

Quality Issue Process (QIP) Settlement Methodology

- Effective immediately, all vendor settlements will be approved and delivered by QA / Sourcing Leadership.
- Any Quality Issue resulting in a settlement will be subject to 3P final random inspections in accordance with Kohl's inspection policies for up to 6 months, based on reporting timelines. QA certification will be suspended immediately upon settlement

Tier	Settlement Details	Discount % Pre-Ship = First Cost (FOB) Post-ship = ELC	Settlement Ownership	Description	Common Examples	QIP Classification	CAPA Y/N
Shipped product w/failed inspection*	Cost of Goods discount	<ul style="list-style-type: none"> • 10% of COG (or \$10k) whichever is greater • The penalty will double with each subsequent violation in a 3 year period • Kohl's reserves the right to increase the penalty at our discretion • Kohl's reserves the right to delist the factory or vendor for repeat violations 	Quality Assurance / Over \$50K Sourcing	Vendor shipped product to Kohl's knowing there was a failed inspection	Failed 3P inspection complete day prior to shipping, however the inspection failed and to still meet delivery the units were shipped	Kohl's not authorizing shipment without final random inspection	Yes
Tier 0*	N/A	0%	N/A	Product is saleable. Kohl's considers acceptable, but requires continuous improvement.	Customer acceptable, minor concerns found with room for improvement	N/A	Yes
Tier 1*	Cost of Goods discount	10%	Quality Assurance / Over \$50K Sourcing	Product is saleable. Kohl's considers acceptable, but not approved quality.	Color, fabric weight, trims not as approved, or minor workmanship.	Problem not previously known - poor quality management on the production floor	Yes

*Vendor is always responsible for third-party product inspections, testing, and/or any costs incurred to validate the claim.

Quality Issue Process (QIP) Settlement Methodology | Continued

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Tier 2*	Cost of Goods discount	15%	Quality Assurance / Over \$50K Sourcing	Product is saleable. Not approved quality	Some measurements out of tolerance, minor torquing, product finishing, performance including shrinkage, durability, etc.outside established parameters	Mistake / Lack of consistency	Yes
Tier 3*	Cost of Goods discount	25%	Sourcing / Leadership	Product is saleable OR not salable / brand damaging. Doesn't meet approved standards, primary / critical POM is out of tolerance, critical point of attention not followed or executed.	Major or high level recurrence of Torquing, product finishing, performance including shrinkage, durability, etc., inconsistent fit, primary POM out of tolerance, major defect of functionality, or workmanship.	Lapse in quality oversight	Yes
Tier 4 / Serious*	Cost of Goods discount + Other Costs incurred by Kohl's to remove Defective Product from POS and Supply Chain	>25% - 100%	Sourcing / Leadership	Product is unsalable as it does not meet Kohl's construction, testing, or fit standards and/or will damage the brand integrity.	Mold, unwearable product, odor., safety/regulatory failures	Brand Damaging / Harmful	Yes

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