approximately 32,000 full-time and 106,000 part-time associates. The number of associates varies during the year, peaking during the back-to-school and holiday seasons. None of our associates are represented by a collective bargaining unit. We believe our relations with our associates are very good.

Competition

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

Merchandise Vendors

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

Approximately 30% of the merchandise we sell is sourced through a third-party purchasing agent. No vendors individually accounted for more than 5% of our net purchases during fiscal 2016. We have no significant long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We believe we have good working relationships with our suppliers.

Seasonality

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

Trademarks and Service Marks

The name "Kohl's" is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary has over 190 additional registered trademarks, trade names and service marks, most of which are used in connection with our private label program.

Available Information

Our corporate website is <https://corporate.kohls.com>. Through the "Investors" portion of this website, we make available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports as soon as reasonably practicable after such material has been filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The following have also been posted on our website, under the caption "Investors" and sub-caption "Corporate Governance":

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

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

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

Item 1A. Risk Factors

This Form 10-K contains "forward-looking statements" made within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "may," "intends," "will," "should," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements also include comments about our future sales or financial performance and our plans, performance and other objectives, expectations or intentions, such as statements regarding our liquidity, debt service requirements, planned capital expenditures, future store initiatives, adequacy of capital resources and reserves and statements contained in the "2017 Outlook" and "Liquidity and Capital Resources - Investing Activities" sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations". There are a number of important factors that could cause our results to differ materially from those indicated by the forward-looking statements including, among others, those risk factors described below. Forward-looking statements relate to the date made, and we undertake no obligation to update them.

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

Macroeconomic and Industry Risks

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

Consumer spending habits, including spending for the merchandise that we sell, are affected by many factors including prevailing economic conditions, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy and fuel costs, income tax rates and policies, consumer confidence, consumer perception of economic conditions, and the consumer's disposable income, credit availability and debt levels. The moderate income consumer, which is our core customer, is especially sensitive to these factors. A continued or incremental slowdown in the U.S. economy and the uncertain economic outlook could continue to adversely affect consumer spending habits. As all of our stores are located in the United States, we are especially susceptible to deteriorations in the U.S. economy.

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

Actions by our competitors.

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

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

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Changes in tax and trade policies.

Uncertainty with respect to tax and trade policies, tariffs and government regulations affecting trade between the United States and other countries has recently increased. We source the majority of our merchandise from manufacturers located outside of the United States, primarily in Asia. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise and certain interest expense and the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

Operational Risks

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

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

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

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

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

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

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

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

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Ineffective marketing.

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

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

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

Product safety concerns.

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

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

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

Weather conditions could adversely affect consumer shopping patterns.

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

Inability to successfully execute a profitable omni-channel strategy.

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

Customer expectations about the methods by which they purchase and receive products or services are also evolving.

Customers are increasingly using technology and mobile devices to rapidly compare products and prices and to purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products. We must continually anticipate and adapt to these changes in the purchasing process. Our ability to compete with other retailers and to meet our customer expectations may suffer if we are unable to provide relevant customer-facing technology. Our ability to compete may also suffer if Kohl's, our suppliers, or our third-party shipping and delivery vendors are unable to effectively and efficiently fulfill and deliver orders, especially during the

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holiday season when sales volumes are especially high. Consequently, our results of operations could be adversely affected.

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

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

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

If we do not properly stock or restock popular products, particularly during the back-to-school and holiday seasons, we may fail to meet customer demand, which could affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs, which could reduce profitability. We may experience an increase in costs associated with shipping on-line orders due to complimentary upgrades, split shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our website within a short period of time, we may experience system interruptions that make our website unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. Also, third-party delivery and direct ship vendors may be unable to deliver merchandise on a timely basis.

This seasonality causes our operating results and cash needs to vary considerably from quarter to quarter.

Additionally, any decrease in sales or profitability during the second half of the fiscal year could have a disproportionately adverse effect on our results of operations.

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

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

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

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

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

Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, actions by our competitors in compensation levels and changing demographics. Competitive and regulatory pressures have already significantly increased our labor costs. Further changes that adversely impact our ability to attract and retain quality associates could adversely affect our performance and/or profitability. In addition, changes in federal and state laws relating to employee benefits, including, but not limited to, sick time, paid time off, leave of absence, wage-and-hour, overtime, meal-and-break

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time and joint/co-employment could cause us to incur additional costs, which could negatively impact our profitability.

Capital Risks

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

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

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

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

Legal and Regulatory Risks

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

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

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

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

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Stores

As of January 28, 2017, we operated 1,154 Kohl's department stores with 82.8 million selling square feet in 49 states. Our typical, or "prototype," store has approximately 88,000 gross square feet of retail space and serves trade areas of 150,000 to 200,000 people. Most "small" stores are 55,000 to 68,000 gross square feet and serve trade areas of 100,000 to 150,000 people. We also operate three Off-Aisle clearance centers and 12 FILA outlets.

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

The following tables summarize key information about our Kohl's stores as of January 28, 2017:

Number of Stores by State

Mid-Atlantic Region:	Northeast Region:	South Central Region:			
Delaware	5	Connecticut	22	Arkansas	8
Maryland	23	Maine	5	Kansas	12
Pennsylvania	50	Massachusetts	25	Louisiana	8
Virginia	31	New Hampshire	11	Missouri	27
West Virginia	7	New Jersey	37	Oklahoma	11
Total Mid-Atlantic	116	New York	51	Texas	84
Midwest Region:	Rhode Island	3	Total South Central	150	
Illinois	67	Vermont	2	West Region:	
Indiana	39	Total Northeast	156	Alaska	1
Iowa	18	Southeast Region:		Arizona	26
Michigan	46	Alabama	14	California	116
Minnesota	27	Florida	51	Colorado	24
Nebraska	7	Georgia	32	Idaho	5
North Dakota	4	Kentucky	17	Montana	3
Ohio	58	Mississippi	5	Nevada	12
South Dakota	4	North Carolina	30	New Mexico	5
Wisconsin	41	South Carolina	16	Oregon	11
Total Midwest	311	Tennessee	20	Utah	12
		Total Southeast	185	Washington	19
				Wyoming	2
				Total West	236

Store Type	Location	Ownership
Prototype	969 Strip centers	777 Owned 412
Small	185 Community & regional malls	83 Leased 505
	Freestanding	294 Ground leased 237

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Distribution Centers

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

	Year Opened	Square Footage
Store distribution centers:		
Findlay, Ohio	1994	780,000
Winchester, Virginia	1997	420,000
Blue Springs, Missouri	1999	540,000
Corsicana, Texas	2001	540,000
Mamakating, New York	2002	605,000
San Bernardino, California	2002	575,000
Macon, Georgia	2005	560,000
Patterson, California	2006	360,000
Ottawa, Illinois	2008	328,000
On-line fulfillment centers:		
Monroe, Ohio	2001	1,200,000
San Bernardino, California	2010	970,000
Edgewood, Maryland	2011	1,450,000
DeSoto, Texas	2012	1,200,000
Plainfield, Indiana	Expected 2017	936,000

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

Corporate Facilities

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers

Our executive officers as of January 28, 2017 were as follows:

Name	Age	Position
Kevin Mansell	64	Chairman, Chief Executive Officer and President
Sona Chawla	49	Chief Operating Officer
Michelle Gass	48	Chief Merchandising and Customer Officer
Wesley S. McDonald	54	Chief Financial Officer
Richard D. Schepp	56	Chief Administrative Officer

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

Ms. Chawla joined Kohl's in November 2015 as Chief Operating Officer and is responsible for Kohl's full omni-channel operations. She oversees all store operations, logistics and supply chain network, information and digital technology, and omni-channel strategy, planning and operations. Previously, she had served with Walgreens as

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President of Digital and Chief Marketing Officer from February 2014 to November 2015 and President, E-Commerce from January 2011 to February 2014. Ms. Chawla began her retail and digital career in 2000.

Ms. Gass joined Kohl's in June 2013 as Chief Customer Officer and was named Chief Merchandising and Customer Officer in June 2015. She is responsible for all of Kohl's merchandising, planning and allocation, and product development functions as well as the company's overall customer engagement strategy, including marketing, public relations, social media and philanthropic efforts. Previously, she served in a variety of management positions with Starbucks Coffee Company since 1996, most recently as President, Starbucks Coffee EMEA (Europe, Middle East, Russia and Africa) from 2011 to May 2013. Ms. Gass began her retail career in 1991. From April 2014 to February 2017, Ms. Gass served as a director of Cigna Corporation, a global health service company.

Mr. McDonald was promoted to the principal officer position of Chief Financial Officer in June 2015 and is responsible for financial planning and analysis, investor relations, financial reporting, accounting operations, tax, treasury, non-merchandise purchasing, credit and capital investment. Previously, he had served as Senior Executive Vice President, Chief Financial Officer since December 2010. Mr. McDonald began his retail career in 1988. Mr. McDonald announced his retirement in November 2016, but will remain as Chief Financial Officer until a date to be mutually agreed upon by himself and the Company, but no later than July 2017. He is currently a director of Wingstop Inc., a restaurant operator and franchisor.

Mr. Schepp was promoted to the principal officer position of Chief Administrative Officer in June 2015 and is responsible for Kohl's human resources, legal, risk management and compliance, real estate, business development and store construction and design functions. He previously served as Senior Executive Vice President, Human Resources, General Counsel and Secretary from April 2013 to June 2015, Senior Executive Vice President General Counsel and Secretary from May 2011 to April 2013 and Executive Vice President, General Counsel and Secretary from August 2001 to May 2011. Mr. Schepp began his retail career in 1992.

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PART II

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

Market information

Our Common Stock has been traded on the New York Stock Exchange ("NYSE") since May 19, 1992, under the symbol "KSS." The prices in the table set forth below indicate the high and low sales prices of our Common Stock per the New York Stock Exchange Composite Price History and our quarterly cash dividends per common share for each quarter in 2016 and 2015.

	2016			2015		
	High	Low	Dividend	High	Low	Dividend
Fourth Quarter	\$59.43	\$39.00	\$0.50	\$50.86	\$42.85	\$0.45
Third Quarter	46.15	37.70	0.50	61.60	44.06	0.45
Second Quarter	45.07	34.49	0.50	74.51	61.17	0.45
First Quarter	51.13	39.69	0.50	79.07	61.44	0.45

On February 22, 2017, our Board of Directors approved a 10% increase in our dividend to \$0.55 per common share. The dividend will be paid on March 22, 2017 to shareholders of record as of March 8, 2017. In 2016, we paid aggregate cash dividends of \$358 million.

Holders

As of March 8, 2017, there were approximately 4,000 record holders of our Common Stock.

Performance Graph

The graph below compares our cumulative five-year shareholder return to that of the Standard & Poor's 500 Index and a Peer Group Index that is consistent with the retail peer group used in the Compensation Discussion & Analysis section of our Proxy Statement for our May 10, 2017 Annual Meeting of Shareholders. The Peer Group Index was calculated by S&P Global, a Standard & Poor's business and includes Bed, Bath & Beyond Inc.; The Gap, Inc.; J.C. Penney Company, Inc.; L Brands, Inc.; Macy's, Inc.; Nordstrom, Inc.; Ross Stores, Inc.; Sears Holding Corporation; Target Corporation; and The TJX Companies, Inc. The Peer Group Index is weighted by the market capitalization of each component company at the beginning of each period. The graph assumes an investment of \$100 on January 28, 2012 and reinvestment of dividends. The calculations exclude trading commissions and taxes.

Company / Index	Jan 28, 2012	Feb 2, 2013	Feb 1, 2014	Jan 31, 2015	Jan 30, 2016	Jan 28, 2017
Kohl's Corporation	\$100.00	\$101.27	\$114.50	\$138.87	\$119.39	\$97.81
S&P 500 Index	100.00	117.61	141.49	161.61	160.54	194.04
Peer Group Index	100.00	120.64	133.20	170.06	160.37	148.61

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Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

We did not sell any equity securities during 2016 that were not registered under the Securities Act.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2016, our Board of Directors increased the remaining share repurchase authorization under our existing share repurchase program to \$2.0 billion. Purchases under the repurchase program may be made in the open market, through block trades and other negotiated transactions. We expect to execute the share repurchase program primarily in open market transactions, subject to market conditions. There is no fixed termination date for the repurchase program, and the program may be suspended, discontinued or accelerated at any time.

The following table contains information for shares repurchased and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' restricted stock during the three fiscal months ended January 28, 2017:

Period	Total Number of Shares Purchased During Period	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions)
October 30 – November 26, 2016	498,349	\$43.60	495,607	\$2,000
November 27 – December 31, 2016	378,960	50.53	356,899	1,982
January 1 – January 28, 2017	1,865,261	41.14	1,847,000	1,906
Total	2,742,570	\$42.88	2,699,506	\$1,906

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Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this document.

(Dollars in Millions, Except per Share and per Square Foot Data)	2016	2015	2014	2013	2012 (e)
Net sales					
Dollars	\$18,686	\$19,204	\$19,023	\$19,031	\$19,279
Net sales increase (decrease)	(2.7)%	1.0	0.0	(1.3)%	2.5 %
Comparable sales (a)	(2.4)%	0.7	(0.3)%	(1.2)%	0.3 %
Per selling square foot (b)	\$224	\$228	\$226	\$227	\$231
Gross margin					
Dollars	\$6,742	\$6,939	\$6,925	\$6,944	\$6,990
As a percent of sales	36.1%	36.1%	36.4%	36.5%	36.3%
Selling, general and administrative expenses					
Dollars	\$4,435	\$4,452	\$4,350	\$4,313	\$4,267
As a percent of sales	23.7%	23.2	22.9%	22.7%	22.1 %
Operating income					
Dollars					
Reported (GAAP)	\$1,183	\$1,553	\$1,689	\$1,742	\$1,890
Excluding non-recurring items (Non-GAAP) (c)	\$1,369	\$1,553	\$1,689	\$1,742	\$1,890
As a percent of sales					
Reported (GAAP)	6.3%	8.1	8.9%	9.2%	9.8%
Excluding non-recurring items (Non-GAAP) (c)	7.3%	8.1	8.9%	9.2%	9.8%
Net income					
Reported (GAAP)	\$556	\$673	\$867	\$889	\$986
Excluding non-recurring items (Non-GAAP) (c)	\$673	\$781	\$867	\$889	\$986
Diluted earnings per share					
Reported (GAAP)	\$3.11	\$3.46	\$4.24	\$4.05	\$4.17
Excluding non-recurring items (Non-GAAP) (c)	\$3.76	\$4.01	\$4.24	\$4.05	\$4.17
Dividends per share	\$2.00	\$1.80	\$1.56	\$1.40	\$1.28
Balance sheet					
Total assets	\$13,574	\$13,606	\$14,333	\$14,228	\$13,761
Working capital	\$2,273	\$2,362	\$2,721	\$2,412	\$2,061
Long-term debt	\$2,795	\$2,792	\$2,780	\$2,777	\$2,478
Capital lease and financing obligations	\$1,816	\$1,916	\$1,968	\$2,069	\$2,061
Shareholders' equity	\$5,177	\$5,491	\$5,991	\$5,978	\$6,048
Cash flow					
Cash flow from operations	\$2,148	\$1,474	\$2,024	\$1,884	\$1,265
Capital expenditures	\$768	\$690	\$682	\$643	\$785
Free cash flow (d)	\$1,264	\$671	\$1,234	\$1,127	\$381
Return on average shareholders' equity					
Reported (GAAP)	10.6%	11.8	14.7%	14.8%	15.8 %
Excluding non-recurring items (Non-GAAP) (c)	12.5%	13.5	14.7%	14.8%	15.8 %
Kohl's store information					
Number of stores	1,154	1,164	1,162	1,158	1,146
Total square feet of selling space (in thousands)	82,757	83,810	83,750	83,671	83,098

(a) Comparable sales include sales for stores (including relocated or remodeled stores), which were open during both the current and prior year periods. We also include on-line sales in our comparable sales. Fiscal 2013 compares the 52 weeks ended February 1, 2014 and February 2, 2013. Fiscal 2012 compares the 52 weeks ended January 26,

2013 and January 28, 2012.

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

(c) Non-recurring items include \$186 million (\$117 million, net of tax) of impairments, store closing, and other costs in 2016, and \$169 million (\$108 million, net of tax) of debt extinguishment losses in 2015. See GAAP to Non-GAAP reconciliation in Results of Operations.

(d) Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations less capital expenditures and capital lease and financing obligation payments.

See GAAP to Non-GAAP reconciliation in Liquidity and Capital Resources.

(e) Fiscal 2012 was a 53-week year. During the 53rd week, total sales were \$169 million; selling, general and administrative expenses were approximately \$30 million; interest was approximately \$2 million; net income was approximately \$15 million and diluted earnings per share was approximately \$0.06.

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

Executive Summary

As of January 28, 2017, we operated 1,154 Kohl's department stores, a website (www.Kohls.com), 12 FILA outlets, and three Off-Aisle clearance centers. Our Kohl's stores and website sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our Kohl's stores generally carry a consistent merchandise assortment with some differences attributable to local preferences. Our website includes merchandise which is available in our stores, as well as merchandise that is available only on-line.

Sales were \$18.7 billion for 2016, 2.7% lower than 2015. On a comparable store basis, sales decreased 2.4%. The decrease was primarily driven by fewer transactions in our stores partially offset by higher average transaction value. Inventory, gross margin and expenses were well-managed in a challenging sales environment.

Inventory per store decreased 5%.

Gross margin as a percentage of sales decreased 6 basis points to 36.1% driven by fewer promotional markdowns which were offset by higher shipping costs.

Sales, general and administrative expenses ("SG&A") decreased \$17 million on strong expense management against the lower sales volume.

Net income for the year was \$556 million, or \$3.11 per diluted share. Excluding impairments, store closing and other costs in 2016 and loss on extinguishment of debt in 2015, net income was \$673 million, or \$3.76 per diluted share, 6% lower than last year.

See "Results of Operations" and "Liquidity and Capital Resources" for additional details about our financial results, how we define comparable sales, the impairment, store closing and other costs in 2016 and the loss on extinguishment of debt in 2015.

2017 Outlook

Our current expectations for 2017 are as follows:

	Including 53rd Week	Excluding 53rd Week
Net sales	Decrease (1.3) - Increase 0.7%	Decrease (2) - 0%
Comparable sales	Decrease (2) - 0%	Decrease (2) - 0%
Gross margin as a percent of sales	Increase 10 - 15 bps	Increase 10 - 15 bps
Selling, general and administrative expenses	Increase 0.5 - 2%	Increase 0 - 1.5%
Depreciation and amortization	\$960 million	\$960 million
Interest expense, net	\$300 million	\$297 million
Effective tax rate	37.5%	37.5%
Earnings per diluted share	\$3.50 - \$3.80	\$3.40 - \$3.70
Capital expenditures	\$700 million	\$700 million
Share repurchases	\$350 million	\$350 million

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Results of Operations - 2016 compared to 2015

Net Sales

As our omni-channel strategy continues to mature, it is increasingly difficult to distinguish between a "store" sale and an "on-line" sale. Below is a list of some omni-channel examples:

• Stores increase on-line sales by providing customers opportunities to view, touch and/or try on physical merchandise before ordering on-line.

• On-line purchases can easily be returned in our stores.

• Kohl's Cash coupons and Yes2You rewards can be earned and redeemed on-line or in store regardless of where they were earned.

• In-store customers can order from on-line kiosks in our stores.

• Buy on-line and pick-up in store is available in all stores.

• Customers who utilize our mobile app while in the store may receive mobile coupons to use when they check out.

• On-line orders may be shipped from a dedicated on-line fulfillment center, a store, a retail distribution center, direct ship vendors or any combination of the above.

• More than 75% of our on-line customers also shop in our stores.

Because we do not have a clear distinction between "store" sales and "on-line" sales, we do not separately report on-line sales.

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

The following table summarizes net sales:

	2016	2015	Change
Net sales (in Millions)	\$18,686	\$19,204	(2.7)%
Net sales per selling square foot (a)	\$224	\$228	(1.8)%

(a) Net sales per selling square foot includes on-line sales and stores open for the full current period.

Drivers of the 2.4% decrease in comparable sales were as follows:

Selling price per unit 1.5 %

Units per transaction 1.6

Average transaction value 3.1

Number of transactions (5.5)

Comparable sales (2.4)%

From a regional perspective, the West, Southeast, and Midwest outperformed the Company average in 2016. The South Central, Mid-Atlantic and Northeast underperformed the Company average for the year.

By line of business, Footwear and Men's outperformed the Company average in 2016. All other categories underperformed the Company average for the year.

Net sales per selling square foot decreased 2% to \$224 in 2016, which is consistent with the decrease in comparable sales.

Gross Margin

(Dollars in Millions)

	2016	2015	Change
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Gross margin	\$6,742	\$6,939	\$(197)
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As a percent of net sales	36.1	%36.1	%6 bp
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Gross margin includes the total cost of products sold, including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from our vendors to our distribution centers; shipping and handling expenses of on-line sales; and terms cash discount. Our gross margin may not be comparable with that of other retailers because we include distribution center and buying costs in selling, general and administrative expenses while other retailers may include these expenses in cost of merchandise sold.

Gross margin as a percent of sales was consistent with 2015, as higher merchandise margin was substantially offset by higher shipping costs.

Selling, General and Administrative Expenses

(Dollars in Millions)	2016	2015	Change
SG&A	\$4,435	\$4,452	\$ (17)

As a percent of net sales 23.7 %23.2 %55 bp

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

The following table summarizes the increases and (decreases) in SG&A by expense type:

(Dollars in Millions)	
Store expenses	\$(4)
Corporate expenses	(2)
Distribution costs	2
Marketing costs, excluding credit card operations	15
Increase in net earnings from credit card operations	(28)
Total decrease	\$(17)

Many of our expenses, including store payroll and distribution costs, are variable in nature. These costs generally increase as sales increase and decrease as sales decrease. We measure both the change in these variable expenses and the expense as a percent of sales. If the expense as a percent of sales decreased from the prior year, the expense "leveraged" and indicates that the expense was well-managed or effectively generated additional sales. If the expense as a percent of sales increased over the prior year, the expense "deleveraged" and indicates that sales growth was less than expense growth. SG&A as a percent of sales increased, or "deleveraged," by 55 basis points in 2016.

The decrease in store expenses includes reductions in store controllable expense, partially offset by higher store payroll due to on-going wage pressure and omni-channel support of ship-from-store and buy on-line, pick-up in store operations.

The decrease in corporate expenses reflects higher technology spending which was more than offset by expense management in other corporate areas.

Distribution costs, which exclude payroll related to on-line originated orders that were shipped from our stores, were \$280 million for 2016, \$2 million higher than 2015. Distribution costs increased due to higher fulfillment costs related to our growing on-line business partially offset by lower store distribution costs.

Marketing costs increased in 2016 as we increased our spending on digital media.

Earnings from our credit card operations, net of servicing and other credit-related expenses, were \$484 million in 2016, \$28 million higher than 2015. The increase is due to higher finance charges and late fees due to growth in the portfolio. Additionally, lower marketing costs were partially offset by higher servicing costs.

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Other Expenses

(Dollars in Millions)

	2016	2015	Change
Depreciation and amortization	\$938	\$934	\$ 4
Interest expense, net	308	327	(19)
Impairments, store closing and other costs	186	—	186
Provision for income taxes	319	384	(65)
Effective tax rate	36.5 %	36.3 %	27 bp

The increase in depreciation and amortization reflects higher information technology ("IT") amortization which was partially offset by lower store depreciation due to maturing of our stores and store closures.

The decrease in net interest expense is due to lower interest on capital leases as the portfolio matures and stores were closed as well as favorable interest rates achieved during our \$1.1 billion debt refinancing in 2015.

Impairments, store closing and other costs includes the following costs related to closing 18 stores in 2016 and the organizational realignment at our corporate office:

(Dollars in Millions)

Store leases:

Record future obligations	\$114
Write-off net obligations	(21)

Impairments:

Software licenses	23
Buildings and other store assets	53
Severance and other	17
Total	\$186

The increase in the effective tax rate is due to favorable state tax audit settlements in 2015 that were not repeated in 2016.

Net Income and Earnings Per Diluted Share

	2016		
(Dollars in Millions, Except per Share Data)	Income before Taxes	Net Income	Earnings per Diluted Share
GAAP	\$875	\$ 556	\$ 3.11
Impairments, store closing and other costs	186	117	0.65
Adjusted (Non-GAAP)	\$1,061	\$ 673	\$ 3.76

We believe adjusted results are useful because they provide enhanced visibility into our results for the periods excluding the impact of impairments, store closing and other costs in 2016. However, these non-GAAP financial measures are not intended to replace GAAP measures.

Results of Operations - 2015 compared to 2014

Net Sales

The following table summarizes net sales:

	2015	2014	Change
Net sales (in Millions)	\$19,204	\$19,023	1.0 %
Net sales per selling square foot (a)	\$228	\$226	0.9 %

(a) Net sales per selling square foot includes on-line sales and stores open for the full current period.

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Drivers of the 0.7% increase in comparable sales were as follows:

Selling price per unit	1.3 %
Units per transaction	(0.4)
Average transaction value	0.9
Number of transactions	(0.2)
Comparable sales	0.7 %

From a regional perspective, the West, Southeast, and Midwest outperformed the Company average in 2015. The South Central, Mid-Atlantic and Northeast underperformed the Company average.

By line of business, Footwear and Home outperformed the Company average in 2015. Men's and Women's were consistent with the Company average. Children's and Accessories both underperformed the Company average.

Net sales per selling square foot increased 0.9% to \$228 in 2015, which is consistent with the increase in comparable sales.

Gross Margin

(Dollars in Millions)

	2015	2014	Change
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Gross margin	\$6,939	\$6,925	\$ 14
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As a percent of net sales	36.1	%36.4	%(27) bp
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The decrease in gross margin as a percent of sales is due to an increase in shipping costs resulting from growth in on-line originated sales, partially offset by an increase in our merchandise margin.

Selling, General and Administrative Expenses

(Dollars in Millions)

	2015	2014	Change
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SG&A	\$4,452	\$4,350	\$ 102
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As a percent of net sales	23.2	%22.9	%(32) bp
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The following table summarizes the increases and (decreases) in SG&A by expense type:

(Dollars in Millions)

Store expenses	\$77
Corporate expenses	46
Distribution costs	6
Marketing costs, excluding credit card operations	(4)
Increase in net earnings from credit card operations	(23)
Total increase	\$102

The increase in store expenses is primarily attributable to higher store payroll due to on-going wage pressure and omni-channel support of ship-from-store and buy on-line, pick-up in store operations. Property taxes and common area maintenance also increased.

Corporate expense increased due to technology and infrastructure investments related to our omni-channel strategy and other various corporate costs.

Distribution costs, which exclude payroll related to on-line originated orders that were shipped from our stores, were \$278 million for 2015, \$6 million higher than 2014. The increase is due to higher fulfillment costs related to our growing on-line business which were partially offset by lower store distribution costs.

Marketing costs decreased in 2015 as we decreased our spending in newspaper inserts and direct mail through optimized circulation and shifted spending to digital media.

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Earnings from our credit card operations, net of servicing and other credit-related expenses, were \$456 million, \$23 million higher than 2014. The increase is due to higher finance charge revenues and late fees, partially offset by higher bad debt expense, all which were the result of growth in the portfolio. Additionally, lower marketing spend was partially offset by increased servicing costs.

Other Expenses

(Dollars in Millions)

	2015	2014	Change
Depreciation and amortization	\$934	\$886	\$ 48
Interest expense, net	327	340	(13)
Loss on extinguishment of debt	169	—	169
Provision for income taxes	384	482	(98)
Effective tax rate	36.3 %	35.7 %	(60) bp

The increase in depreciation and amortization was due to higher IT amortization which was partially offset by lower store depreciation due to maturing of our stores.

The decrease in net interest expense was the result of refinancing our debt at lower interest rates during 2015.

During 2015, we completed a cash tender offer and redemption for \$1,085 million of senior unsecured debt. We recognized a \$169 million loss on extinguishment of debt which included a \$163 million bond tender premium paid to holders of the debt and a \$6 million non-cash write-off of deferred financing costs and original issue discounts associated with the extinguished debt.

Changes in our effective tax rate were primarily due to favorable state audit settlements during 2014.

Net Income and Earnings Per Diluted Share

	2015		Earnings
(Dollars in Millions, Except per Share Data)	Income before Taxes	Net Income	per Diluted Share
GAAP	\$1,057	\$ 673	\$ 3.46
Loss on extinguishment of debt	169	108	0.55
Adjusted (Non-GAAP)	\$1,226	\$ 781	\$ 4.01

We believe adjusted results are useful because they provide enhanced visibility into our results for the periods excluding the loss on extinguishment of debt in 2015. However, these non-GAAP financial measures are not intended to replace GAAP measures.

Inflation

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

Liquidity and Capital Resources

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

Cash Requirements

- Operational needs, including salaries, rent, taxes and other costs of running our business
- Capital expenditures
- Inventory (seasonal and new store)
- Share repurchases
- Dividend payments

Sources of Funds

- Cash flow from operations
- Short-term trade credit, in the form of extended payment terms
- Line of credit under our revolving credit facility

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Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.

The following table includes cash balances and changes.

(Dollars in Millions)	2016	2015	2014
Cash and cash equivalents	\$1,074	\$707	\$1,407
Net cash provided by (used in):			
Operating activities	\$2,148	\$1,474	\$2,024
Investing activities	(756)	(681)	(593)
Financing activities	(1,025)	(1,493)	(995)

Operating Activities

Net cash provided by operations increased \$674 million to \$2.1 billion in 2016. The increase reflects a 5% decrease in inventory per store as a result of our inventory reduction initiatives and increases in accounts payable due to timing of spring merchandise receipts and negotiations which extended payment terms with many of our vendors. The decrease in inventory and increase in accounts payable increased our accounts payable as a percent of inventory ratio to 39.7%, an 870 basis point increase over the prior year ratio.

Net cash provided by operations decreased \$550 million to \$1.5 billion in 2015. The decrease is due to increases in our inventory balances and decreases in our accounts payable balance, due in part to the port strike in 2014.

Investing Activities

Net cash used in investing activities increased \$75 million to \$756 million in 2016, primarily due to higher spending for a fifth E-Commerce fulfillment center which we expect to open in 2017.

Net cash used in investing activities increased \$88 million to \$681 million in 2015. Substantially all of the increase is due to proceeds from our final auction rate securities sales in 2014. Despite the non-liquid nature of these investments following market conditions that arose in 2008, we were able to sell substantially all of our investments at par.

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

	2017 Estimate	2016	2015	2014
Information technology	50 %	46 %	44 %	45 %
Store strategies	20	28	36	33
Base capital	30	26	20	22
Total	100 %	100 %	100 %	100 %

We expect total capital expenditures of approximately \$700 million in fiscal 2017. The actual amount of our future capital expenditures will depend on the number and timing of new stores and refreshes; expansion and renovations to distribution centers; the mix of owned, leased or acquired stores; and IT and corporate spending. We do not anticipate that our capital expenditures will be limited by any restrictive covenants in our financing agreements.

Financing Activities

Net cash used in financing activities decreased \$468 million to \$1.0 billion in 2016, primarily due to lower treasury stock repurchases. We paid cash for treasury stock repurchases of \$557 million in 2016 and \$1.0 billion in 2015.

Share repurchases are discretionary in nature. The timing and amount of repurchases is based upon available cash balances, our stock price and other factors.

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Net cash used in financing activities increased \$498 million to \$1.5 billion in 2015. The increase was due to a \$324 million increase in treasury share repurchases and \$160 million net cash used for the debt refinancing in 2015. During 2015, we completed a cash tender offer and redemption for \$1.1 billion of our higher coupon senior unsecured debt. We recognized a \$169 million loss on extinguishment of debt which included a \$163 million bond tender premium paid to holders of the debt and a \$6 million non-cash write-off of deferred financing costs and original issue discounts associated with the extinguished debt.

In July 2015, we issued \$650 million of 4.25% notes due in July 2025 and \$450 million of 5.55% notes due in July 2045. Both notes include semi-annual, interest-only payments beginning January 17, 2016. Proceeds of the issuances and cash on hand were used to pay the principal, premium and accrued interest of the acquired and redeemed debt. On July 1, 2015, we entered into an Amended and Restated Credit Agreement with various lenders which provides for \$1.0 billion senior unsecured five-year revolving credit facility that will mature in June 2020. Among other things, the agreement includes a maximum leverage ratio financial covenant (which is consistent with the ratio under our prior credit agreement) and restrictions on liens and subsidiary indebtedness.

Though we have no current plans to do so, we may again seek to retire or purchase our outstanding debt through open market cash purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved could be material.

As of January 28, 2017, our credit ratings were as follows:

Moody's Standard & Poor's Fitch

Long-term debt Baa2 BBB- BBB

During 2016, we paid cash dividends of \$358 million as detailed in the following table:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Declaration date	February 25	May 12	August 11	November 11
Record date	March 9	June 8	September 7	December 7
Payment date	March 23	June 22	September 21	December 21
Amount per common share	\$0.50	\$0.50	\$0.50	\$0.50

On February 22, 2017, our Board of Directors approved a 10% increase in our dividend to \$0.55 per common share. The dividend will be paid on March 22, 2017 to shareholders of record as of March 8, 2017.

Liquidity Ratios

The following table provides additional measures of our liquidity.

(Dollars in Millions)

	2016	2015
--	------	------

Working capital	\$2,273	\$2,362
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Current ratio	1.76	1.87
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Free cash flow (a)	\$1,264	\$671
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(a) Non-GAAP financial measure

Liquidity measures our ability to meet short-term cash needs. In 2016, working capital decreased \$89 million and our current ratio decreased 11 basis points from year-end 2015 due to a decrease in inventory and an increase in accounts payable, which was partially offset by an increase in cash.

We generated \$1.3 billion of free cash flow for 2016; an increase of \$593 million over 2015. As discussed above, the increase is primarily the result of a decrease in inventory and an increase in accounts payable. Free cash flow is a non-GAAP financial measure which we define as net cash provided by operating activities and proceeds from financing obligations (which generally represent landlord reimbursements of construction costs) less

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capital expenditures and capital lease and financing obligation payments. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations. We believe that free cash flow represents our ability to generate additional cash flow from our business operations. See the key financial ratio calculations section above.

Return on Investment Ratios

The following table provides additional measures of our return on investments.

	2016	2015	2014
Ratio of earnings to fixed charges	2.8	3.1	3.6
Return on assets	4.1%	4.7%	6.1%
Return on gross investment ("ROI") (a)	12.6%	14.5%	15.2%

(a) Non-GAAP financial measure

Lower earnings, including impairments, store closing and other costs in 2016 and loss on extinguishment of debt in 2015, caused decreases in all three of our return on investment ratios. See Exhibit 12.1 to this Annual Report on Form 10-K for the calculation of our ratio of earnings to fixed charges and the key financial ratio calculations below for the return on assets and ROI calculations.

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

Capital Structure Ratios

The following table provides additional measures of our capital structure.

	2016	2015	2014
Debt/capitalization	47.2%	46.3%	44.3%
Adjusted Debt to Adjusted EBITDAR (a)	2.65	2.52	2.45

(a) Non-GAAP financial measure

Our debt agreements contain various covenants including limitations on additional indebtedness and a maximum permitted debt ratio. As of January 28, 2017, we were in compliance with all debt covenants and expect to remain in compliance during 2017. See the key financial ratio calculations section below for our debt covenant calculation.

The increases in our debt/capitalization ratios are primarily due to treasury stock repurchases in both years.

The increases in our Adjusted Debt to Adjusted EBITDAR ratio were primarily due to lower Adjusted EBITDAR. Adjusted Debt to Adjusted EBITDAR is a non-GAAP financial measure which we define as our adjusted outstanding debt balance divided by Adjusted EBITDAR. We believe that our debt levels are best analyzed using this measure.

Our current goals are to maintain an Adjusted Debt to Adjusted EBITDAR ratio that demonstrates our commitment to an investment grade rating and allows us to operate with an efficient capital structure for our size, growth plans and industry. We are currently exceeding our target goal to take advantage of a favorable, low interest rate debt environment. We currently have no plans for new debt in 2017. Our Adjusted Debt to Adjusted EBITDAR calculation may not be comparable to similarly-titled measures reported by other companies. Adjusted Debt to Adjusted EBITDAR should be evaluated in addition to, and not considered a substitute for, other financial measures such as debt/capitalization. See the key financial ratio calculations section below for our Adjusted Debt to Adjusted EBITDAR calculation.

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Key Financial Ratio Calculations

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

(Dollars in Millions)	2016	2015	2014
Net cash provided by operating activities	\$2,148	\$1,474	\$2,024
Acquisition of property and equipment	(768)	(690)	(682)
Capital lease and financing obligation payments	(127)	(114)	(114)
Proceeds from financing obligations	11	1	6
Free cash flow	\$1,264	\$671	\$1,234

The following table includes our ROI and return on assets calculations:

(Dollars in Millions)	2016	2015	2014	
Operating income	\$1,183	\$1,553	\$1,689	
Depreciation and amortization	938	934	886	
Rent expense	276	279	277	
EBITDAR	\$2,397	\$2,766	\$2,852	
Average: (a)				
Total assets	\$13,584	\$14,288	\$14,286	
Cash equivalents and long-term investments (b)	(476)	(703)	(647)	
Other assets	(35)	(40)	(32)	
Accumulated depreciation and amortization	6,558	6,203	5,743	
Accounts payable	(1,515)	(1,623)	(1,624)	
Accrued liabilities	(1,188)	(1,175)	(1,119)	
Other long-term liabilities	(620)	(556)	(551)	
Capitalized rent (c)	2,654	2,672	2,667	
Gross Investment ("AGI")	\$18,962	\$19,066	\$18,723	
Return on Assets ("ROA") (d)	4.1	%4.7	%6.1	%
Return on Gross Investment ("ROI") (e)	12.6	%14.5	%15.2	%

(a) Represents average of 5 most recent quarter end balances

(b) Represents excess cash not required for operations

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

(d) Net income divided by average total assets

(e) EBITDAR divided by Gross Investment

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The following table includes our debt ratio calculation, as defined by our debt agreements, as of January 28, 2017:

(Dollars in Millions)

Included Indebtedness	
Total debt	\$4,631
Less unamortized debt discount	(5)
Subtotal	4,626
Rent x 8	2,208
Included Indebtedness	\$6,834
Debt Compliance Adjusted EBITDAR	
Net income	\$556
Rent expense	276
Depreciation and amortization	938
Net interest	308
Provision for income taxes	319
EBITDAR	2,397
Impairments, store closing and other costs	186
Adjusted EBITDAR	2,583
Stock based compensation	41
Other non-cash revenues and expenses	14
Debt Compliance Adjusted EBITDAR	\$2,638
Debt Ratio (a)	2.59
Maximum permitted Debt Ratio	3.75

(a) Included Indebtedness divided by Adjusted Debt Compliance EBITDAR

The following table includes our Adjusted Debt to Adjusted EBITDAR and debt/capitalization calculations:

(Dollars in Millions)	2016	2015	2014
Total Debt (net of discount)	\$4,626	\$4,726	\$4,761
Rent x 8	2,208	2,232	2,216
Adjusted Debt	\$6,834	\$6,958	\$6,977
Total Equity	\$5,177	\$5,491	\$5,991
Adjusted EBITDAR as calculated above	\$2,583	\$2,766	\$2,852
Debt/capitalization (a)	47.2	%46.3	%44.3
Adjusted Debt to Adjusted EBITDAR (b)	2.65	2.52	2.45

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

(b) Adjusted debt divided by Adjusted EBITDAR

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Contractual Obligations

Our contractual obligations as of January 28, 2017 were as follows:

(Dollars in Millions)	Total	Maturing in:			
		2017 and 2019	2018 and 2021	2020 and 2021	2022 and after
Recorded contractual obligations:					
Long-term debt	\$2,815	\$—	\$—	\$650	\$2,165
Capital lease and financing obligations	1,345	123	225	194	803
	4,160	123	225	844	2,968
Unrecorded contractual obligations:					
Interest payments:					
Long-term debt	1,716	132	263	263	1,058
Capital lease and financing obligations	2,300	163	302	266	1,569
Operating leases (a)	5,309	253	503	486	4,067
Other (b)	1,075	294	322	225	234
	10,400	842	1,390	1,240	6,928
Total	\$14,560	\$965	\$1,615	\$2,084	\$9,896

(a) Our leases typically require that we pay real estate taxes, insurance and maintenance costs in addition to the minimum rental payments included in the table above. Such costs vary from period to period and totaled \$177 million for 2016, \$179 million for 2015 and \$175 million for 2014. The lease term includes cancelable option periods where failure to exercise such options would result in an economic penalty.

(b) Other includes royalties, legally binding minimum lease and interest payments for stores opening in 2017 or later, as well as payments associated with technology and marketing agreements.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of year-end 2016.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts. Management has discussed the development, selection and disclosure of these 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 2015 Form 10-K.

Retail Inventory Method and Inventory Valuation

We value our inventory at the lower of cost or market with cost determined on the first-in, first-out (“FIFO”) basis using the retail inventory method (“RIM”). Under RIM, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of the inventories. The use of RIM will generally result in inventories being valued at the lower of cost or market as permanent markdowns are taken as a reduction of the retail value of inventories.

RIM inherently requires management judgment and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margin. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise, fashion trends and weather conditions.

Inventory shrinkage is estimated as a percent of sales for the period between the last physical inventory count and the balance sheet date. Shrink is the difference between the recorded amount of inventory and the physical

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inventory. We generally perform an annual physical inventory count at the majority of our stores and distribution centers. The shrinkage rate from the most recent physical inventory, in combination with current events and historical experience, is used as the standard for the shrinkage accrual rate for the next inventory cycle. Historically, our actual physical inventory count results have shown our estimates to be reliable.

Vendor Allowances

We frequently receive allowances from our vendors for discounts that we have taken in order to sell the vendor's merchandise and/or to support gross margins earned on those sales. This markdown support generally relates to sold inventory or permanent markdowns and, accordingly, is reflected as a reduction to cost of merchandise sold.

Markdown support related to merchandise that has not yet been sold is recorded in inventory.

We also receive support from vendors for marketing and other costs that we have incurred to sell the vendors' merchandise. To the extent the reimbursements are for specific, incremental and identifiable costs incurred to sell the vendor's products and do not exceed the costs incurred, they are recognized as a reduction of selling, general, and administrative expenses. If these criteria are not met, the support is recorded in inventory and reflected as a reduction of costs of merchandise sold when the related merchandise is sold.

Insurance Reserve Estimates

We are primarily self-insured for costs related to workers' compensation, general liability, and employee-related health care benefits. We use a third-party actuary to estimate the liabilities associated with these risks. The actuary considers historical claims experience, demographic and severity factors, health care trends, and actuarial assumptions to estimate the liabilities associated with these risks. Historically, our actuarial estimates have not been materially different from actual results.

Impairment of Long-Lived Assets

We review our long-lived assets for impairment when events or changes in circumstances, such as decisions to close a store or significant operating losses, indicate the carrying value of the asset may not be recoverable. All long-lived assets are reviewed for impairment at least annually.

If our evaluations, which are performed on an undiscounted cash flow basis, indicate that the carrying amount of the asset may be not be recoverable, the potential impairment is measured as the excess of carrying value over the fair value of the impaired asset.

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

Other than the stores which we closed in 2016, we have not historically experienced any significant impairment of long-lived assets. Additionally, impairment of an individual building and related improvements, net of accumulated depreciation, would not generally be material to our financial results.

Store Closure Reserve

In 2016, we closed numerous leased stores prior to their scheduled lease expiration. In addition to future rent obligations, the closed store reserve includes estimates for operating and other expenses expected to be incurred over the remaining lease term, some of which extend through January 2030.

Income Taxes

We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal and state filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount which we believe is cumulatively greater than 50% likely to be realized.

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

Leases

Accounting for leased properties requires compliance with technical accounting rules and significant judgment by management. Application of these accounting rules and assumptions made by management will determine whether we are considered the owner for accounting purposes or whether the lease is accounted for as a capital or operating lease. If we are considered the owner for accounting purposes or the lease is considered a capital lease, we record the property and a related financing or capital lease obligation on our balance sheet. The asset is then depreciated over its expected lease term. Rent payments for these properties are recognized as interest expense and a reduction of the financing or capital lease obligation.

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

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

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

Incremental borrowing rate—We estimate our incremental borrowing rate using treasury rates for debt with maturities comparable to the expected lease term and our credit spread. The incremental borrowing rate is primarily used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the incremental borrowing rate decreases the net present value of the lease payments and reduces the probability that a lease will be considered a capital lease. For leases which are recorded on our balance sheet with a related capital lease or financing obligation, the incremental borrowing rate is also used in allocating our rental payments between interest expense and a reduction of the outstanding obligation.

Fair market value of leased asset—The fair market value of leased retail property is generally estimated based on comparable market data as provided by third-party appraisers or consideration received from the landlord. Fair market value is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the lease payments is greater than 90% of the fair market value of the property. Increasing the fair market value reduces the probability that a lease will be considered a capital lease. Fair market value is also used in determining the amount of property and related financing obligation to be recognized on our balance sheet for certain leased properties which are considered owned for accounting purposes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

All of our long-term debt at year-end 2016 is at fixed interest rates and, therefore, is not affected by changes in interest rates. When our long-term debt instruments mature, we may refinance them at then existing market interest rates, which may be more or less than interest rates on the maturing debt.

We share in the net risk-adjusted revenue of the Kohl's credit card portfolio as defined by the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. We also share the costs of funding the outstanding receivables as interest rates exceed defined rates. As a result, our share of profits from the credit

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card portfolio may be negatively impacted by increases in interest rates. The reduced profitability, if any, will be impacted by various factors, including our ability to pass higher funding costs on to the credit card holders and the outstanding receivable balance, and cannot be reasonably estimated at this time.

Item 8. Financial Statements and Supplementary Data

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

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Management's Annual Report on Internal Control over Financial Reporting

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of January 28, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, our management has concluded that as of January 28, 2017, our internal control over financial reporting was effective based on those criteria.

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

Changes in Internal Control Over Financial Reporting

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Kohl's Corporation

We have audited Kohl's Corporation's internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Kohl's Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Kohl's Corporation maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kohl's Corporation as of January 28, 2017 and January 30, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2017 of Kohl's Corporation and our report dated March 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 17, 2017

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Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to our Directors, the Board of Directors' committees and our written code of ethics, see the applicable portions of the "Questions and Answers About our Board of Directors and Corporate Governance Matters" and "Item One: Election of Directors" sections of the Proxy Statement for our May 10, 2017 Annual Meeting of Shareholders ("our 2017 Proxy"), which information is incorporated herein by reference. For information with respect to Section 16 reports, see the information provided in the "Section 16(a) Beneficial Ownership Reporting Compliance" section of our 2017 Proxy, which information is incorporated herein by reference.

See also Item 4A, Executive Officers of Part 1 hereof.

Item 11. Executive Compensation

See the information provided in the applicable portions of the "Questions and Answers About our Board of Directors and Corporate Governance Matters" and "Item One: Election of Directors" sections of our 2017 Proxy, including the "Compensation Committee Report" and "Compensation Discussion & Analysis", which information is incorporated herein by reference.

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

See the information provided in the "Security Ownership of Certain Beneficial Owners, Directors and Management" and "Equity Compensation Plan Information" sections of our 2017 Proxy, which information is incorporated herein by reference.

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

See the information provided in the "Independence Determinations & Related Person Transactions" section of our 2017 Proxy, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

See the information provided in the "Fees Paid to Ernst & Young" section of our 2017 Proxy, which information is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this report

1. Consolidated Financial Statements:

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

2. Financial Statement Schedule:

All schedules have been omitted as they are not applicable.

3. Exhibits:

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

Item 16. Form 10-K Summary

Not applicable.

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SIGNATURES

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

Kohl's Corporation

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

/S/ WESLEY S. MCDONALD
Wesley S. McDonald
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: March 17, 2017

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

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

/S/ PETER BONEPARTH
Peter Boneparth
Director

/S/ STEVEN A. BURD
Steven A. Burd
Director

/S/ Adrienne Shapira
Adrienne Shapira
Director

/S/ JOHN E. SCHLIFSKE
John E. Schlifske
Director

/S/ FRANK V. SICA
Frank V. Sica
Director

/S/ JONAS PRISING
Jonas Prising
Director

/S/ STEPHANIE A. STREETER
Stephanie A. Streeter
Director

/S/ NINA G. VACA
Nina G. Vaca
Director

/S/ STEPHEN E. WATSON
Stephen E. Watson
Director

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 16, 2011.
3.2	Amended and Restated Bylaws of the Company, incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on November 13, 2015.
4.1	Amended and Restated Credit Agreement dated as of July 1, 2015 by and among the Company, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, an Issuing Bank and a Swing Line Lender, U.S. Bank National Association and Wells Fargo Bank, National Association, as Issuing Banks, Swing Line Lenders and Syndication Agents, Morgan Stanley Senior Funding, Inc., as Documentation Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Bookrunners, incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on July 2, 2015.
4.2	Certain other long-term debt is described in Note 3 of the Notes to Consolidated Financial Statements. The Company agrees to furnish to the Commission, upon request, copies of any instruments defining the rights of holders of any such long-term debt described in Note 3 and not filed herewith.
10.1(a)	Form of Chief Executive Officer Restricted Stock Agreement Pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2016.*
10.1(b)	Private Label Credit Card Program Agreement dated as of August 11, 2010 by and between Kohl's Department Stores, Inc. and Capital One, National Association, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.
10.1(c)	Amendment to Private Label Credit Card Program Agreement dated as of May 13, 2014 by and between Kohl's Department Stores, Inc. and Capital One, National Association, incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014.
10.2	Amended and Restated Executive Deferred Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003.*
10.3	Kohl's Corporation 2005 Deferred Compensation Plan, as amended and restated effective January 1, 2005, incorporated herein by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006.*
10.4	Summary of Executive Medical Plan, incorporated herein by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*
10.5	

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Summary of Executive Life and Accidental Death and Dismemberment Plans, incorporated herein by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.*

10.6

Kohl's Corporation Annual Incentive Plan, incorporated herein by reference to Annex B to the Proxy Statement on Schedule 14A filed on March 24, 2016 in connection with the Company's 2016 Annual Meeting of Shareholders.*

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Exhibit Number	Description
10.7	1994 Long-Term Compensation Plan, incorporated herein by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 1996.*
10.8	1997 Stock Option Plan for Outside Directors, incorporated herein by reference to Exhibit 4.4 of the Company's registration statement on Form S-8 (File No. 333-26409), filed on May 2, 1997.*
10.9	Amended and Restated 2003 Long-Term Compensation Plan, incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2008.*
10.10	Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Annex A to the Proxy Statement on Schedule 14A filed on March 24, 2016 in connection with the Company's 2016 Annual Meeting.*
10.11	Form of Executive Performance Share Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on January 15, 2014.*
10.12	Form of Executive Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.13(a)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan (5-year vesting), incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.13(b)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan (4-year vesting), incorporated herein by reference to Exhibit 99.2 of the Company's Current Report on Form 8-K filed on January 15, 2014.*
10.13(c)	Form of Executive Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan (2-year vesting), incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014.*
10.14	Form of Outside Director Stock Option Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.15	Form of Outside Director Restricted Stock Agreement pursuant to the Kohl's Corporation 2010 Long Term Compensation Plan, incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010.*
10.16	Summary of Outside Director Compensation.*
10.17	Amended and Restated Employment Agreement between Kohl's Corporation and Kohl's Department Stores, Inc. and Kevin Mansell dated as of November 14, 2014, incorporated herein by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on November 14, 2014.*

10.18 Amended and Restated Employment Agreement between Kohl's Department Stores, Inc. and Kohl's Corporation and Michelle Gass effective as of June 10, 2015, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 12, 2015.*

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Exhibit Number	Description
10.19(a)	Amended and Restated Employment Agreement between Kohl's Department Stores, Inc. and Kohl's Corporation and Wesley S. McDonald effective as of June 10, 2015, incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on June 12, 2015.*
10.19(b)	Agreement dated as of November 9, 2016 by and between Kohl's Department Stores, Inc., Kohl's Corporation and Wesley S. McDonald.*
10.20	Amended and Restated Employment Agreement between Kohl's Department Stores, Inc. and Kohl's Corporation and Richard D. Schepp effective as of June 10, 2015, incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on June 12, 2015.*
10.22	Employment Agreement dated as of November 16, 2015 by and between Kohl's Department Stores, Inc., Kohl's Corporation and Sona Chawla, incorporated by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.*
12.1	Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of the Registrant, incorporated by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.
23.1	Consent of Ernst & Young LLP.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* A management contract or compensatory plan or arrangement.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Kohl's Corporation

We have audited the accompanying consolidated balance sheets of Kohl's Corporation (the Company) as of January 28, 2017 and January 30, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kohl's Corporation at January 28, 2017 and January 30, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kohl's Corporation's internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated March 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 17, 2017

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CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)	January 28, 2017	January 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,074	\$ 707
Merchandise inventories	3,795	4,038
Other	378	331
Total current assets	5,247	5,076
Property and equipment, net	8,103	8,308
Other assets	224	222
Total assets	\$ 13,574	\$ 13,606
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,507	\$ 1,251
Accrued liabilities	1,224	1,206
Income taxes payable	112	130
Current portion of capital lease and financing obligations	131	127
Total current liabilities	2,974	2,714
Long-term debt	2,795	2,792
Capital lease and financing obligations	1,685	1,789
Deferred income taxes	272	257
Other long-term liabilities	671	563
Shareholders' equity:		
Common stock - 371 and 370 million shares issued	4	4
Paid-in capital	3,003	2,944
Treasury stock, at cost, 197 and 184 million shares	(10,338)	(9,769)
Accumulated other comprehensive loss	(14)	(17)
Retained earnings	12,522	12,329
Total shareholders' equity	5,177	5,491
Total liabilities and shareholders' equity	\$ 13,574	\$ 13,606
See accompanying Notes to Consolidated Financial Statements		

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KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Millions, Except per Share Data)	2016	2015	2014
Net sales	\$18,686	\$19,204	\$19,023
Cost of merchandise sold	11,944	12,265	12,098
Gross margin	6,742	6,939	6,925
Operating expenses:			
Selling, general and administrative	4,435	4,452	4,350
Depreciation and amortization	938	934	886
Impairments, store closing and other costs	186	—	—
Operating income	1,183	1,553	1,689
Interest expense, net	308	327	340
Loss on extinguishment of debt	—	169	—
Income before income taxes	875	1,057	1,349
Provision for income taxes	319	384	482
Net income	\$556	\$673	\$867
Net income per share:			
Basic	\$3.12	\$3.48	\$4.28
Diluted	\$3.11	\$3.46	\$4.24

See accompanying Notes to Consolidated Financial Statements

KOHL'S CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Millions)	2016	2015	2014
Net income	\$556	\$673	\$867
Other comprehensive income, net of tax:			
Reclassification adjustment for interest expense on interest rate derivatives included in net income	3	3	3
Unrealized gains on investments	—	—	11
Other comprehensive income	3	3	14
Comprehensive income	\$559	\$676	\$881

See accompanying Notes to Consolidated Financial Statements

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KOHL'S CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in Millions, Except per Share Data)	Common Stock		Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	
	Shares	Amount		Shares	Amount		Total	
Balance at February 1, 2014	364	\$ 4	\$ 2,598	(153)	\$(8,052)	\$(34)	\$ 11,462	\$ 5,978
Comprehensive income	—	—	—	—	—	14	867	881
Stock options and awards, net of tax	3	—	145	(1)	(19)	—	—	126
Dividends paid (\$1.56 per common share)	—	—	—	—	4	—	(321)	(317)
Treasury stock purchases	—	—	—	(12)	(677)	—	—	(677)
Balance at January 31, 2015	367	4	2,743	(166)	(8,744)	(20)	12,008	5,991
Comprehensive income	—	—	—	—	—	3	673	676
Stock options and awards, net of tax	3	—	201	(1)	(27)	—	—	174
Dividends paid (\$1.80 per common share)	—	—	—	—	3	—	(352)	(349)
Treasury stock purchases	—	—	—	(17)	(1,001)	—	—	(1,001)
Balance at January 30, 2016	370	4	2,944	(184)	(9,769)	(17)	12,329	5,491
Comprehensive income	—	—	—	—	—	3	556	559
Stock options and awards, net of tax	1	—	59	—	(17)	—	—	42
Dividends paid (\$2.00 per common share)	—	—	—	—	5	—	(363)	(358)
Treasury stock purchases	—	—	—	(13)	(557)	—	—	(557)
Balance at January 28, 2017	371	\$ 4	\$ 3,003	(197)	\$(10,338)	\$(14)	\$ 12,522	\$ 5,177

See accompanying Notes to Consolidated Financial Statements

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KOHL'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Millions)	2016	2015	2014
Operating activities			
Net income	\$556	\$673	\$867
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	938	934	886
Share-based compensation	41	48	48
Excess tax benefits from share-based compensation	(5)	(10)	(3)
Deferred income taxes	13	(38)	49
Other non-cash expenses, net	30	24	31
Loss on extinguishment of debt	—	169	—
Impairments, store closing and other costs	57	—	—
Changes in operating assets and liabilities:			
Merchandise inventories	249	(215)	68
Other current and long-term assets	(45)	43	(30)
Accounts payable	256	(260)	146
Accrued and other long-term liabilities	81	53	30
Income taxes	(23)	53	(68)
Net cash provided by operating activities	2,148	1,474	2,024
Investing activities			
Acquisition of property and equipment	(768)	(690)	(682)
Sales of investments in auction rate securities	—	—	82
Other	12	9	7
Net cash used in investing activities	(756)	(681)	(593)
Financing activities			
Treasury stock purchases	(557)	(1,001)	(677)
Shares withheld for taxes on vested restricted shares	(17)	(27)	(19)
Dividends paid	(358)	(349)	(317)
Proceeds from issuance of debt, net	—	1,088	—
Reduction of long-term borrowings	—	(1,085)	—
Premium paid on redemption of debt	—	(163)	—
Capital lease and financing obligation payments	(127)	(114)	(114)
Proceeds from stock option exercises	18	147	123
Excess tax benefits from share-based compensation	5	10	3
Proceeds from financing obligations	11	1	6
Net cash used in financing activities	(1,025)	(1,493)	(995)
Net increase (decrease) in cash and cash equivalents	367	(700)	436
Cash and cash equivalents at beginning of period	707	1,407	971
Cash and cash equivalents at end of period	\$1,074	\$707	\$1,407
Supplemental information			
Interest paid, net of capitalized interest	\$299	\$318	\$329
Income taxes paid	314	372	502
Non-Cash investing and financing activities			
Property and equipment acquired through additional liabilities	\$54	\$63	\$41
See accompanying Notes to Consolidated Financial Statements			

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KOHL'S CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Summary of Accounting Policies

Business

As of January 28, 2017, we operated 1,154 department stores, a website (www.Kohls.com), 12 FILA outlets, and three Off-Aisle clearance centers. Our Kohl's stores and website sell moderately-priced private label, exclusive and national brand apparel, footwear, accessories, beauty and home products. Our Kohl's stores generally carry a consistent merchandise assortment with some differences attributable to local preferences. Our website includes merchandise which is available in our stores, as well as merchandise which is available only on-line.

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

Consolidation

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

Accounting Period

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

Fiscal year Ended	Number of Weeks
2016 January 28, 2017	52
2015 January 30, 2016	52
2014 January 31, 2015	52

Use of Estimates

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

Cash and Cash Equivalents

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

Also included in cash and cash equivalents are amounts due from credit card transactions with settlement terms of less than five days. Credit and debit card receivables included within cash were \$81 million at January 28, 2017 and \$92 million at January 30, 2016.

Merchandise Inventories

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

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Property and Equipment

Property and equipment consist of the following:

(Dollars in Millions)	Jan 28, 2017	Jan 30, 2016
Land	\$1,118	\$1,110
Buildings and improvements:		
Owned	8,004	7,999
Leased	1,801	1,848
Store fixtures and equipment	1,711	1,804
Computer hardware and software	1,939	1,590
Construction in progress	318	167
Total property and equipment, at cost	14,891	14,518
Less accumulated depreciation and amortization	(6,788)	(6,210)
Property and equipment, net	\$8,103	\$8,308

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

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

Buildings and improvements 5-40 years

Store fixtures and equipment 3-15 years

Computer hardware and software 3-8 years

Long-Lived Assets

All property and equipment and other long-lived assets are reviewed for potential impairment when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than the carrying value of the assets. A potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. An impairment relating to store closures was recorded in 2016. No material impairments were recorded in 2015 or 2014 as a result of the tests performed.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Accrued Liabilities

Accrued liabilities consist of the following:

(Dollars in Millions)	Jan 28, Jan 30,	
	2017	2016
Gift cards and merchandise return cards	\$329	\$323
Sales, property and use taxes	183	184
Payroll and related fringe benefits	147	117
Accrued capital	102	64
Marketing	82	77
Credit card liabilities	67	88
Other	314	353
Accrued liabilities	\$1,224	\$1,206

Self-Insurance

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

We retain the initial risk of \$500,000 per occurrence in workers' compensation claims and \$250,000 per occurrence in general liability claims. We record reserves for workers' compensation and general liability claims which include the total amounts that we expect to pay for a fully developed loss and related expenses, such as fees paid to attorneys, experts and investigators.

We are fully self-insured for employee-related health care benefits, a portion of which is paid by our associates.

We use a third-party actuary to estimate the liabilities associated with workers' compensation, general liability and employee-related health care risks. These liabilities include amounts for both reported claims and incurred, but not reported losses. Total liabilities for these risks were \$65 million as of January 28, 2017 and \$58 million as of January 30, 2016.

Our self-insured retention for property losses differs based on the type of claim. For catastrophic claims such as earthquakes, floods and windstorms, the retained amount varies from 2 - 5% of the insurance claim. For other standard claims, such as fire and building damages, we are self-insured for the first \$250,000 per occurrence of the property loss.

Treasury Stock

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

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Other Comprehensive Income

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

(Dollars in Millions)	2016	2015	2014
Interest rate derivatives:			
Before-tax amounts	\$ 5	\$ 5	\$ 5
Tax expense	(2)	(2)	(2)
After-tax amounts	3	3	3
Unrealized gains on investments:			
Before-tax amounts	—	—	18
Tax expense	—	—	(7)
After-tax amounts	—	—	11
Other comprehensive income	\$ 3	\$ 3	\$ 14

Revenue Recognition

Revenue from the sale of merchandise at our stores is recognized at the time of sale, net of any returns. Sales of merchandise shipped to our customers are recorded based on estimated receipt of merchandise by the customer. Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales taxes. Revenue from Kohl's gift card sales is recognized when the gift card is redeemed. Gift card breakage revenue is recognized based on historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by a customer is remote.

Cost of Merchandise Sold and Selling, General and Administrative Expenses

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

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

The classification of these expenses varies across the retail industry.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Vendor Allowances

We receive consideration for a variety of vendor-sponsored programs, such as markdown allowances, volume rebates and promotion and marketing support. The vendor consideration is recorded as earned either as a reduction of inventory costs or Selling, General and Administrative Expenses. Promotional and marketing allowances are intended to offset our marketing costs to promote vendors' merchandise. Markdown allowances and volume rebates are recorded as a reduction of inventory costs.

Loyalty Program

We maintain a customer loyalty program in which customers earn points based on their spending and other promotional activities. Upon accumulating certain point levels, customers receive rewards to apply to future purchases. We accrue the cost of anticipated redemptions related to the program when the points are earned at the initial purchase. The costs of the program are recorded in Cost of Merchandise Sold.

Fair Value

Fair value measurements are required to be classified and disclosed in one of the following pricing categories:

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

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

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

Current assets and liabilities are reported at cost, which approximate fair value.

Leases

We lease certain property and equipment used in our operations.

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

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

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

All other leases are considered operating leases. Assets subject to an operating lease and the related lease payments are not recorded on our Balance Sheet. Rent expense is recognized on a straight-line basis over the expected lease term.

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

Marketing

Marketing costs are expensed when the marketing is first seen. Marketing costs, net of related vendor allowances, are as follows:

(Dollars in Millions)	2016	2015	2014
Gross marketing costs	\$1,164	\$1,171	\$1,189
Vendor allowances	(148)	(160)	(165)
Net marketing costs	\$1,016	\$1,011	\$1,024
Net marketing costs as a percent of net sales	5.4	%5.3	%5.4

Income Taxes

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

Net Income Per Share

Basic net income per share is net income divided by the average number of common shares outstanding during the period. Diluted net income per share includes incremental shares assumed for share-based awards.

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

(Dollars in Millions, Except per Share Data)	2016	2015	2014
Numerator—net income	\$556	\$673	\$867
Denominator—weighted average shares			
Basic	178	193	203
Impact of dilutive employee stock options (a)	1	2	1
Diluted	179	195	204
Net income per share:			
Basic	\$3.12	\$3.48	\$4.28
Diluted	\$3.11	\$3.46	\$4.24

(a) Excludes 3 million share-based awards for 2016, 1 million share-based awards for 2015 and 3 million share-based awards for 2014 as the impact of such awards was antidilutive.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. Business and Summary of Accounting Policies (continued)

Share-Based Awards

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

Recent Accounting Pronouncements

The following table provides a brief description of issued, but not yet effective, accounting standards:

Standard	Description	Effect on our Financial Statements
Compensation - Stock Compensation (ASC Topic 718)	The new standard modifies several aspects of accounting and reporting for share-based payment transactions. Under the new standard, we will recognize excess income tax benefits and tax deficiencies related to share-based payments as income tax expense in our income statement, rather than as additional paid-in capital on our balance sheet.	Generally, the new standard will result in higher tax expense when our stock price declines and lower tax expense when our stock price increases. Based on options and restricted shares outstanding as of year-end, every \$1 change in our stock price would change our effective tax rate by approximately 3 basis points.
Issued March 2016		
Effective Q1 2017	The new standard also allows us to change the way we account for forfeitures and for shares withheld from employees to satisfy income tax obligations.	We do not expect to change our accounting for forfeitures or shares withheld for taxes.
		The standard will change the way we account for sales returns, our loyalty program and certain promotional programs. Based on current estimates, we do not expect these provisions of the standard will have a material impact on our financial statements.
Revenue from Contracts with Customers (ASC Topic 606)	The standard eliminates the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principles-based approach for revenue recognition and disclosures.	We are currently evaluating the impact other provisions of the standard may have on our financial statements, including principal vs agent considerations and presentation of net earnings of our credit card operations. Under current accounting, substantially all merchandise sales are reported gross as we are considered the principal in the transaction and net credit card earnings are reported in Selling, General and Administrative Expenses.
Issued May 2014		
Effective Q1 2018		We will elect an adoption methodology after we have evaluated the impact that all provisions of the standard will have on our financial statements.
Leases (ASC Topic 842)	Among other things, the new standard requires us to recognize a right of use asset and a lease liability on our balance sheet for leases. It also changes the presentation and timing of lease-related expenses.	Approximately 5% of our store leases and all of our land leases are not currently recorded on our balance sheet. Recording right of use assets and liabilities for these and other non-store leases is expected to have a material impact on our balance sheet. We are also
Issued February 2016		

Effective Q1 2019

evaluating the impact that recording right of use assets and liabilities will have on our income statement and the financial statement impact that the standard will have on leases which are currently recorded on our balance sheet.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. Impairments, Store Closing and Other Costs

During 2016, we closed 18 underperforming stores and recorded the following costs related to the store closures and the organizational realignment at our corporate office:

(Dollars in Millions)

Store leases:

Record future obligations	\$ 114
Write-off net obligations	(21)

Impairments:

Software licenses	23
Buildings and other store assets	53
Severance and other	17

Impairments, store closing and other costs \$ 186

The store lease future obligation charge represents the discounted value of rents and other lease liabilities under non-cancelable lease terms and will be paid over the next 13 years. All of the severance will be paid out within two years. The remaining charge is primarily non-cash write-offs of assets and liabilities that were previously recorded on our Balance Sheet.

The following table summarizes changes in the store closure and restructure reserve during 2016:

(Dollars in Millions)	Store Lease Obligations	Severance	Total
Charges	\$ 114	\$ 15	129
Payments	(11)	(12)	(23)
Balance at end of year	\$ 103	\$ 3	\$ 106

3. Debt

Long-term debt includes the following unsecured senior debt as of January 28, 2017 and January 30, 2016:

Maturity	Effective Rate	Coupon Rate	Outstanding
(Dollars in Millions)			
2021	4.81 %	4.00 %	\$ 650
2023	3.25 %	3.25 %	350
2023	4.78 %	4.75 %	300
2025	4.25 %	4.25 %	650
2029	7.36 %	7.25 %	99
2033	6.05 %	6.00 %	166
2037	6.89 %	6.88 %	150
2045	5.57 %	5.55 %	450
	4.88 %		\$ 2,815

Long-term debt is net of unamortized debt discounts and deferred financing costs of \$20 million at January 28, 2017 and \$23 million at January 30, 2016.

Our long-term debt is classified as Level 1, financial instruments with unadjusted, quoted prices listed on active market exchanges. The estimated fair value of our long-term debt was \$2.7 billion at January 28, 2017 and \$2.8 billion at January 30, 2016.

During 2015, we completed a cash tender offer and redemption for \$1,085 million of senior unsecured debt. We recognized a \$169 million loss on extinguishment of debt which included a \$163 million bond tender premium paid to holders of the debt and a \$6 million non-cash write-off of deferred financing costs and original issue discounts associated with the extinguished debt.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Debt (continued)

We have various facilities upon which we may draw funds, including a 5-year, \$1 billion senior unsecured revolving credit facility which matures in June 2020.

Our various debt agreements contain covenants including limitations on additional indebtedness and certain financial tests. As of January 28, 2017, we were in compliance with all covenants of the various debt agreements.

We also have outstanding trade letters of credit and stand-by letters of credit totaling approximately \$54 million at January 28, 2017, issued under uncommitted lines with two banks.

4. Lease Commitments

Rent expense charged to operations was \$276 million for 2016, \$279 million for 2015, and \$277 million for 2014. In addition to rent payments, we are often required to pay real estate taxes, insurance and maintenance costs on leased properties. These items are not included in the future minimum lease payments listed below. Many store leases include multiple renewal options, exercisable at our option, that generally range from four to eight additional five-year periods.

Future minimum lease payments at January 28, 2017 were as follows:

(Dollars in Millions)	Capital	
	Lease and Financing Obligations	Operating Leases
Fiscal year:		
2017	\$ 286	\$ 253
2018	272	254
2019	255	249
2020	238	245
2021	222	241
Thereafter	2,372	4,067
	3,645	\$ 5,309
Non-cash gain on future sale of property	471	
Amount representing interest	(2,300)	
Present value of lease payments	\$ 1,816	

5. Benefit Plans

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

We also offer a non-qualified deferred compensation plan to a group of executives which provides for pre-tax compensation deferrals up to 100% of salary and/or bonus. Deferrals and credited investment returns are 100% vested. The total costs for these benefit plans were \$47 million for 2016, \$49 million for 2015, and \$43 million for 2014.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Income Taxes

Deferred income taxes consist of the following:

(Dollars in Millions)	Jan 28, 2017	Jan 30, 2016
Deferred tax liabilities:		
Property and equipment	\$ 1,226	\$ 1,319
Merchandise inventories	95	—
Total deferred tax liabilities	1,321	1,319
Deferred tax assets:		
Capital lease and financing obligations	711	752
Accrued and other liabilities, including stock-based compensation	194	151
Accrued step rent liability	111	106
Federal benefit on state tax reserves	47	45
Unrealized loss on interest rate swap	9	11
Merchandise inventories	—	24
Total deferred tax assets	1,072	1,089
Net deferred tax liability	\$ 249	\$ 230

Deferred tax assets included in other long-term assets totaled \$23 million as of January 28, 2017 and \$27 million as of January 30, 2016.

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

(Dollars in Millions)	2016	2015	2014
Current federal	\$ 272	\$ 397	\$ 400
Current state	25	34	36
Deferred federal	16	(35)	48
Deferred state	6	(12)	(2)
Provision for income taxes	\$ 319	\$ 384	\$ 482

Our effective tax rate differs from the amount that would be provided by applying the federal statutory tax rate due to the following items:

	2016	2015	2014
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.4	2.1	1.3
Other federal tax credits	(0.9)	(0.8)	(0.6)
Effective tax rate	36.5%	36.3%	35.7%

We have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. The only federal returns subject to examination are for the 2009 through 2016 tax years. State returns subject to examination vary depending upon the state. Generally, the 2013 through 2016 tax years are subject to state examination. The earliest open period is 2005. Certain states have proposed adjustments which we are currently appealing. If we do not prevail on our appeals, we do not anticipate that the adjustments would result in a material change in our financial position.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Income Taxes (continued)

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

(Dollars in Millions)	2016	2015
Balance at beginning of year	\$139	\$123
Increases due to:		
Tax positions taken in prior years	3	16
Tax positions taken in current year	15	19
Decreases due to:		
Tax positions taken in prior years	—	(6)
Settlements with taxing authorities	(6)	(10)
Lapse of applicable statute of limitations	(2)	(3)
Balance at end of year	\$149	\$139

Not included in the unrecognized tax benefits reconciliation above are gross unrecognized accrued interest and penalties of \$29 million at January 28, 2017 and \$23 million at January 30, 2016. We had \$6 million in interest and penalty expense for 2016, none for 2015, and \$2 million for 2014.

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were \$110 million as of January 28, 2017 and \$101 million as of January 30, 2016. It is reasonably possible that our unrecognized tax positions may change within the next 12 months, primarily as a result of ongoing audits. While it is possible that one or more of these examinations may be resolved in the next year, it is not anticipated that a significant impact to the unrecognized tax benefit balance will occur.

We have both payables and receivables for current income taxes recorded on our Balance Sheet. Receivables included in other current assets totaled \$27 million as of January 28, 2017 and \$26 million as of January 30, 2016.

7. Stock-Based Compensation

We currently grant share-based compensation pursuant to the Kohl's Corporation 2010 Long-Term Compensation Plan, which provides for the granting of various forms of equity-based awards, including nonvested stock, performance share units and options to purchase shares of our common stock, to officers, key employees and directors. As of January 28, 2017, there were 18.5 million shares authorized and 7.3 million shares available for grant under the 2010 Long-Term Compensation Plan. Options and nonvested stock that are surrendered or terminated without issuance of shares are available for future grants. We also have outstanding options which were granted under previous compensation plans.

Annual grants are typically made in the first quarter of the fiscal year. Grants to newly-hired and promoted employees and other discretionary grants are made periodically throughout the remainder of the year.

Stock Options

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

All stock options have an exercise price equal to the fair market value of the common stock on the date of grant. The fair value of each option award was estimated using a Black-Scholes option valuation model. The weighted average fair value of options granted in 2014 was \$12.23.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Stock-Based Compensation (continued)

The following table summarizes our stock option activity:

(Shares in Thousands)	2016		2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of year	3,076	\$ 52.65	6,211	\$ 52.95	11,375	\$ 56.05
Granted	—	—	—	—	186	54.69
Exercised	(410)	46.86	(2,815)	52.79	(2,647)	46.87
Forfeited/expired	(316)	55.39	(320)	57.36	(2,703)	72.21
Balance at end of year	2,350	\$ 53.29	3,076	\$ 52.65	6,211	\$ 52.95

The intrinsic value of options exercised represents the excess of our stock price at the time the option was exercised over the exercise price and was \$2 million in 2016, \$52 million in 2015 and \$30 million in 2014.

Additional information related to stock options outstanding and exercisable at January 28, 2017, segregated by exercise price range, is summarized below:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable		
	Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$ 41.08 – \$ 50.00	831	2.4	\$ 47.76	623	2.3	\$ 47.79
\$ 50.01 – \$ 60.00	1,170	1.6	53.26	1,026	1.3	53.25
\$ 60.01 – \$ 77.62	349	0.3	66.56	349	0.3	66.56
Balance at end of year	2,350	1.7	\$ 53.29	1,998	1.4	\$ 53.88

All of our outstanding or exercisable stock options had exercise prices in excess of our stock price on January 28, 2017 (\$39.00).

Nonvested Stock Awards

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

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

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Stock-Based Compensation (continued)

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

(Shares in Thousands)	2016		2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at beginning of year	2,211	\$ 57.37	2,431	\$ 52.29	2,653	\$ 50.56
Granted	1,128	46.61	955	65.02	910	56.13
Vested	(935)	55.54	(957)	52.61	(818)	50.69
Forfeited	(241)	55.54	(218)	55.16	(314)	51.47
Balance at end of year	2,163	\$ 52.75	2,211	\$ 57.37	2,431	\$ 52.29

The aggregate fair value of awards at the time of vesting was \$52 million in 2016, \$50 million in 2015 and \$41 million in 2014.

Performance Share Units

We grant performance-based restricted stock units ("performance share units") to certain executives. The performance measurement period for these performance share units is three fiscal years. The fair market value of the grants are determined using a Monte-Carlo valuation on the date of grant.

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

The following table summarizes performance share unit activity by year of grant:

(Shares in Thousands)	2016		2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at beginning of year	357	\$ 63.58	221	\$ 56.76	300	\$ 55.33
Granted	309	47.89	177	70.50	18	60.76
Vested	—	—	—	—	(34)	50.72
Forfeited	(154)	59.74	(41)	56.71	(63)	54.41
Balance at end of year	512	\$ 57.82	357	\$ 63.58	221	\$ 56.76

Other Required Disclosures

Stock-based compensation expense, other than that included in Impairments, store closing and other costs, is included in Selling, General and Administrative Expenses in our Consolidated Statements of Income. Stock-based compensation expense totaled \$44 million for 2016 and \$48 million for both 2015 and 2014. At January 28, 2017, we had approximately \$79 million of unrecognized share-based compensation expense, which is expected to be recognized over a weighted-average period of 2 years.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Contingencies

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

9. Quarterly Financial Information (Unaudited)

	2016			
(Dollars in Millions, Except per Share Data)	First	Second	Third	Fourth
Net sales	\$3,972	\$4,182	\$4,327	\$6,205
Gross margin	\$1,412	\$1,650	\$1,607	\$2,072
Selling, general and administrative expenses	\$1,008	\$986	\$1,080	\$1,360
Impairments, store closing and other costs	\$64	\$128	\$(6)	—
Net income	\$17	\$140	\$146	\$252
Basic shares	183	180	177	174
Basic net income per share	\$0.09	\$0.77	\$0.83	\$1.45
Diluted shares	184	181	177	175
Diluted net income per share	\$0.09	\$0.77	\$0.83	\$1.44

	2015			
(Dollars in Millions, Except per Share Data)	First	Second	Third	Fourth
Net sales	\$4,123	\$4,267	\$4,427	\$6,387
Gross margin	\$1,523	\$1,662	\$1,643	\$2,112
Selling, general and administrative expenses	\$1,016	\$1,005	\$1,099	\$1,332
Loss on extinguishment of debt	—	\$131	\$38	—
Net income	\$127	\$130	\$120	\$296
Basic shares	200	196	191	187
Basic net income per share	\$0.64	\$0.66	\$0.63	\$1.58
Diluted shares	202	197	192	187
Diluted net income per share	\$0.63	\$0.66	\$0.63	\$1.58

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