Alkermes plc.
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March 19, 2018

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| | | | |
|---|---|---|---|
| Selling, general, & administrative | 2,083 | (126) | 1,957 |
| Depreciation and amortization | 304 | 51 | 355 |
| Operating income | 800 | 75 | 875 |
| Interest expense, net | 62 | 92 | 154 |

| | | | |
|---|---|---|---|
| Income before income taxes | | | |
| | 738 | (17) | 721 |
| Provision for income taxes | | | |
| | 279 | (7) | 272 |
| Net income | | | |
| | $459 | $(10) | $449 |

| | | | |
|---|---|---|---|
| Net income per share: | | | |
| Basic | $1.49 | $(0.02) | $1.47 |
| Diluted | $1.48 | $(0.02) | $1.46 |

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| | Six Months (26 Weeks) Ended July 31, 2010 | | |
|---|---|---|---|
| | Previously Reported (1) | Adjustments (In Millions) | Restated |
| **Operating activities** | | | |
| Net income | $ 459 | $ (10) | $ 449 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 304 | 51 | 355 |
| Share-based compensation | 32 | | 32 |
| Excess tax benefits from share-based compensation | 2 | | 2 |
| Deferred income taxes | (33) | (8) | (41) |
| Other non-cash revenues and expenses | 20 | (3) | 17 |
| Changes in operating assets and liabilities: | | | |
| Merchandise inventories | (5) | | (5) |
| Other current and long-term assets | (6) | | (6) |
| Accounts payable | 158 | | 158 |
| Accrued and other long-term liabilities | (154) | 6 | (148) |
| Income taxes | (149) | | (149) |
| Net cash provided by operating activities | 628 | 36 | 664 |
| **Investing activities** | | | |
| Acquisition of property and equipment | (421) | (18) | (439) |
| Sales of investments in auction rate securities | 20 | | 20 |
| Other | 2 | | 2 |
| Net cash used in investing activities | (399) | (18) | (417) |
| **Financing activities** | | | |
| Treasury stock purchases | (3) | | (3) |
| Capital lease and financing obligation payments | (9) | (35) | (44) |
| Proceeds from financing obligations | | 17 | 17 |
| Proceeds from stock option exercises | 36 | | 36 |
| Excess tax benefits from share-based compensation | (2) | | (2) |
| Net cash (used in) provided by financing activities | 22 | (18) | 4 |
| Net (decrease) increase in cash and cash equivalents | 251 | | 251 |
| Cash and cash equivalents at beginning of period | 2,267 | | 2,267 |
| Cash and cash equivalents at end of period | $ 2,518 | $ | $ 2,518 |

(1) Includes certain reclassifications to conform to the current period presentation.

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### 3. Long-term Debt

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

| Maturing | Weighted Average Effective Rate | July 30, 2011 | January 29, 2011 | July 31, 2010 |
|---|---|---|---|---|
| | | (Dollars in Millions) | | |
| March 2011 | | **$** | $ 300 | $ 300 |
| October 2011 | **7.41%** | **100** | 100 | 100 |
| 2017 | **6.31%** | **650** | 650 | 650 |
| 2029 | **7.36%** | **200** | 200 | 200 |
| 2033 | **6.05%** | **300** | 300 | 300 |
| 2037 | **6.89%** | **350** | 350 | 350 |
| Total senior debt | **6.59%** | **1,600** | 1,900 | 1,900 |
| Unamortized debt discount | | **(6)** | (6) | (6) |
| Less current portion | | **(100)** | (400) | (300) |
| Long-term debt | | **$ 1,494** | $ 1,494 | $ 1,594 |

### 4. Fair Value Measurements

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

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

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

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

Our cash and cash equivalents and long-term debt are financial instruments classified as a Level 1 pricing category. The carrying value of our cash and cash equivalents approximates fair value because maturities are three months or less. As of July 30, 2011, our long-term debt had a carrying value of $1.6 billion and a fair value of $1.8 billion.

We repaid $300 million of long-term debt in March 2011. An additional $100 million of long-term debt will be paid in October 2011. We expect to replace this debt with new debt financing in the third quarter of 2011. In anticipation of the debt refinancing, we entered into

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interest rate hedges in December 2010 and May 2011 to hedge our exposure to the risk of increases in interest rates on $400 million of debt we expect to issue. The interest rate hedges have a ten-year term. The fair value of the interest rate hedges is classified as a Level 2 pricing category and is based on valuation models updated with observable inputs and market data. As of July 30, 2011, interest rate hedges are recorded as Accrued Liabilities in our Consolidated Balance Sheet at their fair value of $24 million.

As of July 30, 2011, the par value of our long-term investments was $241 million and the estimated fair value was $208 million. Our long-term investments consist primarily of investments in auction rate securities ( ARS ), which are long-term debt instruments with interest rates which originally reset through periodic short-term auctions.

We intend to hold these ARS until maturity or until we can liquidate them at par value. Based on our other sources of liquidity, we do not believe we will be required to sell them before recovery of par value. Therefore, impairment charges are considered temporary and have been included in Accumulated Other Comprehensive Loss within our Consolidated Balance Sheets. In certain cases, holding the investments until recovery may mean until maturity, which ranges from 2015 to 2056. The weighted-average maturity date is 2036.

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

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

| | **2011** | 2010 |
|---|---|---|
| | (In Millions) | |
| Balance at beginning of year | **$ 276** | $ 320 |
| Sales | **(97)** | (20) |
| Unrealized gains (losses) | **28** | (3) |
| Balance at end of quarter | **$ 207** | $ 297 |

**5. Share-Based Compensation**

We currently grant share-based compensation, including options to purchase shares of our common stock and nonvested stock to employees and outside directors, pursuant to the Kohl s Corporation 2010 Long-Term Compensation Plan. Annual grants of stock options and nonvested stock are generally made to eligible employees 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. Grants of stock options and nonvested stock are generally made to eligible outside directors upon their initial election to the Board of Directors and annually upon each such director s re-election.

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The Black-Scholes option valuation model was used to estimate the fair value of each option award during the first six months of the respective fiscal year based on the following assumptions:

| | **2011** | 2010 |
|---|---|---|
| Volatility | **33.0%** | 33.5% |
| Risk-free interest rate | **2.2%** | 2.5% |
| Expected life in years | **5.5** | 5.5 |
| Dividend yield | **1.8%** | 0% |
| Weighted-average fair value at grant date | **$ 14.85** | $ 19.41 |

The following table summarizes our stock option activity for the first six months of 2011 and 2010:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Shares** | **Weighted Average Exercise Price** | Shares | Weighted Average Exercise Price |
| | (Shares in Thousands) | | | |
| Balance at beginning of year | **17,869** | **$ 53.17** | 19,848 | $ 52.10 |
| Granted | **909** | **53.04** | 546 | 54.97 |
| Exercised | **(1,002)** | **43.41** | (969) | 37.20 |
| Forfeited/expired | **(654)** | **62.87** | (334) | 55.57 |
| Balance at end of quarter | **17,122** | **$ 53.36** | 19,091 | $ 52.88 |

The following table summarizes our nonvested stock activity for the first six months of 2011 and 2010:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Shares** | **Weighted Average Grant Date Fair Value** | Shares | Weighted Average Grant Date Fair Value |
| | (Shares in Thousands) | | | |
| Balance at beginning of year | **1,116** | **$ 49.30** | 883 | $ 45.44 |
| Granted (1) | **1,141** | **52.48** | 462 | 55.45 |
| Vested | **(266)** | **49.31** | (195) | 47.38 |
| Forfeited | **(17)** | **52.84** | (20) | 46.47 |
| Balance at end of quarter | **1,974** | **$ 51.11** | 1,130 | $ 49.17 |

(1) Includes 578 thousand shares granted in March and May 2011 which include both performance and service vesting conditions.

Total share-based compensation expense was $14 million for the three months ended July 30, 2011 and $17 million for the three months ended July 31, 2010. Total share-based compensation expense was $29 million for the six months ended July 30, 2011 and $32 million for the six months ended July 31, 2010.

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At July 30, 2011, we had approximately $171 million of unrecognized share-based compensation expense (before forfeitures and capitalization), which is expected to be recognized over a weighted average period of 3.5 years.

**6. Contingencies**

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

**7. Net Income Per Share**

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 30, 2011** | July 31, 2010 (Restated) | **July 30, 2011** | July 31, 2010 (Restated) |
| | (In Millions) | | | |
| Numerator - Net income | **$ 299** | $ 255 | **$ 500** | $ 449 |
| Denominator - Weighted average shares: | | | | |
| Basic | **276** | 307 | **282** | 307 |
| Impact of dilutive employee stock options (a) | **2** | 1 | **2** | 1 |
| Diluted | **278** | 308 | **284** | 308 |

(a) Excludes 8 million options for the three months ended July 30, 2011, 10 million options for the six months ended July 30, 2011, 12 million options for the three months ended July 31, 2010 and 11 million options for the six months ended July 31, 2010 as the impact of such options was antidilutive.

**8. Recent Accounting Pronouncements**

*Disclosures about Fair Value Measurements*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update which amends the definition of fair value measurement principles and disclosure requirements to eliminate differences between U.S. GAAP and International Financial Reporting Standards. The update requires new quantitative and qualitative disclosures about the sensitivity of recurring Level 3 measurement disclosures, as well as transfers between Level 1 and Level 2 of the fair value hierarchy. The update will be effective for us in the first quarter of Fiscal 2012. It will primarily impact our disclosures, and is not expected to impact our results of operations, cash flows or financial position.

*Presentation of Comprehensive Income*

In June 2011, the FASB issued an accounting standards update which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in existing guidance and requires entities to report components

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of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income ( OCI ). The update does not change the items that must be reported in OCI and its amendments are effective for fiscal years, and interim periods within those years. This update will be effective for us in the first quarter of Fiscal 2012. The guidance must be applied retrospectively for all periods presented in the financial statements. Early adoption is permitted. As this update only relates to financial statement presentation, it will have no effect on our results of operations, cash flows or financial position.

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

For purposes of the following discussion, all references to the quarter are for the 13-week fiscal periods ended July 30, 2011 and July 31, 2010 and all references to year to date are for the 26-week fiscal periods ended July 30, 2011 and July 31, 2010.

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2010 Annual Report on Form 10-K, as amended and restated on September 13, 2011 (our 2010 Form 10-K/A ). The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed elsewhere in this report and in our 2010 Form 10-K/A (particularly in Risk Factors ).

## Executive Summary

We believe that consumers will remain focused on value throughout 2011. We intend to continue to be flexible in our sales and inventory planning and in our expense management in order to react to changes in consumer demand. Additionally, overall merchandise costs in all apparel categories are expected to be approximately 10% to 15% higher for Fall 2011 than Fall 2010 due to inflation in the cost of raw materials, labor and fuel. Specific item increases are dependent on the category and the related fabric content of the merchandise. We have been preparing for these cost increases for some time and are working diligently to minimize the impact of these higher costs on a consumer that is still buying cautiously and, therefore, less open to paying higher prices for discretionary goods.

For the quarter, diluted earnings per share increased 30% over the second quarter of 2010 to $1.08 and net income increased 17% to $299 million. Year to date, net income increased 11% to $500 million, or $1.76 per diluted share, compared to net income of $449 million and diluted earnings per share of $1.46 last year.

Total sales increased 3.6% for the quarter and 3.4% year to date. Comparable store sales increased 1.9% for the quarter and 1.6% year to date. E-Commerce sales increased 41% year to date and contributed approximately 110 basis points to our comparable store sales for the quarter and 130 basis points for the year-to-date period.

Gross margin as a percent of net sales increased 43 basis points in the quarter and 24 basis points year to date. Strong inventory management, as well as successful private and exclusive brand strategies, contributed to the margin strength.

As of July 30, 2011, we operated 1,097 stores in 49 states, compared to 1,067 stores as of July 31, 2010. Selling square footage totaled 81 million square feet at July 30, 2011 and 79 million square feet at July 31, 2010. We opened nine new stores and remodeled 85 stores year to date. We plan to open another 31 stores and remodel another 15 stores in the fall season.

We have installed electronic signs in approximately 100 stores. We expect to have installed electronic signs in all stores by the 2012 holiday season.

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On April 1, 2011, we commenced a seven-year private label credit card program agreement with Capital One, National Association ( Capital One ). Pursuant to this agreement, Capital One offers private label credit cards to new and existing customers of Kohl s. We handle all customer service functions, including processing billings, collecting on accounts, responding to customer inquiries, and maintaining data systems. We are also responsible for all advertising and marketing related to our credit card customers. Kohl s and Capital One share in the net risk-adjusted revenue of the portfolio as defined by the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts. Unlike the previous program agreement, we also share the costs of funding the outstanding receivables, so our profitability may be impacted by changes in interest rates.

## Results of Operations

### Net Sales

Net sales increased 3.6% from $4.1 billion in the second quarter of 2010 to $4.2 billion in the second quarter of 2011. Year to date, net sales increased 3.4% from $8.1 billion for the first six months of 2010 to $8.4 billion for the first six months of 2011.

On a comparable store basis, sales increased 1.9% for the quarter and 1.6% year to date. We define comparable store sales as sales from stores (including relocated and remodeled stores) open throughout the full current and prior fiscal periods and from E-Commerce.

The sales increases were due to the following:

| | Quarter | | Year to Date | |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Comparable store sales: | | | | |
| Stores | $ 32 | 0.8% | $ 24 | 0.3% |
| E-Commerce | 45 | 35.9 | 105 | 41.2 |
| Total | 77 | 1.9 | 129 | 1.6 |
| Sales from new stores | 71 | | 146 | |
| Net sales | $ 148 | 3.6% | $ 275 | 3.4% |

Drivers of the changes in comparable store sales were as follows:

| | Quarter | Year to Date |
|---|---|---|
| Selling price per unit | 6.1% | 4.6% |
| Units per transaction | (4.5) | (3.7) |
| Average transaction value | 1.6 | 0.9 |
| Number of transactions | 0.3 | 0.7 |
| Comparable store sales | 1.9% | 1.6% |

The increase in selling price per unit reflects higher sales prices as we passed higher apparel costs to our customer and reduced clearance inventory sales. Units per transaction decreased as our customers purchased fewer items as a result of the higher prices. The increase in number of transactions is primarily driven by growth in our E-Commerce business.

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From a line of business perspective, Accessories and Home reported the strongest comparable store sales for the quarter. Women s also outperformed the company average on strong sales in updated sportswear, active and special sizes. Men s and Children s reported positive comparable store sales increases, but performed below the company average for the quarter. Footwear, which had consistently outperformed the company in recent years, reported a mid single-digit comparable store sales decrease for the quarter as strong sales in women s shoes were more than offset by declines in the athletic toning category.

Year to date, Home and Accessories were the strongest lines of business. Comparable store sales in the Men s and Women s businesses were consistent with the company average. Footwear was the only line of business to report a decrease in comparable store sales.

The Northeast region reported the strongest comparable store sales for the quarter. The Mid-Atlantic and Midwest regions reported low single-digit comparable store sales increases. Comparable store sales in the Southeast, South-Central, and West regions were consistent with the prior year or down slightly. Year to date, the Northeast, Southeast, and Mid-Atlantic regions reported the strongest comparable store sales with low single-digit increases. Comparable store sales in the South-Central, Midwest, and West regions were consistent with prior year or down slightly.

From a brand perspective, our three largest private brands - Apt. 9, Croft & Barrow and Sonoma - combined for a 12% increase in sales for the quarter. Strong exclusive brand performers for the quarter included FILA Sport, Food Network, Lauren Conrad, MUDD, and Simply Vera Vera Wang, which all achieved strong double digit sales increases. Private and exclusive brands as a percentage of total sales increased approximately 300 basis points to approximately 52% for both the quarter and year to date period.

E-Commerce sales increased 36% for the quarter to $171 million and 41% to $358 million year to date. The sales growth is primarily the result of an increase in the number of transactions. We expect our E-Commerce business to generate $1 billion of sales in Fiscal 2011.

Gross Margin

| | | | Increase | |
|---|---|---|---|---|
| | **2011** | 2010 | $ | % |
| (Dollars in Millions) | | | | |
| Quarter | **$ 1,728** | $ 1,651 | $ 77 | 5% |
| Year to date | **3,315** | 3,187 | 128 | 4 |
| **Gross margin as a percent of sales** | | | | |
| Quarter | **40.7%** | 40.3% | | |
| Year to date | **39.4** | 39.2 | | |

Gross margin includes the total cost of products sold, including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from

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our vendors to our distribution centers; shipping and handling expenses of E-Commerce sales; and terms cash discount. Our gross margin may not be comparable with that of other retailers because we include distribution center costs in selling, general and administrative expenses while other retailers may include these expenses in cost of merchandise sold.

Gross margin as a percent of net sales increased 43 basis points to 40.7% for the second quarter of 2011 and 24 basis points to 39.4% year to date. Inventory management, increased penetration of private and exclusive brands, and our ongoing markdown and size optimization initiatives contributed to the increase in gross margin as a percent of net sales. These increases were partially offset by our E-Commerce business which currently has a lower gross margin than our stores due to the mix of products sold on-line and free or reduced cost shipping promotions.

Operating Expenses

| | | | Increase | |
|---|---|---|---|---|
| | **2011** | 2010 | $ | % |
| (Dollars in Millions) | | (Restated) | | |
| **SG&A** | | | | |
| Quarter | **$ 991** | $ 983 | $ 8 | 1% |
| Year to date | **1,995** | 1,957 | 38 | 2 |
| **S,G&A as a percent of net sales** | | | | |
| Quarter | **23.3%** | 24.0% | | |
| Year to date | **23.7** | 24.1 | | |

Selling, general and administrative expenses ( SG&A ) include compensation and benefit costs (including stores, headquarters, buying and merchandising and distribution centers); rent expense and other occupancy and operating costs of our retail, distribution and corporate facilities; freight expenses associated with moving merchandise from our distribution centers to our retail stores and among distribution and retail facilities; advertising expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; net revenues from our Kohl s credit card operations; and other administrative costs. SG&A also includes the costs incurred prior to new store openings, such as advertising, hiring and training costs for new employees, processing and transporting initial merchandise, and rent expense. We do not include depreciation and amortization in SG&A. The classification of these expenses varies across the retail industry.

SG&A was generally consistent with the prior-year quarter. SG&A as a percentage of net sales decreased, or leveraged, 66 basis points in the quarter and 33 basis point year to date. Substantially all of the leverage was generated by higher net revenues in our credit card operations as a result of higher finance charges due to receivable growth and lower receivable write-offs due to improved delinquency rates. A more favorable revenue sharing percentage under the current Capital One agreement also contributed to the increase. Our store organization also leveraged in both periods as a result of strong payroll and operating expense management.

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| (Dollars in Millions) | 2011 | 2010 (Restated) | Increase $ | Increase % |
|---|---|---|---|---|
| **Depreciation & amortization** | | | | |
| Quarter | **$ 190** | $ 180 | $ 10 | 6% |
| Year to date | **382** | 355 | 27 | 8 |

The increases in depreciation and amortization are primarily attributable to the addition of new stores and remodels.

Operating Income

| (Dollars in Millions) | 2011 | 2010 (Restated) | Increase $ | Increase % |
|---|---|---|---|---|
| Quarter | **$ 547** | $ 488 | $ 59 | 12% |
| Year to date | **938** | 875 | 63 | 7 |
| **Operating income as a percent of sales** | | | | |
| Quarter | **12.9%** | 11.9% | | |
| Year to date | **11.2** | 10.8 | | |

As a result of the above factors, operating income as a percent of net sales increased almost 100 basis points to 12.9% of net sales for the three months ended July 30, 2011, compared to 11.9% of net sales for the three months ended July 31, 2010. For the year-to-date period, operating income as a percent of net sales increased approximately 40 basis points to 11.2% of net sales for 2011 compared to 10.8% of net sales for 2010.

Interest Expense, Net

| (Dollars in Millions) | 2011 | 2010 (Restated) | Decrease $ | Decrease % |
|---|---|---|---|---|
| Quarter | **$ 72** | $ 78 | $ (6) | (8)% |
| Year to date | **148** | 154 | (6) | (4) |

The decrease in net interest expense is primarily attributable to the $300 million of debt repaid in March 2011.

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Provision for Income Taxes

| (Dollars in Millions) | **2011** | 2010 (Restated) | Increase $ | Increase % |
|---|---|---|---|---|
| Quarter | **$ 176** | $ 155 | $ 21 | 14% |
| Year to date | **290** | 272 | 18 | 7 |

Our effective tax rate was 37.1% for the three months ended July 30, 2011 and 36.8% for the six months ended July 30, 2011 compared to 37.9% for the three months ended July 31, 2010 and 37.7% for the six months ended July 31, 2010.

**Seasonality & Inflation**

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

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

We are, however, experiencing increases in our merchandise costs due to higher raw material, labor and fuel costs. We experienced low to mid single-digit cost increases throughout the first six months of 2011 and expect 10% to 15% increases for Fall 2011. In our private and exclusive brands, where we have more control over the production and manufacture of the merchandise, we have been able to mitigate inflationary pressures through measures such as committing earlier for fabric and certain other raw materials and shifting production to lower cost markets. Our third-party brand vendors are also facing the same inflationary pressures. We will continue to work with these vendors, as possible, to minimize the impact of inflation on our merchandise costs and our selling prices.

**Financial Condition and Liquidity**

Our primary ongoing cash requirements are for capital expenditures in connection with our expansion and remodeling programs and seasonal and new store inventory purchases. Share repurchases and dividend payments to shareholders are currently another significant usage of cash. Our primary source of funds for our business activities are cash flow from operations, short-term trade credit and our lines of credit. We believe that our available cash and cash equivalents and sources of funds are sufficient to meet our cash requirements.

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| (Dollars in Millions) | **2011** | 2010 (Restated) | Increase (Decrease) in Cash $ | Increase (Decrease) in Cash % |
|---|---|---|---|---|
| **Net cash provided by (used in):** | | | | |
| Operating activities | **$ 882** | $ 664 | $ 218 | 33% |
| Investing activities | **(383)** | (417) | 34 | 8 |
| Financing activities | **(1,607)** | 4 | (1,611) | (100+) |

*Operating Activities.* Operating activities generated $882 million of cash in 2011, compared to $664 million in 2010.

Merchandise inventories per store were $2.82 million at July 30, 2011 and $2.75 million at July 31, 2010. Accounts payable as a percent of inventory was 43.5% at July 30, 2011, compared to 45.9% at July 31, 2010. The decrease is primarily due to lower inventory turn.

*Investing Activities.* Net cash used in investing activities decreased $34 million, primarily due to a $77 million increase in proceeds from sales of auction rate securities as changes in the interest rate environment have motivated the issuer to call the investments. This increase was partially offset by increases in capital spending for new stores and remodels.

*Financing Activities.* Financing activities used cash of $1.6 billion in 2011 and generated cash of $4 million in 2010.

In the first half of 2011, we repurchased 23 million shares of our common stock for approximately $1.2 billion. The shares were purchased as part of our $3.5 billion share repurchase program. Pursuant to this program, we may repurchase shares from time to time in open market transactions, accelerated stock repurchase programs, tender offers, privately negotiated transactions or by other means. Subject to market conditions, we expect to complete the program by the end of Fiscal 2013.

We repaid $300 million of long-term debt which was due in March 2011. An additional $100 million of long-term debt is due in October 2011. We expect to replace this debt with new debt financing in the third quarter of 2011. In anticipation of this debt issuance, we entered into 10-year interest rate hedges in December 2010 and May 2011 to hedge our exposure to the risk of interest rate increases on $400 million of debt we expect to issue. As of July 30, 2011 the fair value of these derivatives was a liability of $24 million.

We have various facilities upon which we may draw funds, including a 5-year, $1 billion senior unsecured revolving credit facility which was signed in June 2011. The co-leads of this facility, Bank of America, U.S. Bank, and Wells Fargo Bank, have each committed $110 million. The remaining 13 lenders have each committed between $30 and $85 million. The $1 billion facility replaced a $900 million facility which was scheduled to expire in October 2011. We also have a demand note with availability of $30 million. There were no draws on these facilities during 2011 or 2010.

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Year to date, we paid cash dividends of $142 million as detailed in the following table:

| | | |
|---|---|---|
| **Declaration date** | February 23, 2011 | May 11, 2011 |
| **Record date** | March 9, 2011 | June 8, 2011 |
| **Payment date** | March 30, 2011 | June 29, 2011 |
| **Amount** | $0.25 per common share | $0.25 per common share |

On August 11, 2011, our Board of Directors approved a quarterly dividend of $0.25 per share which will be paid on September 28, 2011 to shareholders of record as of September 7, 2011.

*Key Financial Ratios.* Key financial ratios that provide certain measures of our liquidity are as follows:

| | **July 30, 2011** | January 30, 2011 | July 31, 2010 (Restated) |
|---|---|---|---|
| Working capital (In Millions) | **$ 1,991** | $ 2,861 | $ 3,002 |
| Current ratio | **1.76:1** | 2.03:1 | 2.08:1 |
| Debt/capitalization | **34.1%** | 33.7% | 32.9% |

The decrease in working capital and the current ratio as of July 30, 2011 compared to July 31, 2010 was due to lower cash and cash equivalents, primarily driven by $2.2 billion of share repurchases in the first half of 2011 and the fourth quarter of 2010. The increase in the debt/capitalization ratio reflects lower capitalization due to share repurchases in 2011.

*Debt Covenant Compliance.* As of July 30, 2011, we were in compliance with all debt covenants and expect to remain in compliance during fiscal 2011.

| | | (Dollars in Millions) |
|---|---|---|
| | Total Debt | $ 3,693 |
| | Permitted Exclusions | (6) |
| | Subtotal | 3,687 |
| | Rent x 8 | 2,096 |
| A | Included Indebtedness | $ 5,783 |
| | Net Worth | $ 7,078 |
| | Investments (accounted for under equity method) | |
| | Subtotal | 7,078 |
| | Included Indebtedness | 5,783 |
| B | Capitalization | $ 12,861 |
| | Leverage Ratio (A/B) | 0.45 |
| | Maximum permitted Leverage Ratio | 0.70 |

*Free Cash Flow.* We generated free cash flow of $365 million in 2011 compared to $198 million in 2010. The increase in free cash flow is primarily due to taxes, including both improved deferred tax liabilities due to depreciation deductions and timing of tax payments.

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

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

| (In Millions) | **2011** | 2010 (Restated) |
|---|---|---|
| Net cash provided by operating activities | **$ 882** | $ 664 |
| Acquisition of property and equipment | **(479)** | (439) |
| Capital lease and financing obligation payments | **(46)** | (44) |
| Proceeds from financing obligations | **8** | 17 |
| Free cash flow | **$ 365** | $ 198 |

**Contractual Obligations**

There have been no significant changes in the contractual obligations disclosed in our 2010 Form 10-K/A.

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**Off-Balance Sheet Arrangements**

We have not provided any financial guarantees as of July 30, 2011. We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of our Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in our 2010 Form 10-K/A.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in the market risks described in our 2010 Form 10-K/A.

**Item 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures*

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

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

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

Based upon the Evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level because of the material weakness described below.

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We identified a material weakness in our controls over the accounting for leases. The principal factor that contributed to this material weakness was the misinterpretation of complex standards related to leases where we, as the lessee, are involved in asset construction pursuant to ASC 840, Leases. This material weakness resulted in a number of errors in our accounting for leases and contributed to our restatement of previously issued financial statements as more fully described in Note 2 to the Consolidated Financial Statements.

In management s opinion, the remedial actions described below relating to the material weakness in our internal control over financial reporting will also address the ineffectiveness of our disclosure controls and procedures.

(b) *Planned Remediation Efforts to Address Material Weakness*

To remediate the material weakness described above, we have implemented or plan to implement remedial measures including a review of all of our leases to correct instances where we were not complying with generally accepted accounting principles. In addition, we are developing updated procedures to reflect the technical guidance for lease accounting and will institute additional management review to confirm the proper implementation of accounting standards going forward. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We expect that the remediation of the material weakness related to controls over the accounting for leases will be completed prior to the fiscal year end January 28, 2012. However, we cannot make any assurances that we will successfully remediate this material weakness within the anticipated timeframe and thus reduce to remote the likelihood that material misstatements concerning lease accounting will not be prevented or detected in a timely manner.

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

Except as otherwise discussed above, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect such controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

There have been no significant changes in our risk factors from those described in our 2010 Form 10-K/A.

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*Forward-looking Statements*

This report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Those statements relate to developments, results, conditions or other events we expect or anticipate will occur in the future. Words such as believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Without limiting the foregoing, these statements may relate to future outlook, revenues, earnings, store openings, planned capital expenditures, market conditions, new strategies and the competitive environment. Forward-looking statements are based on our management s then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors, described in Item 1A of our 2010 Form 10-K/A, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and we undertake no obligation to update them. An investment in our common stock or other securities carries certain risks. Investors should carefully consider the risks as stated in our 2010 Form 10-K/A and other risks which may be disclosed from time to time in our filings with the SEC before investing in our securities.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**
We did not sell any securities during the quarter ended July 30, 2011, which were not registered under the Securities Act.

In February 2011, our Board of Directors increased the remaining share repurchase authorization under our existing share repurchase program by $2.6 billion, from $900 million to $3.5 billion. Pursuant to this program, we may repurchase shares from time to time in open market transactions, accelerated stock repurchase programs, tender offers, privately negotiated transactions or by other means. Subject to market conditions, we expect to complete the program by the end of Fiscal 2013.

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 July 30, 2011:

| Period | Total Number of Shares Purchased During Period | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (In millions) |
|---|---|---|---|---|
| May 1 May 28, 2011 | 2,250,319 | $ 54.92 | 2,249,792 | $ 2,932 |
| May 29 July 2, 2011 | 7,852,171 | 50.81 | 7,850,000 | 2,533 |
| July 3 July 30, 2011 | 4,198,967 | 55.14 | 4,198,157 | 2,301 |
| Total | 14,301,457 | $ 52.73 | 14,297,949 | $ 2,301 |

**Item 5. Other Information**
On May 16, 2011, we filed a Current Report on Form 8-K disclosing the final voting results from our May 12, 2011 Annual Meeting of Shareholders. At that meeting, our shareholders approved our proposal to hold an annual advisory vote on compensation awarded to our named executive officers. Accordingly, our Board of Directors determined that we will hold a shareholder advisory vote on the compensation awarded to our named executive officers on an annual basis.

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**Item 6. Exhibits**

| | |
|---|---|
| 4.1 | Credit Agreement dated as of June 23, 2011 by and among Kohl s Corporation (the Company ), the Lenders party thereto, Bank of America, N.A., as the Administrative Agent and as an Issuing Bank and a Swing Line Lender, U.S. Bank National Association, as an Issuing Bank, a Swing Line Lender and a Syndication Agent, Wells Fargo Bank, National Association, as an Issuing Bank, a Swing Line Lender and a Syndication Agent, and Morgan Stanley Bank, N.A., as the Documentation Agent, incorporated by reference to the Company s Current Report on Form 8-K dated June 23, 2011. |
| 10.1 | Form of Employment Agreement between the Company and its Senior Executive Vice Presidents. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Periodic Report by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Periodic Report by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 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 |

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**SIGNATURES**

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

Kohl s Corporation

(Registrant)

Date: September 13, 2011

/s/ Wesley S. McDonald
Wesley S. McDonald

Senior Executive Vice President and Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

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