

TARGET CORP  
Form 10-Q  
August 27, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended July 31, 2010

Commission File Number 1-6049

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**TARGET CORPORATION**

(Exact name of registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of

**41-0215170**  
(I.R.S. Employer

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incorporation or organization)  
**1000 Nicollet Mall, Minneapolis, Minnesota**  
(Address of principal executive offices)

Identification No.)  
**55403**  
(Zip Code)

Registrant's telephone number, including area code: 612/304-6073

Former name, former address and former fiscal year, if changed since last report: N/A

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting company

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

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practicable date. Total shares of common stock, par value \$.0833, outstanding at August 25, 2010 were 721,447,816.

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TARGET CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Statements of Operations

| (millions, except per share data) (unaudited)              | Three Months Ended |                   | Six Months Ended |                   |
|------------------------------------------------------------|--------------------|-------------------|------------------|-------------------|
|                                                            | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| Sales                                                      | \$ 15,126          | \$ 14,567         | \$ 30,283        | \$ 28,928         |
| Credit card revenues                                       | 406                | 500               | 841              | 972               |
| Total revenues                                             | 15,532             | 15,067            | 31,124           | 29,900            |
| Cost of sales                                              | 10,293             | 9,914             | 20,705           | 19,851            |
| Selling, general and administrative expenses               | 3,263              | 3,136             | 6,405            | 6,150             |
| Credit card expenses                                       | 214                | 388               | 494              | 772               |
| Depreciation and amortization                              | 496                | 478               | 1,012            | 950               |
| Earnings before interest expense and income taxes          | 1,266              | 1,151             | 2,508            | 2,177             |
| Net interest expense                                       |                    |                   |                  |                   |
| Nonrecourse debt collateralized by credit card receivables | 21                 | 24                | 44               | 51                |
| Other interest expense                                     | 165                | 171               | 330              | 348               |
| Interest income                                            | (1)                | (1)               | (1)              | (2)               |
| Net interest expense                                       | 185                | 194               | 373              | 397               |
| Earnings before income taxes                               | 1,081              | 957               | 2,135            | 1,780             |
| Provision for income taxes                                 | 402                | 363               | 785              | 664               |
| <b>Net earnings</b>                                        | <b>\$ 679</b>      | <b>\$ 594</b>     | <b>\$ 1,350</b>  | <b>\$ 1,116</b>   |
| <b>Basic earnings per share</b>                            | <b>\$ 0.93</b>     | <b>\$ 0.79</b>    | <b>\$ 1.84</b>   | <b>\$ 1.48</b>    |
| <b>Diluted earnings per share</b>                          | <b>\$ 0.92</b>     | <b>\$ 0.79</b>    | <b>\$ 1.82</b>   | <b>\$ 1.48</b>    |
| Weighted average common shares outstanding                 |                    |                   |                  |                   |
| Basic                                                      | 731.1              | 752.0             | 735.5            | 752.1             |
| Diluted                                                    | 736.6              | 754.4             | 741.1            | 754.2             |

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Financial Position**

| (millions)                                                                                     | <b>July 31,<br/>2010<br/>(unaudited)</b> | January 30,<br>2010 | August 1,<br>2009<br>(unaudited) |
|------------------------------------------------------------------------------------------------|------------------------------------------|---------------------|----------------------------------|
| <b>Assets</b>                                                                                  |                                          |                     |                                  |
| Cash and cash equivalents, including marketable securities of <b>\$972</b> , \$1,617 and \$385 | \$ <b>1,540</b>                          | \$ 2,200            | \$ 957                           |
| Credit card receivables, net of allowance of <b>\$851</b> , \$1,016 and \$1,004                | <b>6,137</b>                             | 6,966               | 7,288                            |
| Inventory                                                                                      | <b>7,728</b>                             | 7,179               | 7,528                            |
| Other current assets                                                                           | <b>1,840</b>                             | 2,079               | 1,910                            |
| Total current assets                                                                           | <b>17,245</b>                            | 18,424              | 17,683                           |
| Property and equipment                                                                         |                                          |                     |                                  |
| Land                                                                                           | <b>5,845</b>                             | 5,793               | 5,726                            |
| Buildings and improvements                                                                     | <b>22,568</b>                            | 22,152              | 21,530                           |
| Fixtures and equipment                                                                         | <b>4,602</b>                             | 4,743               | 4,481                            |
| Computer hardware and software                                                                 | <b>2,432</b>                             | 2,575               | 2,540                            |
| Construction-in-progress                                                                       | <b>772</b>                               | 502                 | 978                              |
| Accumulated depreciation                                                                       | <b>(10,818)</b>                          | (10,485)            | (9,543)                          |
| Property and equipment, net                                                                    | <b>25,401</b>                            | 25,280              | 25,712                           |
| Other noncurrent assets                                                                        | <b>1,009</b>                             | 829                 | 838                              |
| <b>Total assets</b>                                                                            | <b>\$ 43,655</b>                         | \$ 44,533           | \$ 44,233                        |
| <b>Liabilities and shareholders' investment</b>                                                |                                          |                     |                                  |
| Accounts payable                                                                               | \$ <b>6,228</b>                          | \$ 6,511            | \$ 6,233                         |
| Accrued and other current liabilities                                                          | <b>3,057</b>                             | 3,120               | 3,004                            |
| Unsecured debt and other borrowings                                                            | <b>782</b>                               | 796                 | 517                              |
| Nonrecourse debt collateralized by credit card receivables                                     | <b>33</b>                                | 900                 | 56                               |
| Total current liabilities                                                                      | <b>10,100</b>                            | 11,327              | 9,810                            |
| Unsecured debt and other borrowings                                                            | <b>11,693</b>                            | 10,643              | 11,983                           |
| Nonrecourse debt collateralized by credit card receivables                                     | <b>4,044</b>                             | 4,475               | 5,458                            |
| Deferred income taxes                                                                          | <b>740</b>                               | 835                 | 494                              |
| Other noncurrent liabilities                                                                   | <b>1,810</b>                             | 1,906               | 1,886                            |
| Total noncurrent liabilities                                                                   | <b>18,287</b>                            | 17,859              | 19,821                           |
| Shareholders' investment                                                                       |                                          |                     |                                  |
| Common stock                                                                                   | <b>60</b>                                | 62                  | 63                               |
| Additional paid-in capital                                                                     | <b>3,085</b>                             | 2,919               | 2,822                            |
| Retained earnings                                                                              | <b>12,690</b>                            | 12,947              | 12,266                           |
| Accumulated other comprehensive loss                                                           | <b>(567)</b>                             | (581)               | (549)                            |
| Total shareholders' investment                                                                 | <b>15,268</b>                            | 15,347              | 14,602                           |
| <b>Total liabilities and shareholders' investment</b>                                          | <b>\$ 43,655</b>                         | \$ 44,533           | \$ 44,233                        |
| Common shares outstanding                                                                      | <b>722.6</b>                             | 744.6               | 751.9                            |

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Cash Flows**

| (millions) (unaudited)                                     | Six Months Ended |                   |
|------------------------------------------------------------|------------------|-------------------|
|                                                            | July 31,<br>2010 | August 1,<br>2009 |
| <b>Operating activities</b>                                |                  |                   |
| Net earnings                                               | \$ 1,350         | \$ 1,116          |
| Reconciliation to cash flow                                |                  |                   |
| Depreciation and amortization                              | 1,012            | 950               |
| Share-based compensation expense                           | 52               | 48                |
| Deferred income taxes                                      | 148              | 64                |
| Bad debt expense                                           | 335              | 600               |
| Loss/impairment of property and equipment, net             | 10               | 74                |
| Other non-cash items affecting earnings                    | 75               | 28                |
| Changes in operating accounts providing / (requiring) cash |                  |                   |
| Accounts receivable originated at Target                   | 241              | 154               |
| Inventory                                                  | (549)            | (823)             |
| Other current assets                                       | (76)             | (59)              |
| Other noncurrent assets                                    | (106)            | 19                |
| Accounts payable                                           | (283)            | (103)             |
| Accrued and other current liabilities                      | (247)            | 30                |
| Other noncurrent liabilities                               | (134)            | (47)              |
| Cash flow provided by operations                           | 1,828            | 2,051             |
| <b>Investing activities</b>                                |                  |                   |
| Expenditures for property and equipment                    | (991)            | (1,042)           |
| Proceeds from disposal of property and equipment           | 32               | 24                |
| Change in accounts receivable originated at third parties  | 254              | 42                |
| Other investments                                          | (20)             | 4                 |
| Cash flow required for investing activities                | (725)            | (972)             |
| <b>Financing activities</b>                                |                  |                   |
| Additions to long-term debt                                | 997              |                   |
| Reductions of long-term debt                               | (1,339)          | (754)             |
| Dividends paid                                             | (252)            | (241)             |
| Repurchase of stock                                        | (1,285)          |                   |
| Stock option exercises and related tax benefit             | 116              | 9                 |
| Cash flow required for financing activities                | (1,763)          | (986)             |
| Net increase/(decrease) in cash and cash equivalents       | (660)            | 93                |
| Cash and cash equivalents at beginning of period           | 2,200            | 864               |
| <b>Cash and cash equivalents at end of period</b>          | <b>\$ 1,540</b>  | <b>\$ 957</b>     |

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Shareholders Investment

|                                                                       | Common<br>Stock<br>Shares | Stock<br>Par<br>Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Pension and<br>Other<br>Benefit<br>Liability<br>Adjustments | Accumulated Other<br>Comprehensive<br>Income/(Loss) | Derivative<br>Instruments,<br>Foreign<br>Currency<br>and Other | Total         |
|-----------------------------------------------------------------------|---------------------------|-----------------------|----------------------------------|----------------------|-------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------|---------------|
| (millions, except footnotes)                                          |                           |                       |                                  |                      |                                                             |                                                     |                                                                |               |
| January 31, 2009                                                      | 752.7                     | \$ 63                 | \$ 2,762                         | \$ 11,443            | \$ (510)                                                    | \$ (46)                                             | \$                                                             | 13,712        |
| Net earnings                                                          |                           |                       |                                  | 2,488                |                                                             |                                                     |                                                                | 2,488         |
| Other comprehensive income                                            |                           |                       |                                  |                      |                                                             |                                                     |                                                                |               |
| Pension and other benefit liability adjustments, net of taxes of \$17 |                           |                       |                                  |                      | (27)                                                        |                                                     |                                                                | (27)          |
| Net change on cash flow hedges, net of taxes of \$2                   |                           |                       |                                  |                      |                                                             |                                                     | 4                                                              | 4             |
| Currency translation adjustment, net of taxes of \$0                  |                           |                       |                                  |                      |                                                             |                                                     | (2)                                                            | (2)           |
| Total comprehensive income                                            |                           |                       |                                  |                      |                                                             |                                                     |                                                                | 2,463         |
| Dividends declared                                                    |                           |                       |                                  | (503)                |                                                             |                                                     |                                                                | (503)         |
| Repurchase of stock                                                   | (9.9)                     | (1)                   |                                  | (481)                |                                                             |                                                     |                                                                | (482)         |
| Stock options and awards                                              | 1.8                       |                       | 157                              |                      |                                                             |                                                     |                                                                | 157           |
| January 30, 2010 (unaudited)                                          | 744.6                     | \$ 62                 | \$ 2,919                         | \$ 12,947            | \$ (537)                                                    | \$ (44)                                             | \$                                                             | 15,347        |
| Net earnings                                                          |                           |                       |                                  | 1,350                |                                                             |                                                     |                                                                | 1,350         |
| Other comprehensive income                                            |                           |                       |                                  |                      |                                                             |                                                     |                                                                |               |
| Pension and other benefit liability adjustments, net of taxes of \$7  |                           |                       |                                  |                      | 11                                                          |                                                     |                                                                | 11            |
| Net change on cash flow hedges, net of taxes of \$1                   |                           |                       |                                  |                      |                                                             |                                                     | 2                                                              | 2             |
| Currency translation adjustment, net of taxes of \$1                  |                           |                       |                                  |                      |                                                             |                                                     | 1                                                              | 1             |
| Total comprehensive income                                            |                           |                       |                                  |                      |                                                             |                                                     |                                                                | 1,364         |
| Dividends declared                                                    |                           |                       |                                  | (306)                |                                                             |                                                     |                                                                | (306)         |
| Repurchase of stock                                                   | (25.1)                    | (2)                   |                                  | (1,301)              |                                                             |                                                     |                                                                | (1,303)       |
| Stock options and awards                                              | 3.1                       |                       | 166                              |                      |                                                             |                                                     |                                                                | 166           |
| <b>July 31, 2010</b>                                                  | <b>722.6</b>              | <b>\$ 60</b>          | <b>\$ 3,085</b>                  | <b>\$ 12,690</b>     | <b>\$ (526)</b>                                             | <b>\$ (41)</b>                                      | <b>\$</b>                                                      | <b>15,268</b> |

Dividends declared per share were \$0.25 and \$0.17 for the three months ended July 31, 2010, and August 1, 2009, respectively, and \$0.42 and \$0.33 for the six months ended July 31, 2010 and August 1, 2009, respectively. For the fiscal year ended January 30, 2010, dividends declared per share were \$0.67.

See accompanying Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements****1. Accounting Policies**

The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statement disclosures contained in the 2009 Form 10-K for Target Corporation (Target or the Corporation). The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. See Note 1 in our Form 10-K for the fiscal year ended January 30, 2010, for those policies. In the opinion of management, all adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature.

Due to the seasonal nature of our business, quarterly revenues, expenses, earnings and cash flows are not necessarily indicative of the results that may be expected for the full year.

**2. Earnings Per Share**

Basic earnings per share (EPS) is net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the incremental shares assumed to be issued upon the exercise of stock options and under performance share and restricted stock unit arrangements.

| Earnings Per Share                                                            | Basic EPS          |                 |                  |                 | Diluted EPS        |                 |                  |                 |
|-------------------------------------------------------------------------------|--------------------|-----------------|------------------|-----------------|--------------------|-----------------|------------------|-----------------|
|                                                                               | Three Months Ended |                 | Six Months Ended |                 | Three Months Ended |                 | Six Months Ended |                 |
|                                                                               | July 31,<br>2010   | Aug. 1,<br>2009 | July 31,<br>2010 | Aug. 1,<br>2009 | July 31,<br>2010   | Aug. 1,<br>2009 | July 31,<br>2010 | Aug. 1,<br>2009 |
| (millions, except per share data)                                             |                    |                 |                  |                 |                    |                 |                  |                 |
| Net earnings                                                                  | \$ 679             | \$ 594          | \$ 1,350         | \$ 1,116        | \$ 679             | \$ 594          | \$ 1,350         | \$ 1,116        |
| Basic weighted average common shares outstanding                              | 731.1              | 752.0           | 735.5            | 752.1           | 731.1              | 752.0           | 735.5            | 752.1           |
| Incremental stock options, performance share units and restricted stock units |                    |                 |                  |                 | 5.5                | 2.4             | 5.6              | 2.1             |
| Weighted average common shares outstanding                                    | 731.1              | 752.0           | 735.5            | 752.1           | 736.6              | 754.4           | 741.1            | 754.2           |
| Earnings per share                                                            | \$ 0.93            | \$ 0.79         | \$ 1.84          | \$ 1.48         | \$ 0.92            | \$ 0.79         | \$ 1.82          | \$ 1.48         |

For the July 31, 2010, and August 1, 2009, computations, 11.6 million and 25.5 million stock options, respectively, were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive.

**3. Fair Value Measurements**



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Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

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The following table presents financial assets and liabilities measured at fair value on a recurring basis:

**Fair Value Measurements  
Recurring Basis**

| (millions)                                              | Fair Value at<br>July 31, 2010 |               |           | Fair Value at<br>January 30, 2010 |               |           | Fair Value at<br>August 1, 2009 |               |           |
|---------------------------------------------------------|--------------------------------|---------------|-----------|-----------------------------------|---------------|-----------|---------------------------------|---------------|-----------|
|                                                         | Level 1                        | Level 2       | Level 3   | Level 1                           | Level 2       | Level 3   | Level 1                         | Level 2       | Level 3   |
| <b>Assets</b>                                           |                                |               |           |                                   |               |           |                                 |               |           |
| Cash and cash equivalents                               |                                |               |           |                                   |               |           |                                 |               |           |
| Marketable securities                                   | \$ 972                         | \$            | \$        | \$ 1,617                          | \$            | \$        | \$ 385                          | \$            | \$        |
| Other current assets                                    |                                |               |           |                                   |               |           |                                 |               |           |
| Prepaid forward contracts                               | 73                             |               |           | 79                                |               |           | 59                              |               |           |
| Other noncurrent assets                                 |                                |               |           |                                   |               |           |                                 |               |           |
| Interest rate swaps <sup>(a)</sup>                      |                                | 164           |           |                                   | 131           |           |                                 | 131           |           |
| Company-owned life insurance investments <sup>(b)</sup> |                                | 326           |           |                                   | 305           |           |                                 | 323           |           |
| <b>Total</b>                                            | <b>\$ 1,045</b>                | <b>\$ 490</b> | <b>\$</b> | <b>\$ 1,696</b>                   | <b>\$ 436</b> | <b>\$</b> | <b>\$ 444</b>                   | <b>\$ 454</b> | <b>\$</b> |
| <b>Liabilities</b>                                      |                                |               |           |                                   |               |           |                                 |               |           |
| Other noncurrent liabilities                            |                                |               |           |                                   |               |           |                                 |               |           |
| Interest rate swaps <sup>(a)</sup>                      | \$                             | \$ 66         | \$        | \$                                | \$ 23         | \$        | \$                              | \$ 14         | \$        |
| <b>Total</b>                                            | <b>\$</b>                      | <b>\$ 66</b>  | <b>\$</b> | <b>\$</b>                         | <b>\$ 23</b>  | <b>\$</b> | <b>\$</b>                       | <b>\$ 14</b>  | <b>\$</b> |

(a) There were no interest rate swaps designated as accounting hedges at July 31, 2010, January 30, 2010 or August 1, 2009.

(b) Company-owned life insurance investments consist of equity index funds and fixed income assets. Amounts are presented net of loans of \$239 million at July 31, 2010, \$244 million at January 30, 2010, and \$196 million at August 1, 2009 that are secured by some of these policies.

| Position                                     | Valuation Technique                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Marketable securities                        | Initially valued at transaction price. Carrying value of cash equivalents (including money market funds) approximates fair value because maturities are less than three months.                                                                                                                                                      |
| Prepaid forward contracts                    | Initially valued at transaction price. Subsequently valued by reference to the market price of Target common stock.                                                                                                                                                                                                                  |
| Interest rate swaps/forward and equity swaps | Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. |
| Company-owned life insurance investments     | Includes investments in separate accounts that are valued based on market rates credited by the insurer.                                                                                                                                                                                                                             |

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The fair value measurements related to long-lived assets held for sale and held and used in the following table were determined using available market prices at the measurement date based on recent investments or pending transactions of similar assets, third-party independent appraisals, valuation multiples or public comparables, less cost to sell where appropriate. We classify these measurements as Level 2.

**Fair Value Measurements - Nonrecurring Basis**

| (millions)                     | Other current assets            |                  | Property and equipment                         |                  |
|--------------------------------|---------------------------------|------------------|------------------------------------------------|------------------|
|                                | Long-lived assets held for sale |                  | Long-lived assets held and used <sup>(a)</sup> |                  |
|                                | Three Months Ended              | Six Months Ended | Three Months Ended                             | Six Months Ended |
| Measured as of July 31, 2010:  |                                 |                  |                                                |                  |
| Carrying amount                | \$ 2                            | \$ 2             | \$ 39                                          | \$ 62            |
| Fair value measurement         | 2                               | 2                | 34                                             | 54               |
| Gain/(loss)                    |                                 |                  | (5)                                            | (8)              |
| Measured as of August 1, 2009: |                                 |                  |                                                |                  |
| Carrying amount                | 15                              | 39               | 51                                             | 62               |
| Fair value measurement         | 11                              | 30               | 34                                             | 40               |
| Gain/(loss)                    | (4)                             | (9)              | (17)                                           | (22)             |

(a) Primarily relates to real estate and buildings intended for sale in the future but not currently meeting the held for sale criteria.

The following table presents the carrying amounts and estimated fair values of financial instruments not measured at fair value in the Consolidated Statements of Financial Position. The fair value of marketable securities is determined using available market prices at the reporting date. The fair value of debt is measured using a discounted cash flow analysis based on our current market interest rates for similar types of financial instruments.

**Financial Instruments Not Measured at Fair Value**

| (millions)                           | July 31, 2010   |            | August 1, 2009  |            |
|--------------------------------------|-----------------|------------|-----------------|------------|
|                                      | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Financial assets</b>              |                 |            |                 |            |
| Other current assets                 |                 |            |                 |            |
| Marketable securities <sup>(a)</sup> | \$ 24           | \$ 24      | \$ 18           | \$ 18      |
| Other noncurrent assets              |                 |            |                 |            |
| Marketable securities <sup>(a)</sup> |                 |            | 3               | 3          |
| Total                                | \$ 24           | \$ 24      | \$ 21           | \$ 21      |
| <b>Financial liabilities</b>         |                 |            |                 |            |
| Total debt <sup>(b)</sup>            | \$ 16,135       | \$ 17,953  | \$ 17,637       | \$ 18,502  |
| Total                                | \$ 16,135       | \$ 17,953  | \$ 17,637       | \$ 18,502  |

(a) Amounts include held-to-maturity government and money market investments that are held to satisfy the regulatory requirements of Target Bank and Target National Bank.

(b) Represents the sum of nonrecourse debt collateralized by credit card receivables and unsecured debt and other borrowings excluding unamortized swap valuation adjustments and capital lease obligations.

The carrying amounts of credit card receivables, net of allowance, accounts payable, and certain accrued and other current liabilities approximate fair value at July 31, 2010.

**4. Credit Card Receivables**

Credit card receivables are recorded net of an allowance for doubtful accounts. The allowance, recognized in an amount equal to the anticipated future write-offs of existing receivables, was \$851 million at July 31, 2010, \$1,016 million at January 30, 2010 and \$1,004 million at August 1,

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2009. This allowance includes provisions for uncollectible finance charges and other credit-related fees. We estimate future write-offs based on historical experience of delinquencies, risk scores, aging trends, and industry risk trends. Substantially all accounts continue to accrue finance charges until they are written off. Total receivables past due ninety days or more and still accruing finance charges were \$246 million at July 31, 2010, \$371 million at January 30, 2010 and \$340 million at August 1, 2009. Accounts are written off when they become 180 days past due.

Under certain circumstances, we offer cardholder payment plans that modify finance charges and minimum payments, which meet the accounting definition of a troubled debt restructuring (TDRs). These concessions are made on an individual cardholder basis for economic or legal reasons specific to each individual cardholder's circumstances. As a percentage of period-end gross receivables, receivables classified as TDRs were 6.3 percent at July 31, 2010, 6.7 percent at January 30, 2010, and 6.5 percent at August 1, 2009. Receivables classified as TDRs are treated consistently with other aged receivables in determining our allowance for doubtful accounts.

As a method of providing funding for our credit card receivables, we sell on an ongoing basis all of our consumer credit card receivables to Target Receivables Corporation (TRC), a wholly owned, bankruptcy remote subsidiary. TRC then transfers the receivables to the Target Credit Card Master Trust (the Trust), which from time to time will sell debt securities to third parties either directly or through a related trust. These debt securities represent undivided interests in the Trust assets. TRC uses the proceeds from the sale of debt securities and its share of collections on the receivables to pay the purchase price of the receivables to the Corporation.

We consolidate the receivables within the Trust and any debt securities issued by the Trust, or a related trust, in our Consolidated Statements of Financial Position. The receivables transferred to the Trust are not available to general creditors of the Corporation. The payments to the holders of the debt securities issued by the Trust or the related trust are made solely from the assets transferred to the Trust or the related trust and are nonrecourse to the general assets of the Corporation. Upon termination of the securitization program and repayment of all debt securities, any remaining assets could be distributed to the Corporation in a liquidation of TRC.

In the second quarter of 2008, we sold an interest in our credit card receivables to a JPMorgan Chase affiliate (JPMC). The interest sold represented 47 percent of the receivables portfolio at the time of the transaction. This transaction was accounted for as a secured borrowing, and accordingly, the credit card receivables within the Trust and the note payable issued are reflected in our Consolidated Statements of Financial Position. Notwithstanding this accounting treatment, the accounts receivable assets that collateralize the note payable supply the cash flow to pay principal and interest to the note holder; the receivables are not available to general creditors of the Corporation; and the payments to JPMC are made solely from the Trust and are nonrecourse to the general assets of the Corporation. Interest and principal payments due on the note are satisfied provided the cash flows from the Trust assets are sufficient. If the cash flows are less than the periodic interest, the available amount, if any, is paid with respect to interest. Interest shortfalls will be paid to the extent subsequent cash flows from the assets in the Trust are sufficient. Future principal payments will be made from JPMC's prorata share of cash flows from the Trust assets.

In the event of a decrease in the receivables principal amount such that JPMC's interest in the entire portfolio would exceed 47 percent for three consecutive months, TRC (using the cash flows from the assets in the Trust) would be required to pay JPMC a pro rata amount of principal collections such that the portion owned by JPMC would not exceed 47 percent, unless JPMC provides a waiver. Conversely, at the option of the Corporation, JPMC may be required to fund an increase in the portfolio to maintain their 47 percent interest up to a maximum JPMC principal balance of \$4.2 billion. Due to the continuing declines in gross credit card receivables, TRC repaid JPMC \$153 million in the second quarter of 2010, \$268 million in the first quarter of 2010 and \$163 million in the fourth quarter of 2009 under the terms of this agreement. On August 25, 2010, TRC repaid an additional \$33 million to JPMC.

If a three-month average of monthly finance charge excess (JPMC's prorata share of finance charge collections less write-offs and specified expenses) is less than 2 percent of the outstanding principal balance of JPMC's interest, the Corporation must implement mutually agreed upon underwriting strategies. If the three-month average finance charge excess falls below 1 percent of the outstanding principal balance of JPMC's interest, JPMC may compel the Corporation to implement underwriting and collections activities, provided those activities are compatible with the Corporation's systems, as well as consistent with similar credit card receivable portfolios managed by JPMC. If the Corporation fails to implement the activities, JPMC has the right to cause the accelerated repayment of the note payable issued in the transaction. As noted in the preceding paragraph, payments would be made solely from the Trust assets.

## 5. Contingencies

We are exposed to claims and litigation arising in the ordinary course of business and use various methods to resolve these matters in a manner that we believe serves the best interest of our shareholders and other constituents. We believe the recorded reserves in our consolidated financial statements are adequate in light of the probable and estimable liabilities. We do not believe that any of the currently identified claims or litigation matters will materially affect our results of operations, cash flows or financial condition.

**6. Notes Payable and Long-Term Debt**

We obtain short-term financing from time to time under our commercial paper program, a form of notes payable. There were no amounts outstanding under our commercial paper program at July 31, 2010, January 30, 2010, or August 1, 2009.

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In July 2010, we issued \$1 billion of long-term debt at 3.875% that matures in July 2020. Proceeds from this issuance were used for general corporate purposes.

In April 2010, TRC repurchased and retired the entire \$900 million series of nonrecourse debt collateralized by credit card receivables, at par, that otherwise would have matured in October 2010. No gain or loss was recorded other than insignificant expenses associated with retiring this debt.

In addition, TRC has made payments to JPMC to reduce its interest in our credit card receivables as described in Note 4, Credit Card Receivables.

### 7. Derivative Financial Instruments

Derivative financial instruments are reported at fair value on the Consolidated Statements of Financial Position. Our derivative instruments have been primarily interest rate swaps. We use these derivatives to mitigate our interest rate risk. We have counterparty credit risk resulting from our derivative instruments. This risk lies primarily with two global financial institutions. We monitor this concentration of counterparty credit risk on an ongoing basis.

Historically, the majority of our derivative instruments qualified for fair value hedge accounting treatment. During 2008, we terminated or de-designated certain interest rate swaps. Total net gains amortized into net interest expense for terminated or de-designated swaps were \$11 million and \$15 million during the three months ended July 31, 2010 and August 1, 2009, respectively. Total net gains amortized into net interest expense for terminated and de-designated swaps were \$22 million and \$33 million during the six months ended July 31, 2010 and August 1, 2009, respectively. The amount remaining on unamortized hedged debt valuation gains from terminated or de-designated interest rate swaps that will be amortized into earnings over the remaining lives totaled \$175 million, \$197 million and \$230 million, at July 31, 2010, January 30, 2010 and August 1, 2009, respectively.

Periodic payments, valuation adjustments and amortization of gains or losses related to derivative contracts are summarized below:

| Derivative Contracts | Effect on Results of Operations | Classification of<br>Income/(Expense) | Three Months Ended |                   | Six Months Ended |                   |
|----------------------|---------------------------------|---------------------------------------|--------------------|-------------------|------------------|-------------------|
|                      |                                 |                                       | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| (millions)           |                                 |                                       |                    |                   |                  |                   |
| Interest Rate Swaps  |                                 | Other interest expense                | \$ 13              | \$ 16             | \$ 28            | \$ 32             |

At July 31, 2010, there were no derivative instruments designated as accounting hedges.

See Note 3, Fair Value Measurements, for a description of the fair value measurement of derivative contracts and their classification on the Consolidated Statements of Financial Position.

**8. Income Taxes**

We file a U.S. federal income tax return and income tax returns in various states and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations for years before 2009 and, with few exceptions, are no longer subject to state and local or non-U.S. income tax examinations by tax authorities for years before 2003.

We accrue for the effects of uncertain tax positions and the related potential penalties and interest.

During the first quarter of 2010, we filed a tax accounting method change that resolved the uncertainty surrounding the timing of deductions for one of our tax positions, resulting in a \$130 million decrease to our unrecognized tax benefit liability. Because this matter solely related to the timing of the deduction, this change had virtually no effect on net tax expense in the first quarter of 2010. As of July 31, 2010, our unrecognized tax benefit liability was \$379 million.

It is possible that up to \$55 million of unrecognized tax benefits as of July 31, 2010 will be recognized within the next twelve months because a variety of issues may be resolved. If these issues are favorably resolved, they would result in a corresponding reduction to income tax expense of approximately the same amount.



## 9. Share Repurchase

Since the inception of our share repurchase program, which began in the fourth quarter of 2007, we have repurchased 128.6 million shares of our common stock, for a total cash investment of \$6,620 million (average price per share of \$51.46).

During the three months ended July 31, 2010, we repurchased 17.5 million shares of our common stock, for a total cash investment of \$907 million (average price per share of \$51.72). There were no prepaid forward contracts settled during the three months ended July 31, 2010.

During the six months ended July 31, 2010, we repurchased 25.1 million shares of our common stock, including 0.3 million shares through settlement of prepaid forward contracts, for a total cash investment of \$1,301 million (average price per share of \$51.89), of which \$15 million was paid in prior periods. The prepaid forward contracts settled during the six months ended July 31, 2010 had a total cash investment of \$15 million and an aggregate market value of \$16 million at their respective settlement dates.

During the three months ended August 1, 2009, we repurchased 0.5 million shares of our common stock, for a total cash investment of \$20 million (average price per share of \$41.13), all of which was paid in prior periods. All shares reacquired during the three months ended August 1, 2009 were delivered upon settlement of prepaid forward contracts. The prepaid forward contracts settled during the three months ended August 1, 2009 had a total cash investment of \$20 million and an aggregate market value of \$21 million at their respective settlement dates.

During the six months ended August 1, 2009, we repurchased 1.2 million shares of our common stock, for a total cash investment of \$42 million (average price per share of \$34.62), of which \$33 million was paid in prior periods. All shares reacquired during the six months ended August 1, 2009 were delivered upon settlement of prepaid forward contracts. The prepaid forward contracts settled during the six months ended August 1, 2009 had a total cash investment of \$42 million and an aggregate market value of \$44 million at their respective dates.

See Note 10, Pension, Postretirement Health Care and Other Benefits, for further details of our prepaid forward contracts.

## 10. Pension, Postretirement Health Care and Other Benefits

We have qualified defined benefit pension plans covering team members who meet age and service requirements, including in certain circumstances, date of hire. We also have unfunded, nonqualified pension plans for team members with qualified plan compensation restrictions. Eligibility for, and the level of, these benefits varies depending on team members' date of hire, length of service and/or team member compensation. Upon early retirement and prior to Medicare eligibility, team members also become eligible for certain health care benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost. Effective January 1, 2009, our qualified defined benefit pension plan was closed to new participants, with limited exceptions.

The following table provides a summary of the amounts recognized in our Consolidated Statements of Financial Position for our postretirement benefit plans:

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| Net Pension Expense and<br>Postretirement Healthcare<br>Expense<br>(millions) | Pension Benefits   |                 |                  |                 | Postretirement Health Care Benefits |                 |                  |                 |
|-------------------------------------------------------------------------------|--------------------|-----------------|------------------|-----------------|-------------------------------------|-----------------|------------------|-----------------|
|                                                                               | Three Months Ended |                 | Six Months Ended |                 | Three Months Ended                  |                 | Six Months Ended |                 |
|                                                                               | July 31,<br>2010   | Aug. 1,<br>2009 | July 31,<br>2010 | Aug. 1,<br>2009 | July 31,<br>2010                    | Aug. 1,<br>2009 | July 31,<br>2010 | Aug. 1,<br>2009 |
| Service cost                                                                  | \$ 29              | \$ 25           | \$ 58            | \$ 50           | \$ 3                                | \$ 2            | \$ 5             | \$ 3            |
| Interest cost                                                                 | 32                 | 31              | 64               | 62              | 1                                   | 2               | 2                | 4               |
| Expected return on assets                                                     | (48)               | (44)            | (96)             | (88)            |                                     |                 |                  |                 |
| Recognized losses                                                             | 11                 | 6               | 22               | 12              | 1                                   |                 | 2                |                 |
| Recognized prior service cost                                                 |                    | (1)             | (1)              | (2)             | (3)                                 |                 | (5)              |                 |
| <b>Total</b>                                                                  | <b>\$ 24</b>       | <b>\$ 17</b>    | <b>\$ 47</b>     | <b>\$ 34</b>    | <b>\$ 2</b>                         | <b>\$ 4</b>     | <b>\$ 4</b>      | <b>\$ 7</b>     |

We also maintain a nonqualified, unfunded deferred compensation plan for approximately 3,500 current and retired team members whose participation in our 401(k) plan is limited by statute or regulation. These team members choose from a menu of crediting rate alternatives that are the same as the investment choices in our 401(k) plan, including Target common stock. We credit an additional two percent per year to the accounts of all active participants, excluding executive officer

participants, in part to recognize the risks inherent to their participation in a plan of this nature. We also maintain a nonqualified, unfunded deferred compensation plan that was frozen during 1996, covering 11 current and 50 retired participants. In this plan, deferred compensation earns returns tied to market levels of interest rates plus an additional six percent return, with a minimum of 12 percent and a maximum of 20 percent, as determined by the plan's terms.

We control some of our risk of offering the nonqualified plans by investing in vehicles that offset a substantial portion of our economic exposure to the returns of the plans. These investment vehicles include company-owned life insurance on approximately 4,000 highly compensated current and former team members who have given their consent to be insured and prepaid forward contracts in our own common stock. All of these investments are general corporate assets and are marked-to-market with the related gains and losses recognized in the Consolidated Statements of Operations in the period they occur.

The total change in fair value for contracts indexed to our own common stock recorded in earnings was a pretax (loss)/gain of \$(7) million and \$6 million for the three months ended July 31, 2010 and August 1, 2009, respectively, and a pretax (loss)/gain of \$(1) million and \$25 million for the six months ended July 31, 2010 and August 1, 2009, respectively. For the six months ended July 31, 2010, we invested approximately \$11 million in prepaid forward contracts in our own common stock. For the six months ended August 1, 2009, we invested approximately \$9 million in such investment instruments, and these investments are included in the Consolidated Statements of Cash Flows within other investing activities. Adjusting our position in these investment vehicles may involve repurchasing shares of Target common stock when settling the forward contracts. There were no repurchases during the three months ended July 31, 2010. For the six months ended July 31, 2010, these repurchases totaled 0.3 million shares, and for the three and six months ended August 1, 2009, these repurchases totaled 0.5 million and 1.2 million shares, respectively, and are included in the total share repurchases described in Note 9, Share Repurchase.

At July 31, 2010, January 30, 2010 and August 1, 2009, our outstanding interest in contracts indexed to our common stock was as follows:

| Prepaid Forward Contracts on Target<br>Common Stock | Number of<br>Shares | Contractual             |  | Fair      |            | Total Cash |  |
|-----------------------------------------------------|---------------------|-------------------------|--|-----------|------------|------------|--|
|                                                     |                     | Price Paid per<br>Share |  | Value     | Investment |            |  |
| (millions, except per share data)                   |                     |                         |  |           |            |            |  |
| August 1, 2009                                      | 1.3                 | \$ 41.11                |  | \$ 59     |            | \$ 55      |  |
| January 30, 2010                                    | 1.5                 | 42.77                   |  | 79        |            | 66         |  |
| <b>July 31, 2010</b>                                | <b>1.4</b>          | <b>43.49</b>            |  | <b>73</b> |            | <b>62</b>  |  |

## 11. Segment Reporting

Our measure of profit for each segment is a measure that management considers analytically useful in measuring the return we are achieving on our investment.

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| Business Segment Results                                                       | Three Months Ended July 31, 2010 |        |        |      |       |        | Three Months Ended August 1, 2009 |        |        |     |    |        |
|--------------------------------------------------------------------------------|----------------------------------|--------|--------|------|-------|--------|-----------------------------------|--------|--------|-----|----|--------|
|                                                                                |                                  |        | Credit |      |       |        |                                   |        | Credit |     |    |        |
|                                                                                | (millions)                       |        | Retail | Card | Total |        | Retail                            | Card   | Total  |     |    |        |
| Sales/Credit card revenues                                                     | \$                               | 15,126 | \$     | 406  | \$    | 15,532 | \$                                | 14,567 | \$     | 500 | \$ | 15,067 |
| Cost of sales                                                                  |                                  | 10,293 |        |      |       | 10,293 |                                   | 9,914  |        |     |    | 9,914  |
| Bad debt expense(a)                                                            |                                  |        |        | 138  |       | 138    |                                   |        |        | 303 |    | 303    |
| Selling, general and administrative/ Operations and marketing expenses(a), (b) |                                  | 3,246  |        | 93   |       | 3,339  |                                   | 3,115  |        | 106 |    | 3,221  |
| Depreciation and amortization                                                  |                                  | 491    |        | 5    |       | 496    |                                   | 474    |        | 4   |    | 478    |
| Earnings before interest expense and income taxes                              |                                  | 1,096  |        | 170  |       | 1,266  |                                   | 1,064  |        | 87  |    | 1,151  |
| Interest expense on nonrecourse debt collateralized by credit card receivables |                                  |        |        | 21   |       | 21     |                                   |        |        | 24  |    | 24     |
| Segment profit                                                                 | \$                               | 1,096  | \$     | 149  |       | 1,245  | \$                                | 1,064  | \$     | 63  |    | 1,127  |
| Unallocated (income) and expenses                                              |                                  |        |        |      |       |        |                                   |        |        |     |    |        |
| Other interest expense                                                         |                                  |        |        |      |       | 165    |                                   |        |        |     |    | 171    |
| Interest income                                                                |                                  |        |        |      |       | (1)    |                                   |        |        |     |    | (1)    |
| Earnings before income taxes                                                   |                                  |        |        |      | \$    | 1,081  |                                   |        |        |     | \$ | 957    |

|                                                                                | Six Months Ended July 31, 2010 |        |        |      |       |        | Six Months Ended August 1, 2009 |        |        |     |    |        |
|--------------------------------------------------------------------------------|--------------------------------|--------|--------|------|-------|--------|---------------------------------|--------|--------|-----|----|--------|
|                                                                                |                                |        | Credit |      |       |        |                                 |        | Credit |     |    |        |
|                                                                                | (millions)                     |        | Retail | Card | Total |        | Retail                          | Card   | Total  |     |    |        |
| Sales/Credit card revenues                                                     | \$                             | 30,283 | \$     | 841  | \$    | 31,124 | \$                              | 28,928 | \$     | 972 | \$ | 29,900 |
| Cost of sales                                                                  |                                | 20,705 |        |      |       | 20,705 |                                 | 19,851 |        |     |    | 19,851 |
| Bad debt expense(a)                                                            |                                |        |        | 335  |       | 335    |                                 |        |        | 600 |    | 600    |
| Selling, general and administrative/ Operations and marketing expenses(a), (b) |                                | 6,370  |        | 193  |       | 6,563  |                                 | 6,109  |        | 213 |    | 6,322  |
| Depreciation and amortization                                                  |                                | 1,003  |        | 9    |       | 1,012  |                                 | 942    |        | 7   |    | 950    |
| Earnings before interest expense and income taxes                              |                                | 2,205  |        | 304  |       | 2,508  |                                 | 2,026  |        | 152 |    | 2,177  |
| Interest expense on nonrecourse debt collateralized by credit card receivables |                                |        |        | 44   |       | 44     |                                 |        |        | 51  |    | 51     |
| Segment profit                                                                 | \$                             | 2,205  | \$     | 260  |       | 2,465  | \$                              | 2,026  | \$     | 101 |    | 2,126  |
| Unallocated (income) and expenses                                              |                                |        |        |      |       |        |                                 |        |        |     |    |        |
| Other interest expense                                                         |                                |        |        |      |       | 330    |                                 |        |        |     |    | 348    |
| Interest income                                                                |                                |        |        |      |       | (1)    |                                 |        |        |     |    | (2)    |
| Earnings before income taxes                                                   |                                |        |        |      | \$    | 2,135  |                                 |        |        |     | \$ | 1,780  |

(a) The combination of bad debt expense and operations and marketing expenses within the Credit Card Segment represent credit card expenses on the Consolidated Statements of Operations.

(b) New account and loyalty rewards redeemed by our guests reduce reported sales. Our Retail Segment charges the cost of these discounts to our Credit Card Segment, and the reimbursements of \$17 million and \$34 million for the three and six months ended July 31, 2010, respectively, and \$21 million and \$41 million for the three and six months ended August 1, 2009, respectively, are recorded as a reduction to SG&A expenses within the Retail Segment and an increase to operations and marketing expenses within the Credit Card Segment.

Note: The sum of the segment amounts may not equal the total amounts due to rounding.



**Total Assets by Segment**

| (millions)   | July 31, 2010 |          |           | January 30, 2010 |          |           | August 1, 2009 |          |           |
|--------------|---------------|----------|-----------|------------------|----------|-----------|----------------|----------|-----------|
|              | Retail        | Card     | Total     | Retail           | Card     | Total     | Retail         | Card     | Total     |
| Total assets | \$ 37,182     | \$ 6,473 | \$ 43,655 | \$ 37,200        | \$ 7,333 | \$ 44,533 | \$ 36,551      | \$ 7,682 | \$ 44,233 |

Substantially all of our revenues are generated in, and long-lived assets are located in, the United States.

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

**Executive Summary**

Our financial results for the second quarter of 2010 reflect better than expected earnings from both our Retail and Credit Card Segments. Performance in our Retail Segment reflects increased sales of 3.8 percent over the comparable prior year period due to the contribution from new stores and a 1.7 percent comparable-store increase. We essentially maintained Retail Segment EBITDA and EBIT margin rates in the second quarter of 2010 compared to the prior year. In the Credit Card Segment, we achieved a significant increase in segment profit primarily due to declining bad debt expense driven by improved trends in key measures of risk.

Cash flow provided by operations was \$1,828 million and \$2,051 million for the six months ended July 31, 2010 and August 1, 2009, respectively. We opened 3 new stores in the first half of 2010, all in the second quarter. In the first half of 2009, we opened 50 new stores (37 stores net of 8 relocations and 5 closing), including 23 new stores (21 stores net of 2 relocations) in the second quarter of 2009. During the first half of 2010, we remodeled 211 stores under our current store remodel program, significantly more than the 15 stores we remodeled in the first half of 2009.

**Analysis of Results of Operations**

**Retail Segment**

**Retail Segment Results**

| (millions)                    | Three Months Ended |                |                | Six Months Ended |                |                |
|-------------------------------|--------------------|----------------|----------------|------------------|----------------|----------------|
|                               | July 31, 2010      | August 1, 2009 | Percent Change | July 31, 2010    | August 1, 2009 | Percent Change |
| Sales                         | \$ 15,126          | \$ 14,567      | 3.8%           | \$ 30,283        | \$ 28,928      | 4.7%           |
| Cost of sales                 | 10,293             | 9,914          | 3.8            | 20,705           | 19,851         | 4.3            |
| Gross margin                  | 4,833              | 4,653          | 3.9            | 9,578            | 9,077          | 5.5            |
| SG&A expenses(a)              | 3,246              | 3,115          | 4.2            | 6,370            | 6,109          | 4.3            |
| EBITDA                        | 1,587              | 1,538          | 3.2            | 3,208            | 2,968          | 8.1            |
| Depreciation and amortization | 491                | 474            | 3.5            | 1,003            | 942            | 6.4            |
| EBIT                          | \$ 1,096           | \$ 1,064       | 3.1%           | \$ 2,205         | \$ 2,026       | 8.9%           |

*EBITDA is earnings before interest expense, income taxes, depreciation and amortization.*

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*EBIT is earnings before interest expense and income taxes.*

*(a) New account and loyalty rewards redeemed by our guests reduce reported sales. Our Retail Segment charges the cost of these discounts to our Credit Card Segment, and the reimbursements of \$17 million and \$34 million for the three and six months ended July 31, 2010, respectively, and \$21 million and \$41 million for the three and six months ended August 1, 2009 are recorded as a reduction to SG&A expenses within the Retail Segment.*

**Retail Segment Rate Analysis**

|                                            | Three Months Ended |                   | Six Months Ended |                   |
|--------------------------------------------|--------------------|-------------------|------------------|-------------------|
|                                            | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| Gross margin rate                          | 32.0%              | 31.9%             | 31.6%            | 31.4%             |
| SG&A expense rate                          | 21.5%              | 21.4%             | 21.0%            | 21.1%             |
| EBITDA margin rate                         | 10.5%              | 10.6%             | 10.6%            | 10.3%             |
| Depreciation and amortization expense rate | 3.2%               | 3.3%              | 3.3%             | 3.3%              |
| EBIT margin rate                           | 7.2%               | 7.3%              | 7.3%             | 7.0%              |

*Retail Segment rate analysis metrics are computed by dividing the applicable amount by sales.*

**Sales**

Sales include merchandise sales, net of expected returns, from our stores and our online business, as well as gift card breakage.

Comparable-store sales is a measure that indicates the performance of our existing stores by measuring the growth in sales for such stores for a period over the comparable, prior-year period of equivalent length. The method of calculating comparable-store sales varies across the retail industry. As a result, our comparable-store sales calculation is not necessarily comparable to similarly titled measures reported by other companies.

Comparable-store sales are sales from our online business and sales from general merchandise and SuperTarget stores open longer than one year, including:

- sales from stores that have been remodeled or expanded while remaining open (including our current store remodel program)
- sales from stores that have been relocated to new buildings of the same format within the same trade area, in which the new store opens at about the same time as the old store closes

Comparable-store sales do not include:

- sales from general merchandise stores that have been converted, or relocated within the same trade area, to a SuperTarget store format
- sales from stores that were intentionally closed to be remodeled, expanded or reconstructed

**Comparable-Store Sales**

|                                                  | Three Months Ended |                   | Six Months Ended |                   |
|--------------------------------------------------|--------------------|-------------------|------------------|-------------------|
|                                                  | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| Comparable-store sales                           | 1.7 %              | (6.2)%            | 2.2 %            | (5.0)%            |
| Components of changes in comparable-store sales: |                    |                   |                  |                   |
| Number of transactions                           | 2.4 %              | (2.6)%            | 2.3 %            | (1.9)%            |
| Average transaction amount                       | (0.8)%             | (3.7)%            | (0.1)%           | (3.1)%            |
| Units per transaction                            | 2.0 %              | (2.6)%            | 1.6 %            | (2.9)%            |
| Selling price per unit                           | (2.7)%             | (1.2)%            | (1.7)%           | (0.2)%            |

*The comparable-store sales increases or decreases above are calculated by comparing sales in fiscal year periods with comparable prior fiscal year periods of equivalent length.*



The collective interaction of a broad array of macroeconomic, competitive and consumer behavioral factors, as well as sales mix, and transfer of sales to new stores makes further analysis of sales metrics infeasible.

### **Gross Margin Rate**

Gross margin rate represents gross margin (sales less cost of sales) as a percentage of sales. See Note 3 in our Form 10-K for the fiscal year ended January 30, 2010 for a description of costs included in cost of sales. Markup is the difference between an item's cost and its retail price (expressed as a percentage of its retail price). Factors that affect markup include vendor offerings and negotiations, vendor income, sourcing strategies, market forces like raw material and freight costs, and competitive influences. Markdowns are the reduction in the original or previous price of retail merchandise. Factors that affect markdowns include inventory management, competitive influences and economic conditions.

For the three months ended July 31, 2010, our gross margin rate was 32.0 percent, compared with 31.9 percent in the same period last year, reflecting slight margin rate improvements within merchandise categories. Sales mix had little impact on

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gross margin rate as sales growth rates were similar for both lower margin rate categories (generally product categories of household essentials and food) and higher margin categories (generally product categories of apparel and home).

For the six months ended July 31, 2010, our gross margin rate was 31.6 percent compared with 31.4 percent in the same period last year, which is primarily a result of rate improvements within categories.

### Selling, General and Administrative Expense Rate

Our selling, general and administrative (SG&A) expense rate represents SG&A expenses as a percentage of sales. See Note 3 in our Form 10-K for the fiscal year ended January 30, 2010 for a description of costs included in SG&A expenses. SG&A expenses exclude depreciation and amortization, as well as expenses associated with our credit card operations, which are reflected separately in our Consolidated Statements of Operations.

For the three and six months ended July 31, 2010, SG&A expense rates of 21.5 percent and 21.0 percent, respectively, remained relatively consistent with comparable prior year periods, reflecting productivity gains in our stores and strong expense control despite relatively modest sales growth.

### Depreciation and Amortization Expense Rate

Our depreciation and amortization expense rate represents depreciation and amortization expense as a percentage of sales. For the three and six months ended July 31, 2010, our depreciation and amortization expense rate was 3.2 percent and 3.3 percent, respectively, largely consistent with the 3.3 percent for the respective periods last year.

### Store Data

During the three months ended July 31, 2010, we opened 3 new general merchandise stores. During the three months ended August 1, 2009, we opened 23 new stores, including 21 general merchandise stores (19 net of 2 store relocations) and 2 SuperTarget stores. During the six months ended July 31, 2010, we opened 3 new general merchandise stores. During the six months ended August 1, 2009, we opened 50 new stores representing 37 stores net of 8 relocations and 5 closings.

### Number of Stores and Retail Square Feet

|                                   | Number of Stores |                     |                   | Retail Square Feet <sup>(a)</sup> |                     |                   |
|-----------------------------------|------------------|---------------------|-------------------|-----------------------------------|---------------------|-------------------|
|                                   | July 31,<br>2010 | January 30,<br>2010 | August 1,<br>2009 | July 31,<br>2010                  | January 30,<br>2010 | August 1,<br>2009 |
| Target general merchandise stores | 1,492            | 1,489               | 1,472             | 187,971                           | 187,449             | 184,663           |
| SuperTarget stores                | 251              | 251                 | 247               | 44,504                            | 44,492              | 43,739            |

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|       |              |       |       |                |         |         |
|-------|--------------|-------|-------|----------------|---------|---------|
| Total | <b>1,743</b> | 1,740 | 1,719 | <b>232,475</b> | 231,941 | 228,402 |
|-------|--------------|-------|-------|----------------|---------|---------|

(a) In thousands; reflects total square feet, less office, distribution center and vacant space.

**Credit Card Segment**

We offer credit to qualified guests through the Target Visa and the Target Card. Our credit card program supports our core retail operations and remains an important contributor to our overall profitability and engagement with our guests. Effective April 29, 2010, all new qualified credit card applicants will receive the Target Card, and we will no longer issue the Target Visa to new credit card applicants. Existing Target Visa cardholders are not affected.

Credit card revenues are comprised of finance charges, late fees and other revenues, and third party merchant fees, which are the amounts received from merchants who accept the Target Visa credit card.

**Credit Card Segment Results**

|                                                                                   | Three Months Ended<br>July 31, 2010 |                       | Three Months Ended<br>August 1, 2009 |                       |
|-----------------------------------------------------------------------------------|-------------------------------------|-----------------------|--------------------------------------|-----------------------|
|                                                                                   | Amount<br>(in millions)             | Annualized<br>Rate(d) | Amount<br>(in millions)              | Annualized<br>Rate(d) |
| (millions)                                                                        |                                     |                       |                                      |                       |
| Finance charge revenue                                                            | \$ 324                              | 18.3%                 | \$ 377                               | 18.1%                 |
| Late fees and other revenue                                                       | 54                                  | 3.0                   | 91                                   | 4.3                   |
| Third party merchant fees                                                         | 28                                  | 1.6                   | 32                                   | 1.5                   |
| Total revenues                                                                    | 406                                 | 22.9                  | 500                                  | 23.9                  |
| Bad debt expense                                                                  | 138                                 | 7.8                   | 303                                  | 14.5                  |
| Operations and marketing expenses(a)                                              | 93                                  | 5.2                   | 106                                  | 5.0                   |
| Depreciation and amortization                                                     | 5                                   | 0.3                   | 4                                    | 0.2                   |
| Total expenses                                                                    | 236                                 | 13.3                  | 413                                  | 19.7                  |
| EBIT                                                                              | 170                                 | 9.6                   | 87                                   | 4.2                   |
| Interest expense on nonrecourse debt<br>collateralized by credit card Receivables |                                     |                       | 24                                   |                       |
| Segment profit                                                                    | \$ 149                              |                       | \$ 63                                |                       |
| Average receivables funded by Target(b)                                           | \$ 2,950                            |                       | \$ 2,853                             |                       |
| Segment pretax ROIC(c)                                                            | 20.2%                               |                       | 8.8%                                 |                       |

|                                                                                   | Six Months Ended<br>July 31, 2010 |                       | Six Months Ended<br>August 1, 2009 |                       |
|-----------------------------------------------------------------------------------|-----------------------------------|-----------------------|------------------------------------|-----------------------|
|                                                                                   | Amount<br>(in millions)           | Annualized<br>Rate(d) | Amount<br>(in millions)            | Annualized<br>Rate(d) |
| (millions)                                                                        |                                   |                       |                                    |                       |
| Finance charge revenue                                                            | \$ 674                            | 18.4%                 | \$ 732                             | 17.2%                 |
| Late fees and other revenue                                                       | 113                               | 3.1                   | 178                                | 4.2                   |
| Third party merchant fees                                                         | 54                                | 1.5                   | 62                                 | 1.5                   |
| Total revenues                                                                    | 841                               | 23.0                  | 972                                | 22.8                  |
| Bad debt expense                                                                  | 335                               | 9.2                   | 600                                | 14.1                  |
| Operations and marketing expenses(a)                                              | 193                               | 5.3                   | 213                                | 5.0                   |
| Depreciation and amortization                                                     | 9                                 | 0.2                   | 7                                  | 0.2                   |
| Total expenses                                                                    | 537                               | 14.7                  | 820                                | 19.2                  |
| EBIT                                                                              | 304                               | 8.3                   | 152                                | 3.6                   |
| Interest expense on nonrecourse debt<br>collateralized by credit card receivables |                                   |                       | 51                                 |                       |
| Segment profit                                                                    | \$ 260                            |                       | \$ 101                             |                       |
| Average receivables funded by Target(b)                                           | \$ 2,656                          |                       | \$ 3,027                           |                       |
| Segment pretax ROIC(c)                                                            | 19.6%                             |                       | 6.7%                               |                       |

(a) New account and loyalty rewards redeemed by our guests reduce reported sales. Our Retail Segment charges the cost of these discounts to our Credit Card Segment, and the reimbursements of \$17 million and \$34 million for the three and six months ended July 31, 2010, respectively, and \$21 million and \$41 million for the three and six months ended August 1, 2009, respectively, are recorded as an increase to operations and marketing expenses within the Credit Card Segment.

(b) Amounts represent the portion of average gross credit card receivables funded by Target. These amounts exclude \$4,148 million and \$4,667 million for the three and six months ended July 31, 2010, respectively, and \$5,508 million and \$5,502 million for the three and six months ended August 1, 2009, respectively, of receivables funded by nonrecourse debt collateralized by credit card receivables.

(c) ROIC is return on invested capital, and this rate equals our segment profit divided by average gross credit card receivables funded by Target, expressed as an annualized rate.

(d) As an annualized percentage of average gross credit card receivables.

**Spread Analysis - Total Portfolio**

|                    | <b>Three Months Ended<br/>July 31, 2010</b> |                   | <b>Three Months Ended<br/>August 1, 2009</b> |                   |
|--------------------|---------------------------------------------|-------------------|----------------------------------------------|-------------------|
|                    | <b>Amount</b>                               | <b>Annualized</b> | <b>Amount</b>                                | <b>Annualized</b> |
|                    | <b>(in millions)</b>                        | <b>Rate</b>       | <b>(in millions)</b>                         | <b>Rate</b>       |
| EBIT               | \$ 170                                      | 9.6% (c) \$       | 87                                           | 4.2% (c)          |
| LIBOR(a)           |                                             | 0.3%              |                                              | 0.3%              |
| Spread to LIBOR(b) | \$ 164                                      | 9.3% (c) \$       | 81                                           | 3.9% (c)          |

|                    | <b>Six Months Ended<br/>July 31, 2010</b> |                   | <b>Six Months Ended<br/>August 1, 2009</b> |                   |
|--------------------|-------------------------------------------|-------------------|--------------------------------------------|-------------------|
|                    | <b>Amount</b>                             | <b>Annualized</b> | <b>Amount</b>                              | <b>Annualized</b> |
|                    | <b>(in millions)</b>                      | <b>Rate</b>       | <b>(in millions)</b>                       | <b>Rate</b>       |
| EBIT               | \$ 304                                    | 8.3% (c) \$       | 152                                        | 3.6% (c)          |
| LIBOR(a)           |                                           | 0.3%              |                                            | 0.4%              |
| Spread to LIBOR(b) | \$ 293                                    | 8.0% (c) \$       | 135                                        | 3.2% (c)          |

(a) Balance-weighted one-month LIBOR.

(b) Spread to LIBOR is a metric used to analyze the performance of our total credit card portfolio because the vast majority of our portfolio earned finance charge revenue at rates tied to the Prime Rate, and the interest rate on all nonrecourse debt securitized by credit card receivables is tied to LIBOR.

(c) As a percentage of average gross credit card receivables.

Our primary measure of segment profit in our Credit Card Segment is the EBIT generated by our total credit card receivables portfolio less the interest expense on nonrecourse debt collateralized by credit card receivables. We analyze this measure of profit in light of the amount of capital we have invested in our credit card receivables. In addition, we measure the performance of our overall credit card receivables portfolio by calculating the dollar Spread to LIBOR at the portfolio level. This metric approximates the overall financial performance of the entire credit card portfolio we manage by measuring the difference between EBIT earned on the portfolio and a hypothetical benchmark rate financing cost applied to the entire portfolio. The interest rate on all nonrecourse debt securitized by credit card receivables is tied to LIBOR. As a result of regulatory actions that affect our portfolio, effective January 2010, we implemented a terms change that converted the minimum APR for the majority of our accounts to a variable rate, and we eliminated penalty pricing for all current, or nondelinquent accounts.

Credit Card Segment profit for the three months ended July 31, 2010 increased to \$149 million from \$63 million for the three months ended August 1, 2009. Segment revenues were \$406 million, a decrease of \$94 million, or 18.8 percent, from the same period in the prior year, primarily driven by lower average receivables as well as reduced late fees. Segment expenses were \$236 million, a decrease of \$177 million, or 42.8 percent, from prior year driven primarily by lower bad debt expense due to lower actual and expected write-offs. Interest expense on nonrecourse debt declined by \$3 million from last year as a result of a decrease in nonrecourse debt securitized by credit card receivables.

During the six months ended July 31, 2010, Credit Card Segment profit increased to \$260 million from \$101 million in the same period last year driven mostly by favorability in bad debt expense. Segment revenues were \$841 million, a decrease of \$131 million, or 13.6 percent, from the same period in the prior year, primarily due to lower average receivables as well as reduced late fees. Segment expenses were \$537 million, a decrease of \$283 million, or 34.5 percent, from the same period in the prior year, primarily driven by lower bad debt expense due to lower actual and expected write offs. Interest expense on nonrecourse debt declined by \$7 million from last year, due to a decrease in nonrecourse debt securitized by credit card receivables.

**Receivables Rollforward Analysis**

|                                                                                                                      | Three Months Ended |                   | Six Months Ended |                   |
|----------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|------------------|-------------------|
|                                                                                                                      | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| (millions)                                                                                                           |                    |                   |                  |                   |
| Beginning gross credit card receivables                                                                              | \$ 7,260           | \$ 8,457          | \$ 7,982         | \$ 9,094          |
| Charges at Target                                                                                                    | 765                | 843               | 1,484            | 1,646             |
| Charges at third parties                                                                                             | 1,522              | 1,768             | 2,948            | 3,432             |
| Payments                                                                                                             | (2,717)            | (2,940)           | (5,706)          | (6,201)           |
| Other                                                                                                                | 158                | 165               | 280              | 322               |
| Period-end gross credit card receivables                                                                             | \$ 6,988           | \$ 8,293          | \$ 6,988         | \$ 8,293          |
| Average gross credit card receivables                                                                                | \$ 7,098           | \$ 8,361          | \$ 7,323         | \$ 8,529          |
| Accounts with three or more payments (60+ days) past due as a percentage of period-end gross credit card receivables | 5.0%               | 5.8%              | 5.0%             | 5.8%              |
| Accounts with four or more payments (90+ days) past due as a percentage of period-end gross credit card receivables  | 3.5%               | 4.1%              | 3.5%             | 4.1%              |
| Credit card penetration <sup>(a)</sup>                                                                               | 5.1%               | 5.8%              | 4.9%             | 5.7%              |

(a) Represents charges at Target (including sales taxes and gift cards) divided by sales (which excludes sales taxes and gift cards).

**Allowance for Doubtful Accounts**

|                                                                                      | Three Months Ended |                   | Six Months Ended |                   |
|--------------------------------------------------------------------------------------|--------------------|-------------------|------------------|-------------------|
|                                                                                      | July 31,<br>2010   | August 1,<br>2009 | July 31,<br>2010 | August 1,<br>2009 |
| (millions)                                                                           |                    |                   |                  |                   |
| Allowance at beginning of period                                                     | \$ 930             | \$ 1,005          | \$ 1,016         | \$ 1,010          |
| Bad debt expense                                                                     | 138                | 303               | 335              | 600               |
| Net write-offs <sup>(a)</sup>                                                        | (217)              | (304)             | (500)            | (606)             |
| Allowance at end of period                                                           | \$ 851             | \$ 1,004          | \$ 851           | \$ 1,004          |
| As a percentage of period-end gross credit card receivables                          | 12.2%              | 12.1%             | 12.2%            | 12.1%             |
| Net write-offs as a percentage of average gross credit card receivables (annualized) | 12.2%              | 14.5%             | 13.7%            | 14.2%             |

(a) Net write-offs include the principal amount of losses (excluding accrued and unpaid finance charges) less current period principal recoveries.

Our period-end gross credit card receivables at July 31, 2010 were \$6,988 million compared with \$8,293 million at August 1, 2009, a decrease of 15.7 percent. Average gross credit card receivables for the three months ended July 31, 2010 decreased 15.1 percent compared with the same period last year. In response to regulatory changes and credit card industry trends, we have undertaken risk management and underwriting initiatives that have reduced available credit lines for higher-risk cardholders. Additionally, we have experienced an increase in payment rates and a decrease in charge activity resulting from reductions in card usage by our guests.

**Other Performance Factors****Net Interest Expense**

Net interest expense was \$185 million and \$373 million for the three and six months ended July 31, 2010, respectively, decreasing \$9 million, or 4.6 percent, and \$24 million, or 6.0 percent, respectively, from the same periods last year. The decrease is attributable to lower average debt balances, partially offset by a higher average net portfolio interest rate.



### **Provision for Income Taxes**

Our effective income tax rate for the three months ended July 31, 2010 was 37.2 percent compared with 37.9 percent for the three months ended August 1, 2009. The year-to-date effective tax rate decreased to 36.8 percent in 2010 from 37.3 percent in 2009. The decrease in the effective tax rate is primarily due to various state tax matters. The rate decline was partially offset by comparatively lower capital market returns on investments as compared to the period ended August 1, 2009. The gains and losses from these investments, which are used to economically hedge the market risk in deferred compensation plans, are not taxable.

### **Analysis of Financial Condition**

#### **Liquidity and Capital Resources**

Cash flow provided by operations was \$1,828 million for the six months ended July 31, 2010 compared with \$2,051 million for the same period last year. This cash flow, combined with our year-end cash position, allowed us to fund capital expenditures and continue our share repurchase program.

Our period-end gross credit card receivables were \$6,988 million at July 31, 2010 compared with \$8,293 million at August 1, 2009, a decrease of 15.7 percent. This change was driven by the factors indicated in the Credit Card Segment discussion. This trend and the factors influencing it are likely to continue for the remainder of 2010. Due to the decrease in gross credit card receivables, TRC, using cash flows from the receivables, repaid JPMC \$153 million in the second quarter of 2010, \$268 million in the first quarter of 2010 and \$163 million in the fourth quarter of 2009 under the terms of our agreement with them as described in Note 4, Credit Card Receivables. To the extent the receivables balance continues to decline, TRC expects to continue to pay JPMC a prorata portion of principal collections such that the portion owned by an affiliate of JPMC would not exceed 47 percent.

Inventory levels increased \$200 million, or 2.7 percent, from August 1, 2009 to July 31, 2010, reflecting higher inventory levels required to support comparatively higher retail square footage, as well as to support traffic-driving strategic initiatives. Accounts payable was relatively flat over the same period.

Capital expenditures for the three months ended July 31, 2010 were \$584 million compared with \$502 million for the three months ended August 1, 2009. This increase was driven by higher capital expenditures for store remodels, partially offset by lower expenditures for new stores. Capital expenditures for the six months ended July 31, 2010 were \$991 million compared with \$1,042 million for the six months ended August 1, 2009 due to lower capital expenditures for new stores, technology-related and supply chain assets, partially offset by increased expenditures for store remodels.

During the three and six months ended July 31, 2010, we repurchased 17.5 million and 25.1 million shares, respectively, of our common stock for a total cash investment of \$907 million and \$1,301 million, respectively. During the three and six months ended August 1, 2009, we repurchased 0.5 million and 1.2 million shares, respectively, of our common stock for a total cash investment of \$20 million and \$42 million, respectively.



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We paid dividends totaling \$126 million and \$252 million during the three and six months ended July 31, 2010, respectively, an increase of 4.4 percent and 4.5 percent, respectively, from the same period last year. We have paid dividends every quarter since our first dividend was declared following our 1967 initial public offering, and it is our intent to continue to do so in the future.

Our financing strategy is to ensure liquidity and access to capital markets, to manage our net exposure to floating interest rate volatility, and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our borrowing costs. As described in Note 6, in July 2010, we issued \$1 billion of long-term debt at 3.875% that matures in July 2020.

An additional source of liquidity is available to us through a committed \$2 billion unsecured revolving credit facility obtained through a group of banks in April 2007, which will expire in April 2012. No balances were outstanding at any time during 2010 or 2009 under this credit facility.

Most of our long-term debt obligations contain covenants related to secured debt levels. In addition to a secured debt level covenant, our credit facility also contains a debt leverage covenant. We are, and expect to remain, in compliance with these covenants. Additionally, at July 31, 2010, no notes or debentures contained provisions requiring acceleration of payment upon a debt rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a

matter of months of each other we experience both (i) a change in control; and (ii) our long-term debt ratings are either reduced and the resulting rating is non-investment grade, or our long-term debt ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is non-investment grade.

### **New Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166), codified in the Transfers and Servicing accounting principles, which amends the derecognition guidance in former FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. We adopted this guidance at the beginning of fiscal 2010 and adoption had no impact on our consolidated net earnings, cash flows or financial position.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), codified in the Consolidation accounting principles, which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under former FASB Interpretation No. 46(R). We adopted this guidance at the beginning of fiscal 2010 and the adoption had no impact on our consolidated net earnings, cash flows or financial position.

### **Outlook**

Our outlook is based on the application of business judgment in light of current business trends, our assumptions regarding the macroeconomic environment, and estimates of the impact of known initiatives, the most significant of which are our store remodel program and the new 5 percent rewards program.

Our new rewards program is expected to begin in October 2010 and covers all of our Target REDcard products (Target Credit Card, Target Visa Credit Card and Target Check Card debit product). Under this retail-focused, guest traffic-driving strategy, guests will receive a 5 percent discount on virtually all purchases when they use a REDcard at any Target store or on Target.com.

In our Retail Segment, prior year sales comparisons will be more difficult in the third and fourth quarters than we faced in the spring, because we are comparing against the relatively stronger third and fourth quarter results experienced last year. In the fall we expect our store remodel program to contribute over a full percentage point of incremental comparable store sales. Additionally we expect that our new rewards program will add about a full percentage point to fourth quarter sales. This leads to an expectation that comparable-store sales will increase in the 1 percent to 3 percent range in the third quarter and at a slightly faster pace in the fourth quarter. Our store remodel and new rewards strategies are designed to contribute incremental sales at lower gross margin rates and SG&A expense rates than our base business. We expect that this effect will be more pronounced in the fourth quarter and in 2011 as the initiatives more fully roll out. On an overall basis, we expect to generally maintain or perhaps slightly increase our EBITDA and EBIT margin rates in the second half of 2010.

We expect Credit Card Segment profit to increase in the second half of 2010, but at a slower rate than the first half of 2010, due to continued improvement in year-over-year bad debt expense and a more favorable risk profile. As a result of new Federal regulations governing late fees, third quarter late fee income should be approximately one-third lower than the quarterly results we experienced in the first half of 2010 and somewhat better in the fourth quarter of 2010. We also expect a continued decline of gross credit card receivables, primarily as the result of the

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risk management and underwriting initiatives that have reduced available credit lines for higher-risk cardholders.

We expect to continue to execute against our share repurchase plan, the pace of which will be dependent on market conditions and the amount of future net earnings and cash flows. We expect our 2010 capital expenditures to be approximately \$2.0 billion, reflective of projects we will complete in 2010 as well as initial spending for our 2011 and 2012 new store programs. Approximately half of our expected 2010 capital expenditures relate to 340 store remodels, which are expected to be completed by October 2010.

As described in Note 8, Income Taxes, it is possible that up to \$55 million of unrecognized tax benefits as of July 31, 2010 will be recognized within the next twelve months, resulting in a corresponding reduction to income tax expense of approximately the same amount.

### **Forward-Looking Statements**

This report contains forward-looking statements, which are based on our current assumptions and expectations. These statements are typically accompanied by the words expect, may, could, believe, would, might, anticipates, or

words of similar import. The principal forward-looking statements in this report include: for our Retail Segment, our outlook for comparable-store sales trends, gross margin rate, SG&A expense rates, and EBITDA and EBIT margin rates; for our Credit Card Segment, our outlook for segment profit, late fee revenue, gross credit card receivables, and bad debt expense; on a consolidated basis, the expected compliance with debt covenants, our expectations related to our new rewards program and store remodel program, the continued execution of our share repurchase program, our expected capital expenditures, our intentions regarding future dividends, the potential recognition of unrecognized tax benefits and the related impact on income tax expense, and the expected outcome of claims and litigation.

All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A to our Form 10-K for the fiscal year ended January 30, 2010, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

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

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Form 10-K for the fiscal year ended January 30, 2010.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this quarterly report, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in 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 by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Control Over Financial Reporting**

We have initiated a multi-year effort to upgrade the technology supporting our financial systems. As part of this effort, we have licensed enterprise resource planning (ERP) software from SAP AG and have begun a process to expand and upgrade our financial systems. There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are a defendant in a civil lawsuit filed by the California Attorney General and a number of California District Attorneys in June 2009 alleging that we did not handle and dispose of certain unsold products as a hazardous waste and that we have violated California's hazardous waste laws. The case is in the discovery phase and plaintiffs have moved for a preliminary injunction seeking an order requiring that Target comply with all California hazardous waste laws. We anticipate that this lawsuit may involve potential monetary sanctions in excess of \$100,000, but will not be material to our financial position, results of operations or cash flows.

We are the subject of an ongoing Environmental Protection Agency (EPA) investigation for alleged violations of the Clean Air Act (CAA). In March 2009, the EPA issued a Finding of Violation (FOV) related to alleged violations of the CAA, specifically the National Emission Standards for Hazardous Air Pollutants (NESHAP) promulgated by the EPA for asbestos. The FOV pertains to the remodeling of 36 Target stores that occurred between January 1, 2003 and October 28, 2007. The EPA FOV process is ongoing and no specific relief has been sought to date by the EPA. We anticipate that any resolution of this matter will be in the form of monetary penalties that are likely to exceed \$100,000 but will not be material to our financial position, results of operations or cash flows.

The American Jobs Creation Act of 2004 requires SEC registrants to disclose if they have been required to pay certain penalties for failing to disclose to the Internal Revenue Service their participation in listed transactions. We have not been required to pay any of the penalties set forth in Section 6707A(e)(2) of the Internal Revenue Code.

For a description of other legal proceedings, see Note 5 of the Notes to Consolidated Financial Statements included in Item 1, Financial Statements.

### Item 1A. Risk Factors

We are adding the following risk factor to those disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended January 30, 2010:

**Our new REDcard rewards program may not generate sufficient incremental sales to offset the expected incremental discounts, and if this occurs it would adversely affect our future earnings.**

We intend to implement a new rewards program for our REDcard holders in October 2010 that will enable guests to receive 5 percent off virtually all purchases made with the REDcard. This program will replace our current points-based program that allows guests to receive 10 percent off a future day of shopping. The new rewards program is expected to have a greater negative impact on our gross margin rate than the program it replaces. Although we expect the new program to result in incremental sales that will more than offset the impact of the incremental discounts, this expectation is based on test results in a limited number of stores over a limited period of time. If our test results are not

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representative of the guest behavior that will be experienced in other markets or do not remain constant over longer time periods, our earnings could be adversely affected.

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

The following table presents information with respect to purchases of Target common stock made during the three months ended July 31, 2010, by the Corporation or any affiliated purchaser of the Corporation, as defined in Rule 10b-18(a)(3) under the Exchange Act.

Since the inception of our share repurchase program, which began in the fourth quarter of 2007, we have repurchased 128.6 million common shares of our common stock, for a total cash investment of \$6,620 million (\$51.46 average price per share).

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| Period                             | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar Value of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Program |
|------------------------------------|-------------------------------------------|------------------------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| May 2, 2010 through May 29, 2010   | 6,659,377                                 | \$ 53.87                           | 117,761,921                                                                              | \$ 3,927,946,366                                                                                 |
| May 30, 2010 through July 3, 2010  | 3,520,000                                 | 52.02                              | 121,281,921                                                                              | 3,744,830,062                                                                                    |
| July 4, 2010 through July 31, 2010 | 7,358,474                                 | 49.63                              | 128,640,395                                                                              | 3,379,612,472                                                                                    |
|                                    | 17,537,851                                | \$ 51.72                           | 128,640,395                                                                              | \$ 3,379,612,472                                                                                 |

*The table above includes shares of common stock reacquired from team members who wish to tender owned shares to satisfy the tax withholding on equity awards as part of our long-term incentive plans or to satisfy the exercise price on stock option exercises. For the three months ended July 31, 2010, no such shares were acquired.*

*The table above includes shares reacquired upon settlement of prepaid forward contracts. For the three months ended July 31, 2010, there were no shares reacquired through these contracts. At July 31, 2010, we held asset positions in prepaid forward contracts for 1.4 million shares of our common stock, for a total cash investment of \$62 million, or \$43.49 per share.*

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Reserved.**

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

- (3)A Amended and Restated Articles of Incorporation (as amended Jun 10, 2010)(1)
- (3)B By-laws (as amended through September 10, 2009)(2)
- (12) Statements of Computations of Ratios of Earnings to Fixed Charges



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|         |                                                                                                                                                      |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| (31)A   | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                               |
| (31)B   | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                               |
| (32)A   | Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (32)B   | Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 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                                                                                                          |

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101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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(1) Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed June 10, 2010

(2) Incorporated by reference to Exhibit (3)B to the Registrant's Form 8-K Report filed September 10, 2009

Signature

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.

TARGET CORPORATION

Dated: August 27, 2010

By: /s/ Douglas A. Scovanner  
Douglas A. Scovanner  
Executive Vice President,  
Chief Financial Officer  
and Chief Accounting Officer

**EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Description</b>                                                                                                                                   | <b>Manner of Filing</b>   |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| (3)A           | Amended and Restated Articles of Incorporation (as amended June 10, 2010)                                                                            | Incorporated by Reference |
| (3)B           | By-Laws (as amended through September 10, 2009)                                                                                                      | Incorporated by Reference |
| (12)           | Statements of Computations of Ratios of Earnings to Fixed Charges                                                                                    | Filed Electronically      |
| (31)A          | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                               | Filed Electronically      |
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