

TARGET CORP
Form 10-Q
May 23, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 28, 2012

Commission File Number 1-6049

TARGET CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of

41-0215170
(I.R.S. Employer

Edgar Filing: TARGET CORP - Form 10-Q

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

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 \$0.0833, outstanding at May 18, 2012 were 661,205,822.

TARGET CORPORATION

TABLE OF CONTENTS

| | | |
|-----------------------|--|----|
| <u>PART I</u> | <u>FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | <u>Financial Statements</u> | |
| | <u>Consolidated Statements of Operations</u> | 1 |
| | <u>Consolidated Statements of Comprehensive Income</u> | 2 |
| | <u>Consolidated Statements of Financial Position</u> | 3 |
| | <u>Consolidated Statements of Cash Flows</u> | 4 |
| | <u>Consolidated Statements of Shareholders' Investment</u> | 5 |
| | <u>Notes to Consolidated Financial Statements</u> | 6 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 14 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 22 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 22 |
| <u>PART II</u> | <u>OTHER INFORMATION</u> | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 23 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 23 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | 23 |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | 23 |
| <u>Item 5.</u> | <u>Other Information</u> | 23 |
| <u>Item 6.</u> | <u>Exhibits</u> | 24 |
| <u>Signature</u> | | 25 |
| <u>Exhibit Index</u> | | 26 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations

| (millions, except per share data) (unaudited) | Three Months Ended | |
|---|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Sales | \$ 16,537 | \$ 15,580 |
| Credit card revenues | 330 | 355 |
| Total revenues | 16,867 | 15,935 |
| Cost of sales | 11,541 | 10,838 |
| Selling, general and administrative expenses | 3,392 | 3,233 |
| Credit card expenses | 120 | 88 |
| Depreciation and amortization | 529 | 512 |
| Earnings before interest expense and income taxes | 1,285 | 1,264 |
| Net interest expense | 184 | 183 |
| Earnings before income taxes | 1,101 | 1,081 |
| Provision for income taxes | 404 | 392 |
| Net earnings | \$ 697 | \$ 689 |
| Basic earnings per share | \$ 1.05 | \$ 0.99 |
| Diluted earnings per share | \$ 1.04 | \$ 0.99 |
| Weighted average common shares outstanding | | |
| Basic | 666 | 693 |
| Diluted | 672 | 697 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

| (millions) (unaudited) | Three Months Ended | |
|--|--------------------|---------------|
| | April 28, | April 30, |
| | 2012 | 2011 |
| Net earnings | \$ 697 | \$ 689 |
| Other comprehensive income, net of tax | | |
| Pension and other benefit liabilities, net of taxes of \$9 and \$5 | 14 | 9 |
| Currency translation adjustment and cash flow hedges, net of taxes of \$17 and \$1 | 26 | 2 |
| Other comprehensive income | 40 | 11 |
| Comprehensive income | \$ 737 | \$ 700 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Financial Position

| (millions) | April 28, 2012 | January 28, 2012 | April 30, 2011 |
|--|---------------------------|---------------------|--------------------|
| Assets | (unaudited) | | (unaudited) |
| Cash and cash equivalents, including short-term investments of \$18, \$194 and \$872 | \$ 675 | \$ 794 | \$ 1,424 |
| Credit card receivables, net of allowance of \$395, \$430 and \$565 | 5,548 | 5,927 | 5,721 |
| Inventory | 7,670 | 7,918 | 7,696 |
| Other current assets | 1,698 | 1,810 | 1,527 |
| Total current assets | 15,591 | 16,449 | 16,368 |
| Property and equipment | | | |
| Land | 6,136 | 6,122 | 5,989 |
| Buildings and improvements | 27,037 | 26,837 | 23,197 |
| Fixtures and equipment | 4,979 | 5,141 | 4,691 |
| Computer hardware and software | 2,275 | 2,468 | 2,270 |
| Construction-in-progress | 1,232 | 963 | 837 |
| Accumulated depreciation | (12,151) | (12,382) | (11,336) |
| Property and equipment, net | 29,508 | 29,149 | 25,648 |
| Other noncurrent assets | 1,076 | 1,032 | 980 |
| Total assets | \$ 46,175 | \$ 46,630 | \$ 42,996 |
| Liabilities and shareholders investment | | | |
| Accounts payable | \$ 6,292 | \$ 6,857 | \$ 6,296 |
| Accrued and other current liabilities | 3,671 | 3,644 | 3,229 |
| Unsecured debt and other borrowings | 2,483 | 3,036 | 1,124 |
| Nonrecourse debt collateralized by credit card receivables | | 750 | 189 |
| Total current liabilities | 12,446 | 14,287 | 10,838 |
| Unsecured debt and other borrowings | 13,467 | 13,447 | 10,640 |
| Nonrecourse debt collateralized by credit card receivables | 1,500 | 250 | 3,776 |
| Deferred income taxes | 1,209 | 1,191 | 916 |
| Other noncurrent liabilities | 1,690 | 1,634 | 1,596 |
| Total noncurrent liabilities | 17,866 | 16,522 | 16,928 |
| Shareholders investment | | | |
| Common stock | 55 | 56 | 57 |
| Additional paid-in capital | 3,595 | 3,487 | 3,345 |
| Retained earnings | 12,854 | 12,959 | 12,398 |
| Accumulated other comprehensive loss | | | |
| Pension and other benefit liabilities | (610) | (624) | (532) |
| Currency translation adjustment and cash flow hedges | (31) | (57) | (38) |
| Total shareholders investment | 15,863 | 15,821 | 15,230 |
| Total liabilities and shareholders investment | \$ 46,175 | \$ 46,630 | \$ 42,996 |
| Common shares outstanding | 661 | 669 | 689 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| (millions) (unaudited) | Three Months Ended | |
|--|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Operating activities | | |
| Net earnings | \$ 697 | \$ 689 |
| Reconciliation to cash flow | | |
| Depreciation and amortization | 529 | 512 |
| Share-based compensation expense | 25 | 21 |
| Deferred income taxes | 7 | 100 |
| Bad debt expense | 52 | 12 |
| Non-cash (gains)/losses and other, net | 2 | 19 |
| Changes in operating accounts: | | |
| Accounts receivable originated at Target | 142 | 149 |
| Inventory | 248 | (99) |
| Other current assets | 88 | 84 |
| Other noncurrent assets | (3) | 14 |
| Accounts payable | (566) | (330) |
| Accrued and other current liabilities | 28 | (103) |
| Other noncurrent liabilities | 58 | (16) |
| Cash flow provided by operations | 1,307 | 1,052 |
| Investing activities | | |
| Expenditures for property and equipment | (829) | (632) |
| Proceeds from disposal of property and equipment | 1 | 1 |
| Change in accounts receivable originated at third parties | 185 | 271 |
| Other investments | (16) | (10) |
| Cash flow required for investing activities | (659) | (370) |
| Financing activities | | |
| Additions to short-term debt | 450 | |
| Additions to long-term debt | 500 | |
| Reductions of long-term debt | (1,005) | |
| Dividends paid | (201) | (174) |
| Repurchase of stock | (592) | (812) |
| Stock option exercises and related tax benefit | 82 | 16 |
| Other | (2) | |
| Cash flow required for financing activities | (768) | (970) |
| Effect of exchange rate changes on cash and cash equivalents | 1 | |
| Net decrease in cash and cash equivalents | (119) | (288) |
| Cash and cash equivalents at beginning of period | 794 | 1,712 |
| Cash and cash equivalents at end of period | \$ 675 | \$ 1,424 |

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders Investment

| (millions, except footnotes) | Common Stock Shares | Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total |
|---------------------------------|---------------------------|-----------------------|----------------------------------|----------------------|--|------------------|
| January 29, 2011 | 704 | \$ 59 | \$ 3,311 | \$ 12,698 | \$ (581) | \$ 15,487 |
| Net earnings | | | | 2,929 | | 2,929 |
| Other comprehensive loss | | | | | (100) | (100) |
| Dividends declared | | | | (777) | | (777) |
| Repurchase of stock | (37) | (3) | | (1,891) | | (1,894) |
| Stock options and awards | 2 | | 176 | | | 176 |
| January 28, 2012 (unaudited) | 669 | \$ 56 | \$ 3,487 | \$ 12,959 | \$ (681) | \$ 15,821 |
| Net earnings | | | | 697 | | 697 |
| Other comprehensive income | | | | | 40 | 40 |
| Dividends declared | | | | (199) | | (199) |
| Repurchase of stock | (10) | (1) | | (603) | | (604) |
| Stock options and awards | 2 | | 108 | | | 108 |
| April 28, 2012 | 661 | \$ 55 | \$ 3,595 | \$ 12,854 | \$ (641) | \$ 15,863 |

Dividends declared per share were \$0.30 and \$0.25 for the three months ended April 28, 2012 and April 30, 2011, respectively. For the fiscal year ended January 28, 2012, dividends declared per share were \$1.15.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (unaudited)**1. Accounting Policies**

The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statement disclosures contained in the 2011 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 the notes in our Form 10-K for the fiscal year ended January 28, 2012, 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 calculated as net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the potentially dilutive impact of share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued upon the exercise of stock options and the incremental shares assumed to be issued under performance share and restricted stock unit arrangements.

Earnings Per Share

| (millions, except per share data) | Three Months Ended | |
|--|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Net earnings | \$ 697 | \$ 689 |
| Basic weighted average common shares outstanding | 666 | 693 |
| Dilutive impact of share-based awards ^(a) | 6 | 4 |
| Dilutive weighted average common shares outstanding | 672 | 697 |
| Basic earnings per share | \$ 1.05 | \$ 0.99 |
| Dilutive earnings per share | \$ 1.04 | \$ 0.99 |

^(a) Excludes 12 million and 15 million share-based awards for the three months ended April 28, 2012 and April 30, 2011, respectively, because their effects were antidilutive.

3. Fair Value Measurements

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).

Fair Value Measurements - Recurring Basis

| (millions) | Fair Value at April 28, 2012 | | | Fair Value at January 28, 2012 | | | Fair Value at April 30, 2011 | | |
|---|------------------------------|---------------|-----------|--------------------------------|---------------|-----------|------------------------------|---------------|-----------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | |
| Short-term investments | \$ 18 | \$ | \$ | \$ 194 | \$ | \$ | \$ 872 | \$ | \$ |
| Other current assets | | | | | | | | | |
| Interest rate swaps ^(a) | | 15 | | | 20 | | | | |
| Prepaid forward contracts | 74 | | | 69 | | | 65 | | |
| Other noncurrent assets | | | | | | | | | |
| Interest rate swaps ^(a) | | 104 | | | 114 | | | 132 | |
| Company-owned life insurance investments ^(b) | | 372 | | | 371 | | | 370 | |
| Total | \$ 92 | \$ 491 | \$ | \$ 263 | \$ 505 | \$ | \$ 937 | \$ 502 | \$ |
| Liabilities | | | | | | | | | |
| Other current liabilities | | | | | | | | | |
| Interest rate swaps ^(a) | \$ | \$ 5 | \$ | \$ | \$ 7 | \$ | \$ | \$ | \$ |
| Other noncurrent liabilities | | | | | | | | | |
| Interest rate swaps ^(a) | | 65 | | | 69 | | | 54 | |
| Total | \$ | \$ 70 | \$ | \$ | \$ 76 | \$ | \$ | \$ 54 | \$ |

(a) There was one interest rate swap designated as an accounting hedge at April 28, 2012 and January 28, 2012, and none at April 30, 2011. See Note 7 for additional information on interest rate swaps.

(b) Company-owned life insurance investments consist of equity index funds and fixed income assets. Amounts are presented net of loans that are secured by some of these policies of \$677 million at April 28, 2012, \$669 million at January 28, 2012 and \$648 million at April 30, 2011.

| Position | Valuation Technique |
|--|--|
| Short-term investments | Cash equivalents approximate 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 | 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. |

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 and would be classified in Level 1. The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments and would be classified in Level 2.

Financial Instruments Not Measured at Fair Value

| (millions) | April 28, 2012 | | January 28, 2012 | | April 30, 2011 | |
|--------------------------------------|-----------------|------------|------------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Other current assets | | | | | | |
| Marketable securities ^(a) | \$ 43 | \$ 43 | \$ 35 | \$ 35 | \$ 24 | \$ 24 |
| Other noncurrent assets | | | | | | |
| Marketable securities ^(a) | 2 | 2 | 6 | 6 | 2 | 2 |
| Total | \$ 45 | \$ 45 | \$ 41 | \$ 41 | \$ 26 | \$ 26 |
| Financial liabilities | | | | | | |
| Total debt ^(b) | \$ 15,630 | \$ 18,057 | \$ 15,680 | \$ 18,142 | \$ 15,251 | \$ 16,859 |
| Total | \$ 15,630 | \$ 18,057 | \$ 15,680 | \$ 18,142 | \$ 15,251 | \$ 16,859 |

(a) Held-to-maturity 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.

Based on various inputs and assumptions, including discussions with third parties in the context of our intended sale, we believe the gross balance of our credit card receivables approximates fair value at April 28, 2012. The carrying amounts of accounts payable and certain accrued and other current liabilities also approximate fair value at April 28, 2012.

4. Credit Card Receivables

Credit card receivables are recorded net of an allowance for doubtful accounts and are our only significant class of financing receivables. Substantially all past-due accounts accrue finance charges until they are written off. Accounts are written off when they become 180 days past due.

| Age of Credit Card Receivables | April 28, 2012 | | January 28, 2012 | | April 30, 2011 | |
|--|----------------|------------------------|------------------|------------------------|----------------|------------------------|
| | Amount | Percent of Receivables | Amount | Percent of Receivables | Amount | Percent of Receivables |
| (millions) | | | | | | |
| Current | \$ 5,488 | 92.4% | \$ 5,791 | 91.1% | \$ 5,749 | 91.5% |
| 1-29 days past due | 221 | 3.7 | 260 | 4.1 | 227 | 3.6 |
| 30-59 days past due | 74 | 1.2 | 97 | 1.5 | 100 | 1.6 |
| 60-89 days past due | 45 | 0.8 | 62 | 1.0 | 59 | 0.9 |
| 90+ days past due | 115 | 1.9 | 147 | 2.3 | 151 | 2.4 |
| Period-end gross credit card receivables | \$ 5,943 | 100% | \$ 6,357 | 100% | \$ 6,286 | 100% |

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recognized in an amount equal to the anticipated future write-offs of existing receivables and includes provisions for uncollectible finance charges and other credit-related fees. We estimate future write-offs on the entire credit card portfolio

Edgar Filing: TARGET CORP - Form 10-Q

collectively based on historical experience of delinquencies, risk scores, aging trends and industry risk trends.

Edgar Filing: TARGET CORP - Form 10-Q

Allowance for Doubtful Accounts

| | Three Months Ended | |
|----------------------------------|--------------------|----------------|
| | April 28, 2012 | April 30, 2011 |
| (millions) | | |
| Allowance at beginning of period | \$ 430 | \$ 690 |
| Bad debt expense | 52 | 12 |
| Write-offs(a) | (127) | (184) |
| Recoveries(a) | 40 | 47 |
| Allowance at end of period | \$ 395 | \$ 565 |

(a) Write-offs include the principal amount of losses (excluding accrued and unpaid finance charges), and recoveries include current period collections on previously written-off balances. These amounts combined represent net write-offs.

Deterioration of the macroeconomic conditions in the United States could adversely affect the risk profile of our credit card receivables portfolio based on credit card holders' ability to pay their balances. If such deterioration were to occur, it could lead to an increase in bad debt expense. We monitor both the credit quality and the delinquency status of the credit card receivables portfolio. We consider accounts 30 or more days past due as delinquent, and we update delinquency status daily. We also monitor risk in the portfolio by assigning internally generated scores to each account and by obtaining current FICO scores, a nationally recognized credit scoring model, for a statistically representative sample of accounts each month. The credit-quality segmentation presented below is consistent with the approach used in determining our allowance for doubtful accounts.

Receivables Credit Quality

| | April 28, 2012 | | January 28, 2012 | | April 30, 2011 | |
|--|----------------|------------------------|------------------|------------------------|----------------|------------------------|
| | Amount | Percent of Receivables | Amount | Percent of Receivables | Amount | Percent of Receivables |
| (millions) | | | | | | |
| Nondelinquent accounts | | | | | | |
| FICO score of 700 or above | \$ 2,810 | 47.3% | \$ 2,882 | 45.4% | \$ 2,771 | 44.1% |
| FICO score of 600 to 699 | 2,329 | 39.2 | 2,463 | 38.7 | 2,503 | 39.8 |
| FICO score below 600 | 570 | 9.6 | 706 | 11.1 | 702 | 11.2 |
| Total nondelinquent accounts | 5,709 | 96.1 | 6,051 | 95.2 | 5,976 | 95.1 |
| Delinquent accounts (30+ days past due) | 234 | 3.9 | 306 | 4.8 | 310 | 4.9 |
| Period-end gross credit card receivables | \$ 5,943 | 100% | \$ 6,357 | 100% | \$ 6,286 | 100% |

Under certain circumstances, we offer cardholder payment plans that meet the accounting definition of a troubled debt restructuring (TDR). These plans modify finance charges, minimum payments and/or extend payment terms. Modified terms do not change the balance of the loan. These concessions are made on an individual cardholder basis for economic or legal reasons specific to each individual cardholder's circumstances. Cardholders are not allowed additional charges while participating in a payment plan.

Troubled Debt Restructurings

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 28, 2012 | April 30, 2011 |
| (dollars in millions, contracts in thousands) | | |
| Average receivables | \$ 257 | \$ 376 |
| Finance charges | \$ 4 | \$ 6 |
| Troubled Debt Restructurings Defaulted During the Period(a) | | |
| Number of contracts | 3 | 7 |
| Amount defaulted(b) | \$ 9 | \$ 24 |

Edgar Filing: TARGET CORP - Form 10-Q

(a) Includes loans modified within the twelve months prior to each respective period end.

(b) Represents account balance at the time of default. We define default as not paying the full fixed payment amount for two consecutive billing cycles.

Receivables in cardholder payment plans that meet the definition of a TDR are treated consistently with other receivables in determining our allowance for doubtful accounts. Accounts that complete their assigned payment plan are no longer considered TDRs. As of April 28, 2012 and April 30, 2011 there were 109 thousand and 141 thousand modified contracts with outstanding receivables of \$247 million and \$365 million, respectively. Payments received on troubled debt restructurings are first applied to finance charges and fees, then to the unpaid principal balance.

Funding for Credit Card Receivables

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 LLC (TR LLC), a wholly owned, bankruptcy remote subsidiary. TR LLC 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. TR LLC 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.

All interests in our Credit Card Receivables issued by the Trust are accounted for as secured borrowings. Interest and principal payments are satisfied provided the cash flows from the Trust assets are sufficient and are nonrecourse to the general assets of the Corporation. 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 the third party's pro rata share of cash flows from the Trust assets.

| Securitized Borrowings (millions) | April 28, 2012 | | January 28, 2012 | | April 30, 2011 | |
|--------------------------------------|-----------------|-----------------|------------------|------------|----------------|------------|
| | Debt Balance | Collateral | Debt Balance | Collateral | Debt Balance | Collateral |
| 2008 Series | \$ | \$ | \$ | \$ | \$ 2,965 | \$ 3,061 |
| 2006/2007 Series | 1,500 | 1,899 | 1,000 | 1,266 | 1,000 | 1,266 |
| Total | \$ 1,500 | \$ 1,899 | \$ 1,000 | \$ 1,266 | \$ 3,965 | \$ 4,327 |

In March 2012 we amended the 2006/2007 Series Variable Funding Certificate to obtain additional funding of \$500 million and to extend the maturity to 2013. Parties who hold the Variable Funding Certificate receive interest at a variable short-term market rate.

5. Commitments and 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 will be material to 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.

Commercial Paper

| | Three Months Ended | |
|--|---------------------------|-------------------|
| (millions) | April 28, 2012 | April 30, 2011 |
| Maximum daily amount outstanding during the period | \$ 605 | \$ |
| Average daily amount outstanding during the period | 162 | |
| Amount outstanding at period-end | 450 | |
| Weighted average interest rate | 0.15% | |

7. Derivative Financial Instruments

Historically our derivative instruments have primarily consisted of interest rate swaps, which are used to mitigate interest rate risk. We have counterparty credit risk with large global financial institutions resulting from our derivative instruments. We monitor this concentration of counterparty credit risk on an ongoing basis. See Note 3 for a description of the fair value measurement of our derivative instruments.

Edgar Filing: TARGET CORP - Form 10-Q

As of April 28, 2012, one swap was designated as a fair value hedge for accounting purposes, and no ineffectiveness was recognized during the three months ended April 28, 2012. There were no derivative instruments designated as accounting hedges as of April 30, 2011.

Periodic payments, valuation adjustments and amortization of gains or losses on our derivative contracts had the following effect on our Consolidated Statements of Operations:

| Derivative Contracts - Effect on Consolidated Results of Operations | | Three Months Ended | |
|--|------------------------------------|--------------------|-----------|
| (millions) | Classification of Income/(Expense) | April 28, | April 30, |
| Type of Contract | | 2012 | 2011 |
| Interest rate swaps | Net interest expense | \$ 10 | \$ 11 |

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 of the underlying debt totaled \$102 million, \$111 million and \$142 million, at April 28, 2012, January 28, 2012 and April 30, 2011, respectively.

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 2011 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.

At April 28, 2012, foreign net operating loss carryforwards of approximately \$255 million (resulting in a \$66 million deferred tax asset) are available to offset future income. These carryforwards expire in 2032 and are expected to be fully utilized prior to expiration.

It is reasonably possible that the amount of our unrecognized tax benefits will significantly increase or decrease during the next twelve months; however, an estimate of the amount or range of the change cannot be made at this time.

9. Share Repurchase

We repurchase shares primarily through open market transactions under a \$5 billion share repurchase program authorized by our Board of Directors in January 2012. During the first quarter of 2012, we completed a \$10 billion share repurchase program that was authorized by our Board of Directors in November 2007.

| Share Repurchases | Three Months Ended | |
|--------------------------|--------------------|-----------|
| | April 28, | April 30, |

Edgar Filing: TARGET CORP - Form 10-Q

(millions, except per share data)

| | 2012 | | 2011 |
|----------------------------------|-----------------|----|-------|
| Total number of shares purchased | 10.5 | | 15.4 |
| Average price paid per share | \$ 57.31 | \$ | 53.32 |
| Total investment | \$ 604 | \$ | 819 |

Of the shares reacquired, a portion was delivered upon settlement of prepaid forward contracts as follows:

Settlement of Prepaid Forward Contracts^(a)

| (millions) | Three Months Ended | |
|---------------------------------------|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Total number of shares purchased | 0.2 | 0.1 |
| Total cash investment | \$ 12 | \$ 7 |
| Aggregate market value ^(b) | \$ 12 | \$ 7 |

^(a) These contracts are among the investment vehicles used to reduce our economic exposure related to our nonqualified deferred compensation plans. The details of our positions in prepaid forward contracts have been provided in Note 10.

^(b) At their respective settlement dates.

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.

Net Pension and Postretirement Health Care Benefits Expense

| (millions) | Pension Benefits Three Months Ended | | Postretirement Health Care Benefits Three Months Ended | |
|--|--|-------------------|---|-------------------|
| | April 28, 2012 | April 30, 2011 | April 28, 2012 | April 30, 2011 |
| Service cost benefits earned during the period | \$ 30 | \$ 29 | \$ 2 | \$ 2 |
| Interest cost on projected benefit obligation | 36 | 34 | 2 | 1 |
| Expected return on assets | (55) | (51) | | |
| Amortization of losses | 25 | 16 | 1 | 1 |
| Amortization of prior service cost | | (1) | (3) | (2) |
| Total | \$ 36 | \$ 27 | \$ 2 | \$ 2 |

We are not required to make any contributions in 2012. However, depending on investment performance and plan funded status, we may elect to make a contribution.

Our unfunded, nonqualified deferred compensation plan is offered to 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 2 percent per year to the accounts of all active participants, excluding members of our management executive committee, 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 substantially fewer than 100 participants, most of whom are retired. In this plan, deferred compensation earns returns tied to market levels of interest rates plus an additional 6 percent return, with a minimum of 12 percent and a maximum of 20 percent, as determined by the plan's terms.

Edgar Filing: TARGET CORP - Form 10-Q

We mitigate some of our risk of offering the nonqualified plans through investing in vehicles, including company-owned life insurance and prepaid forward contracts in our own common stock, that offset a substantial portion of our economic exposure to the returns of these plans. These investment vehicles 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 recognized in earnings was pretax income/(loss) of \$11 million and \$(7) million during the three months ended April 28, 2012 and April 30, 2011, respectively. For the three months ended April 28, 2012 and April 30, 2011, we invested \$7 million and \$16 million, respectively, in such investment instruments, and this activity is 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 as described in Note 9. The settlement dates of these instruments are regularly renegotiated with the counterparty.

Prepaid Forward Contracts on Target Common Stock

| (millions, except per share data) | Number of Shares | Contractual Price Paid per Share | Contractual Fair Value | Total Cash Investment |
|-----------------------------------|------------------|----------------------------------|------------------------|-----------------------|
| April 30, 2011 | 1.3 | \$ 45.12 | \$ 65 | \$ 60 |
| January 28, 2012 | 1.4 | 44.21 | 69 | 61 |
| April 28, 2012 | 1.3 | 45.56 | 74 | 58 |

11. Segment Reporting

Our segment measure of profit is used by management to evaluate the return on our investment and to make operating decisions.

| Business Segment Results | Three Months Ended April 28, 2012 | | | | Three Months Ended April 30, 2011 | | | |
|---|-----------------------------------|------------------|----------|-----------|-----------------------------------|------------------|----------|-----------|
| | U.S. Retail | U.S. Credit Card | Canadian | Total | U.S. Retail | U.S. Credit Card | Canadian | Total |
| (millions) | | | | | | | | |
| Sales/Credit card revenues | \$ 16,537 | \$ 330 | \$ | \$ 16,867 | \$ 15,580 | \$ 355 | \$ | \$ 15,935 |
| Cost of sales | 11,541 | | | 11,541 | 10,838 | | | 10,838 |
| Bad debt expense ^(a) | | 52 | | 52 | | 12 | | 12 |
| Selling, general and administrative/ Operations and marketing expenses ^{(a), (b)} | 3,293 | 133 | 34 | 3,460 | 3,173 | 125 | 11 | 3,309 |
| Depreciation and amortization | 504 | 4 | 21 | 529 | 507 | 5 | | 512 |
| Earnings/(loss) before interest expense and income taxes | 1,199 | 141 | (55) | 1,285 | 1,062 | 213 | (11) | 1,264 |
| Interest expense on nonrecourse debt collateralized by credit card receivables ^(c) | | 2 | | 2 | | 19 | | 19 |
| Segment profit/(loss) | \$ 1,199 | \$ 139 | \$ (55) | \$ 1,283 | \$ 1,062 | \$ 194 | \$ (11) | \$ 1,245 |
| Unallocated (income) and expenses: | | | | | | | | |
| Other net interest expense ^(c) | | | | 182 | | | | 164 |
| Earnings before income taxes | | | | \$ 1,101 | | | | \$ 1,081 |

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

^(a) The combination of bad debt expense and operations and marketing expenses, less amounts the U.S. Retail Segment charges the U.S. Credit Card Segment for loyalty programs, within the U.S. Credit Card Segment represent credit card expenses on the Consolidated Statements of Operations.

^(b) Loyalty program charges were \$65 million and \$49 million for the three months ended April 28, 2012 and April 30, 2011, respectively. In all periods, these amounts were recorded as reductions to SG&A expenses within the U.S. Retail Segment and increases to operations and marketing expenses within the U.S. Credit Card Segment.

Edgar Filing: TARGET CORP - Form 10-Q

(c) The combination of interest expense on nonrecourse debt collateralized by credit card receivables and other net interest expense represent net interest expense on the Consolidated Statements of Operations.

| Total Assets by Segment (millions) | April 28, 2012 | January 28, 2012 | April 30, 2011 |
|--|---------------------------------|---------------------|-------------------|
| U.S. Retail | \$ 36,841 | \$ 37,108 | \$ 37,032 |
| U.S. Credit Card | 5,756 | 6,135 | 5,934 |
| Canadian | 3,578 | 3,387 | 30 |
| Total | \$ 46,175 | \$ 46,630 | \$ 42,996 |

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

Consolidated revenues were \$16,867 million for the three months ended April 28, 2012, an increase of \$932 million or 5.9 percent from the same period in the prior year. Consolidated earnings before interest expense and income taxes for first quarter 2012 increased by \$21 million or 1.6 percent over first quarter 2011 to \$1,285 million. Cash flow provided by operations was \$1,307 million and \$1,052 million for the three months ended April 28, 2012 and April 30, 2011, respectively. Diluted earnings per share in the first quarter increased 5.0 percent to \$1.04 from \$0.99 in the same period a year ago. Adjusted diluted earnings per share, which we believe is useful in providing period-to-period comparisons of the results of our U.S. operations, increased 11.5 percent to \$1.11 in first quarter 2012 from \$0.99 in the same period a year ago.

Earnings Per Share

| | Three Months Ended | | Change |
|-------------------------------------|--------------------|-------------------|--------|
| | April 28, 2012 | April 30, 2011 | |
| GAAP diluted earnings per share | \$ 1.04 | \$ 0.99 | 5.0% |
| Adjustments ^(a) | 0.07 | | |
| Adjusted diluted earnings per share | \$ 1.11 | \$ 0.99 | 11.5% |

Note: A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 20.

^(a) Adjustments represent the diluted EPS impact of our planned 2013 Canadian market entry and the favorable resolution of various income tax matters.

Our financial results for the first quarter of 2012 in our U.S. Retail Segment reflect increased sales of 6.1 percent over the same period last year due to a 5.3 percent comparable-store increase combined with the contribution from new stores. In first quarter 2012 we experienced U.S. Retail Segment EBITDA and EBIT margin rate improvements compared to first quarter 2011, driven by strong year-over-year sales growth resulting in leverage on selling, general and administrative (SG&A) expenses.

In the U.S. Credit Card Segment, we experienced a decrease in segment profit due to annualizing over a significant reserve reduction in the prior year and a smaller portfolio resulting in lower finance charge revenue, partially offset by lower interest expense.

During the three months ended April 28, 2012, loss before interest expense and income taxes in our Canadian Segment totaled \$55 million, comprised of start-up costs and depreciation, compared to \$11 million during the three months ended April 30, 2011.

Analysis of Results of Operations**U.S. Retail Segment**

U.S. Retail Segment Results

| (millions) | Three Months Ended | | Percent Change |
|-------------------------------|--------------------|-------------------|-------------------|
| | April 28, 2012 | April 30, 2011 | |
| Sales | \$ 16,537 | \$ 15,580 | 6.1 % |
| Cost of sales | 11,541 | 10,838 | 6.5 |
| Gross margin | 4,996 | 4,742 | 5.4 |
| SG&A expenses ^(a) | 3,293 | 3,173 | 3.8 |
| EBITDA | 1,703 | 1,569 | 8.5 |
| Depreciation and amortization | 504 | 507 | (0.7) |
| EBIT | \$ 1,199 | \$ 1,062 | 12.9 % |

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

EBIT is earnings before interest expense and income taxes.

Note: See Note 11 to our consolidated financial statements for a reconciliation of our segment results to earnings before income taxes.

(a) Loyalty program charges were \$65 million and \$49 million for the three months ended April 28, 2012 and April 30, 2011, respectively. In all periods, these amounts were recorded as reductions to SG&A expenses within the U.S. Retail Segment and increases to operations and marketing expenses within the U.S. Credit Card Segment.

U.S. Retail Segment Rate Analysis

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Gross margin rate | 30.2 % | 30.4 % |
| SG&A expense rate | 19.9 | 20.4 |
| EBITDA margin rate | 10.3 | 10.1 |
| Depreciation and amortization expense rate | 3.0 | 3.3 |
| EBIT margin rate | 7.3 | 6.8 |

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. See Item 1 in our Form 10-K for the fiscal year ended January 28, 2012 for a description of our product categories.

Sales by Product Category

| | Three Months Ended | |
|----------------------------|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Household essentials | 26 % | 26 % |
| Hardlines | 16 | 17 |
| Apparel and accessories | 20 | 20 |
| Food and pet supplies | 21 | 20 |
| Home furnishings and décor | 17 | 17 |
| Total | 100 % | 100 % |

Comparable-store sales is a measure that highlights the performance of our existing stores by measuring the change 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 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 | |
|--|--------------------|-----------|
| | April 28, | April 30, |
| | 2012 | 2011 |
| Comparable-store sales change | 5.3 % | 2.0 % |
| Drivers of change in comparable-store sales: | | |
| Number of transactions | 2.0 | 0.4 |
| Average transaction amount | 3.2 | 1.6 |
| Units per transaction | 0.6 | 4.4 |
| Selling price per unit | 2.6 | (2.6) |

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.

Edgar Filing: TARGET CORP - Form 10-Q

Our U.S. Credit Card Segment offers credit to qualified guests through our branded proprietary credit cards: the Target Visa Credit Card and the Target Credit Card (Target Credit Cards). Additionally, we offer a branded proprietary Target Debit Card. Collectively, we refer to these products as REDcards®. Guests receive a 5 percent discount on virtually all purchases at checkout every day when they use a REDcard at any Target store or on Target.com.

We monitor the percentage of store sales that are paid for using REDcards (REDcard Penetration), because our internal analysis has indicated that a meaningful portion of the incremental purchases on our REDcards are also incremental sales for Target, with the remainder representing a shift in tender type.

REDcard Penetration

| | Three Months Ended | |
|---------------------------------|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Target Credit Cards | 7.1 % | 5.9 % |
| Target Debit Card | 4.5 | 1.7 |
| Total Store REDcard Penetration | 11.6 % | 7.6 % |

Gross Margin Rate

For the three months ended April 28, 2012, our gross margin rate was 30.2 percent, decreasing from 30.4 percent in the comparable period last year, reflecting downward pressure from our integrated growth strategies of 5% REDcard Rewards and remodel program, partially offset by a beneficial mix of higher-margin sales and underlying rate improvements within categories.

Selling, General and Administrative Expense Rate

For the three months ended April 28, 2012, the SG&A expense rate was 19.9 percent, a decrease from 20.4 percent in the same period last year. Approximately half of this improvement is due to store hourly payroll expense improvements, and the remainder was spread across several other areas.

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.

Depreciation and Amortization Expense Rate

For the three months ended April 28, 2012, our depreciation and amortization expense rate was 3.0 percent, compared with 3.3 percent last year. This decrease is due to strong year-over-year sales growth creating leverage on stable depreciation and amortization expenses.

Store Data

During the three months ended April 28, 2012, we opened 3 new stores (one net of one relocation and one closure). During the three months ended April 30, 2011, we opened 6 new stores (5 net of one relocation). During the first quarter of 2012, we remodeled 114 stores under our current store remodel program, compared with 83 in the comparable prior year period.

| Number of Stores and Retail Square Feet | Number of Stores | | | Retail Square Feet^(a) | | |
|--|---------------------------|---------------------|-------------------|---|---------------------|-------------------|
| | April 28, 2012 | January 28, 2012 | April 30, 2011 | April 28, 2012 | January 28, 2012 | April 30, 2011 |
| Target general merchandise stores | 521 | 637 | 953 | 62,464 | 76,999 | 116,462 |
| Expanded food assortment stores | 992 | 875 | 550 | 128,885 | 114,219 | 73,253 |
| SuperTarget stores | 251 | 251 | 252 | 44,503 | 44,503 | 44,681 |
| Total | 1,764 | 1,763 | 1,755 | 235,852 | 235,721 | 234,396 |

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

U.S. Credit Card Segment

We offer credit to qualified guests through the Target Credit Cards. Our credit card program supports our core retail operations and remains an important contributor to our overall profitability and engagement with our guests.

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

| U.S Credit Card Segment Results (millions) | Three Months Ended April 28, 2012 | | Three Months Ended April 30, 2011 | |
|--|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | Amount | Annualized Rate(d) | Amount | Annualized Rate(d) |
| Finance charge revenue | \$ 271 | 17.8 % | \$ 292 | 18.1 % |
| Late fees and other revenue | 40 | 2.6 | 42 | 2.6 |
| Third party-merchant fees | 19 | 1.3 | 21 | 1.3 |
| Total revenue | 330 | 21.7 | 355 | 22.0 |
| Bad debt expense | 52 | 3.4 | 12 | 0.8 |
| Operations and marketing expenses(a) | 133 | 8.8 | 125 | 7.8 |
| Depreciation and amortization | 4 | 0.2 | 5 | 0.3 |
| Total expenses | 189 | 12.4 | 142 | 8.8 |
| EBIT | 141 | 9.3 | 213 | 13.2 |
| Interest expense on nonrecourse debt collateralized by credit card receivables | 2 | | 19 | |
| Segment profit | \$ 139 | | \$ 194 | |
| Average receivables funded by Target(b) | \$ 4,886 | | \$ 2,504 | |
| Segment pretax ROIC(c) | 11.4 % | | 30.9 % | |

Note: See Note 11 to our Consolidated Financial Statements for a reconciliation of our segment results to earnings before income taxes.

(a) See footnote (a) to our U.S. Retail Segment Results table on page 14 for an explanation of our loyalty program charges.

(b) Amounts represent the portion of average gross credit card receivables funded by Target. These amounts exclude \$1,187 million for the three months ended April 28, 2012, and \$3,959 million for the three months ended April 30, 2011, of average 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. This measure has decreased significantly, primarily due to our voluntary retirement of our 2008 series securitization in January 2012, increasing the average receivables funded by Target.

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

| Spread Analysis - Total Portfolio (millions) | Three Months Ended April 28, 2012 | | Three Months Ended April 30, 2011 | |
|---|--------------------------------------|------------|--------------------------------------|------------|
| | Amount | Annualized | Amount | Annualized |

Edgar Filing: TARGET CORP - Form 10-Q

| | Amount | Rate | | Amount | Rate |
|--------------------|---------------|-----------------|----|--------|-----------|
| EBIT | \$ 141 | 9.3% (c) | \$ | 213 | 13.2% (c) |
| LIBOR(a) | | 0.2% | | | 0.2% |
| Spread to LIBOR(b) | \$ 137 | 9.1% (c) | \$ | 209 | 13.0% (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 majority of our portfolio earns finance charge revenue at rates tied to the Prime Rate, and the interest rate on all nonrecourse debt collateralized by credit card receivables is tied to LIBOR.

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

Our primary measure of segment profit 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 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 collateralized by credit card receivables is tied to LIBOR.

Segment profit for the three months ended April 28, 2012 decreased to \$139 million from \$194 million for the three months ended April 30, 2011. Spread to LIBOR for the quarter was 9.1 percent or \$137 million, down from 13.0 percent or \$209 million a year ago. Segment revenues for the three months ended April 28, 2012 were \$330 million, a decrease of \$25 million, or 7.1 percent, from the same period in the prior year. The decrease was primarily driven by lower average receivables resulting in reduced finance charge revenue. Segment expenses were \$189 million for the three months ended April 28, 2012, an increase of \$47 million, or 32.6 percent, from the comparable prior year period driven by higher bad debt expense primarily attributable to annualizing over a significant reduction in the reserve in the prior year. Segment interest expense on nonrecourse debt for the three months ended April 28, 2012 declined by \$17 million from last year, due to a decrease in nonrecourse debt collateralized by credit card receivables.

Receivables Rollforward Analysis

| (millions) | Three Months Ended | |
|--|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Beginning gross credit card receivables | \$ 6,357 | \$ 6,843 |
| Charges at Target | 1,288 | 1,002 |
| Charges at third parties | 1,139 | 1,251 |
| Payments | (3,060) | (3,001) |
| Other | 219 | 191 |
| Period-end gross credit card receivables | \$ 5,943 | \$ 6,286 |
| Average gross credit card receivables | \$ 6,073 | \$ 6,463 |
| Accounts with three or more payments (60+ days) past due as a percentage of period-end gross credit card receivables | 2.7% | 3.3% |
| Accounts with four or more payments (90+ days) past due as a percentage of period-end gross credit card receivables | 1.9% | 2.4% |

Allowance for Doubtful Accounts

| (millions) | Three Months Ended | |
|---|--------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Allowance at beginning of period | \$ 430 | \$ 690 |
| Bad debt expense | 52 | 12 |
| Write-offs(a) | (127) | (184) |
| Recoveries(a) | 40 | 47 |
| Allowance at end of period | \$ 395 | \$ 565 |
| As a percentage of period-end gross credit card receivables | 6.6% | 9.0% |
| Net write-offs as an annualized percentage of average gross credit card receivables | 5.7% | 8.5% |

(a) Write-offs include the principal amount of losses (excluding accrued and unpaid finance charges), and recoveries include current period collections on previously written-off balances. These amounts combined represent net write-offs.

Period-end and average gross credit card receivables have declined because of an increase in payment rates and a decrease in Target Visa Credit Card charges at third parties, partially offset by an increase in charges at Target. The decrease in charges on our credit cards at third parties is primarily due to the fact that we no longer issue new Target Visa accounts.

Edgar Filing: TARGET CORP - Form 10-Q

We intend to pursue the sale of our credit card receivables portfolio and will execute a transaction only if appropriate strategic and financial conditions are met. We will classify the credit card receivables portfolio as held for sale when a transaction that allows us to meet our objectives has been agreed upon with a potential buyer.

Canadian Segment

During the three months ended April 28, 2012, start-up costs totaled \$34 million, compared with \$11 million in the comparable prior-year period, and primarily consisted of compensation, benefits and third-party service expenses. Additionally, we recorded \$21 million in depreciation for the three months ended April 28, 2012, related to capital lease assets and leasehold interests.

Other Performance Factors

Net Interest Expense

Net interest expense for the three months ended April 28, 2012 was \$184 million, including \$20 million of interest on capitalized leases related to our Canadian market entry. For the three months ended April 30, 2011, net interest expense was \$183 million.

Provision for Income Taxes

Our effective income tax rate for the three months ended April 28, 2012 was 36.7 percent, up from 36.3 percent for the three months ended April 30, 2011. This change is primarily due to increased losses in our Canadian Segment, which are taxed at lower rates than our U.S. earnings, slightly offset by tax benefits related to other foreign earnings.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Our segment measure of profit is used by management to evaluate the return we are achieving on our investment and to make operating decisions. To provide additional transparency, we have disclosed non-GAAP adjusted diluted earnings per share, which excludes the impact of our planned 2013 Canadian market entry and favorable resolution of various income tax matters. We believe this information is useful in providing period-to-period comparisons of the results of our U.S. operations. This measure is not in accordance with, or an alternative for, generally accepted accounting principles in the United States. The most comparable GAAP measure is diluted earnings per share. Non-GAAP adjusted EPS should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP. Other companies may calculate non-GAAP adjusted EPS differently than we do, limiting the usefulness of the measure for comparisons with other companies.

Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

| (millions, except per share data) | U.S. | | U.S. Credit | Total | | Consolidated |
|---|----------|--------|-------------|-----------|--------------------|--------------|
| | Retail | Card | U.S. | Canadian | Other | GAAP Total |
| Three Months Ended April 28, 2012 | | | | | | |
| Segment profit | \$ 1,199 | \$ 139 | \$ 1,338 | \$ (55) | \$ | \$ 1,283 |
| Other net interest expense ^(a) | | | 162 | 20 | | 182 |
| Earnings before income taxes | | | 1,176 | (75) | | 1,101 |
| Provision for income taxes ^(b) | | | 432 | (20) | (8) ^(d) | 404 |
| Net earnings | | | \$ 744 | \$ (55) | \$ 8 | \$ 697 |
| Diluted earnings per share ^(c) | | | \$ 1.11 | \$ (0.08) | \$ 0.01 | \$ 1.04 |
| Three Months Ended April 30, 2011 | | | | | | |
| Segment profit | \$ 1,062 | \$ 194 | \$ 1,256 | \$ (11) | \$ | \$ 1,245 |
| Other net interest expense ^(a) | | | 164 | | | 164 |
| Earnings before income taxes | | | 1,092 | (11) | | 1,081 |
| Provision for income taxes ^(b) | | | 400 | (3) | (5) ^(d) | 392 |
| Net earnings | | | \$ 692 | \$ (8) | \$ 5 | \$ 689 |
| Diluted earnings per share ^(c) | | | \$ 0.99 | \$ (0.01) | \$ 0.01 | \$ 0.99 |

Note: A non-GAAP financial measures summary is provided on page 14. The sum of the non-GAAP adjustments may not equal the total adjustment amounts due to rounding.

^(a) Represents interest expense, net of interest income, not included in U.S. Credit Card segment profit. For the three months ended April 28, 2012, U.S. Credit Card segment profit included \$2 million of interest expense on nonrecourse debt collateralized by credit card receivables, compared with \$19 million in the respective prior year period. These amounts, along with other net interest expense, equal consolidated GAAP net interest expense.

^(b) Taxes are allocated to our business segments based on estimated income tax rates applicable to the operations of the segment for the period.

^(c) Weighted average diluted shares outstanding were 672 million for the three months ended April 28, 2012, and 697 million for the three months ended April 30, 2011.

^(d) Represents the effect of resolution of income tax matters.

Analysis of Financial Condition**Liquidity and Capital Resources**

Our period-end cash and cash equivalents balance was \$675 million compared with \$1,424 million for the same period in 2011. Short-term investments (highly liquid investments with an original maturity of three months or less from the time of purchase) of \$18 million and \$872 million were included in cash and cash equivalents at the end of first quarter 2012 and 2011, respectively. Our investment policy is designed to

Edgar Filing: TARGET CORP - Form 10-Q

preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place certain dollar limits on our investments in individual funds or instruments.

Operations during the first three months of 2012 were funded by both internally and externally generated funds. Cash flow provided by operations was \$1,307 million for the three months ended April 28, 2012 compared with \$1,052 million for the same period in 2011. In first quarter 2012 we amended the 2006/2007 Variable Funding Certificate to obtain additional funding of \$500 million and to extend the maturity to 2013. During the first quarter of 2012, we issued commercial paper, of which, \$450 million was outstanding as of April 28, 2012. This cash flow, combined with our prior year-end cash position, allowed us to pay current debt maturities, fund capital expenditures, pay dividends and continue purchases under our share repurchase program.

Our period-end gross credit card receivables were \$5,943 million at April 28, 2012 compared with \$6,286 million at April 30, 2011, a decrease of 5.4 percent. Average gross credit card receivables during the three months ended April 28, 2012 decreased 6.0 percent compared with the three months ended April 30, 2011. This change was driven by the factors indicated in the U.S. Credit Card Segment section above.

As of April 28, 2012, \$1,500 million of our credit card receivables portfolio was funded by third parties. We intend to pursue a sale of our credit card receivables portfolio, which would provide additional liquidity.

Edgar Filing: TARGET CORP - Form 10-Q

During the three months ended April 28, 2012, we completed the \$10 billion share repurchase program authorized by our Board of Directors in November 2007, and we began repurchasing shares under the \$5 billion program authorized by our Board of Directors in January 2012. Under these programs, we repurchased 10.5 million shares of our common stock for a total investment of \$604 million (\$57.31 per share) during the quarter. During the three months ended April 30, 2011, we repurchased 15.4 million shares of our common stock for \$819 million (\$53.32 per share).

We paid dividends totaling \$201 million for the three months ended April 28, 2012, and \$174 million during the three months ended April 30, 2011, an increase of 15.5 percent. We declared dividends totaling \$199 million (\$0.30 per share) in first quarter 2012, an increase of 15.1 percent over the \$172 million (\$0.25 per share) of declared dividends during the first quarter of 2011. 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.

Our ability to access the long-term debt, commercial paper and securitized debt markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors including the condition of debt capital markets, our operating performance and maintaining strong credit ratings. As of April 28, 2012 our credit ratings were as follows:

| Credit Ratings | Moody's | Standard and Poor's | Fitch |
|-----------------------|---------|---------------------|-------|
| Long-term debt | A2 | A+ | A- |
| Commercial paper | P-1 | A-1 | F2 |

If our credit ratings were lowered, our ability to access the debt markets, our cost of funds and other terms for new debt issuances could be adversely impacted. Each of the credit rating agencies reviews its rating periodically and there is no guarantee our current credit rating will remain the same as described above.

As a measure of our financial condition we monitor our interest coverage ratio, representing the ratio of pretax earnings before fixed charges to fixed charges. Fixed charges include interest expense and the interest portion of rent expense. Our interest coverage ratio was 6.0x for the first three months of both 2012 and 2011.

An additional source of liquidity is available to us through a committed \$2.25 billion revolving credit facility obtained through a group of banks in October 2011, which will expire in October 2016. This revolving credit facility replaced a previously held \$2 billion revolving credit facility. No balances were outstanding at any time during the first quarter of 2012 or 2011 under either 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 April 28, 2012, 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.

We believe our sources of liquidity will continue to be adequate to maintain operations, finance anticipated expansion and strategic initiatives, pay dividends and continue purchases under our share repurchase program throughout 2012, and we continue to anticipate ample access to commercial paper and long-term financing.

Contractual Obligations and Commitments

A summary of future obligations under our various contractual obligations and commitments as of January 28, 2012 was disclosed in our 2011 10-K. During the three months ended April 28, 2012, there were no material changes outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including internal development of new products, programs and technology applications and acquisitions.

New Accounting Pronouncements

We do not expect that any recently issued accounting pronouncements will have a material effect on our financial statements.

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 U.S. Credit Card Segment, aggregate portfolio risks and the level of, the allowance for doubtful accounts, and the pursuit and timing of a portfolio sale; for our Canadian Segment, our performance and timing of our entry into Canada; on a consolidated basis, statements regarding the adequacy of and costs associated with our sources of liquidity, the continued execution of our share repurchase program, the expected compliance with debt covenants, the expected impact of new accounting pronouncements, our intentions regarding future dividends, contributions related to our pension and postretirement health care plans, the adequacy of our reserves for claims and litigation, the expected outcome of claims and litigation, the expected ability to recognize deferred tax assets and liabilities, including foreign net operating loss carryforwards, and the resolution of tax matters.

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 of our Form 10-K for the fiscal year ended January 28, 2012, 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 28, 2012.

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

Edgar Filing: TARGET CORP - Form 10-Q

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

There were no changes in our internal control over financial reporting during the first quarter of fiscal 2012 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**

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

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our annual report on Form 10-K for the fiscal year ended January 28, 2012.

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

The table below presents information with respect to Target common stock purchases made during the three months ended April 28, 2012, by Target or any affiliated purchaser of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

In first quarter 2012, we completed a \$10 billion share repurchase program authorized by our Board of Directors in November of 2007 and began repurchasing shares under a \$5 billion share repurchase program authorized by our Board of Directors in January 2012. Since the inception of our current share repurchase program, we have repurchased 5.6 million shares of our common stock, for a total cash investment of \$325 million (\$57.78 average price per share).

| Period | Total Number of Shares Purchased(a)(b) | Average Price Paid per Share(a) | Total Number of Shares Purchased as Part of Publicly Announced Programs(a) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|--|--|---------------------------------------|--|---|
| January 29, 2012 through February 25, 2012 | 57,485 | \$ 49.95 | 188,665,159 | \$ 5,275,700,474 |
| February 26, 2012 through March 31, 2012 | 8,094,599 | 57.37 | 196,529,098 | 4,824,573,140 |
| April 1, 2012 through April 28, 2012 | 2,615,796 | 57.30 | 199,144,894 | 4,674,682,561 |
| | 10,767,880 | \$ 57.31 | 199,144,894 | \$ 4,674,682,561 |

(a) The table above includes shares reacquired upon settlement of prepaid forward contracts. For the three months ended April 28, 2012, 0.2 million shares were reacquired through these contracts. At April 28, 2012, we held asset positions in prepaid forward contracts for 1.3 million shares of our common stock, for a total cash investment of \$58 million, or \$45.56 per share.

(b) The number of shares 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 April 28, 2012, 230,660 shares were reacquired at an average per share price of \$58.48 pursuant to our long-term incentive plan.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

| | |
|---------|--|
| (3)A | Amended and Restated Articles of Incorporation (as amended June 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 |
| (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 |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

(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: May 23, 2012

By:

/s/ John J. Mulligan
John J. Mulligan
Executive Vice President,
Chief Financial Officer
and Chief Accounting Officer
(Duly Authorized Officer and
Principal Financial Officer)

EXHIBIT INDEX

| Exhibit | Description | Manner of Filing |
|----------------|--|---------------------------|
| (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 |
| (31)B | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed Electronically |
| (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 | Filed Electronically |
| (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 | Filed Electronically |
| 101.INS | XBRL Instance Document | Filed Electronically |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed Electronically |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed Electronically |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed Electronically |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed Electronically |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed Electronically |