

TARGET CORP  
Form 10-Q  
December 03, 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 October 30, 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 December 1, 2010 were 708,081,740.

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**TARGET CORPORATION**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Consolidated Statements of Operations**

|                                                            | Three Months Ended  |                     | Nine Months Ended   |                     |
|------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                            | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| (millions, except per share data) (unaudited)              |                     |                     |                     |                     |
| Sales                                                      | \$ 15,226           | \$ 14,789           | \$ 45,509           | \$ 43,717           |
| Credit card revenues                                       | 379                 | 487                 | 1,220               | 1,459               |
| Total revenues                                             | 15,605              | 15,276              | 46,729              | 45,176              |
| Cost of sales                                              | 10,562              | 10,229              | 31,267              | 30,080              |
| Selling, general and administrative expenses               | 3,345               | 3,255               | 9,749               | 9,405               |
| Credit card expenses                                       | 198                 | 381                 | 693                 | 1,153               |
| Depreciation and amortization                              | 533                 | 537                 | 1,545               | 1,487               |
| Earnings before interest expense and income taxes          | 967                 | 874                 | 3,475               | 3,051               |
| Net interest expense                                       |                     |                     |                     |                     |
| Nonrecourse debt collateralized by credit card receivables | 20                  | 23                  | 64                  | 74                  |
| Other interest expense                                     | 175                 | 168                 | 505                 | 517                 |
| Interest income                                            | (1)                 |                     | (2)                 | (3)                 |
| Net interest expense                                       | 194                 | 191                 | 567                 | 588                 |
| Earnings before income taxes                               | 773                 | 683                 | 2,908               | 2,463               |
| Provision for income taxes                                 | 238                 | 247                 | 1,023               | 911                 |
| <b>Net earnings</b>                                        | <b>\$ 535</b>       | <b>\$ 436</b>       | <b>\$ 1,885</b>     | <b>\$ 1,552</b>     |
| <b>Basic earnings per share</b>                            | <b>\$ 0.75</b>      | <b>\$ 0.58</b>      | <b>\$ 2.59</b>      | <b>\$ 2.06</b>      |
| <b>Diluted earnings per share</b>                          | <b>\$ 0.74</b>      | <b>\$ 0.58</b>      | <b>\$ 2.57</b>      | <b>\$ 2.06</b>      |
| Weighted average common shares outstanding                 |                     |                     |                     |                     |
| Basic                                                      | 715.4               | 751.8               | 728.8               | 752.0               |
| Diluted                                                    | 721.0               | 755.7               | 734.4               | 754.3               |

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Financial Position**

| (millions)                                                                                     | <b>October 30,<br/>2010<br/>(unaudited)</b> | January 30,<br>2010 | October 31,<br>2009<br>(unaudited) |
|------------------------------------------------------------------------------------------------|---------------------------------------------|---------------------|------------------------------------|
| <b>Assets</b>                                                                                  |                                             |                     |                                    |
| Cash and cash equivalents, including marketable securities of <b>\$349</b> , \$1,617 and \$273 | \$ 936                                      | \$ 2,200            | \$ 864                             |
| Credit card receivables, net of allowance of <b>\$775</b> , \$1,016 and \$1,025                | 5,955                                       | 6,966               | 7,023                              |
| Inventory                                                                                      | 9,550                                       | 7,179               | 9,382                              |
| Other current assets                                                                           | 1,905                                       | 2,079               | 2,314                              |
| Total current assets                                                                           | 18,346                                      | 18,424              | 19,583                             |
| Property and equipment                                                                         |                                             |                     |                                    |
| Land                                                                                           | 5,891                                       | 5,793               | 5,754                              |
| Buildings and improvements                                                                     | 23,101                                      | 22,152              | 22,250                             |
| Fixtures and equipment                                                                         | 4,908                                       | 4,743               | 4,732                              |
| Computer hardware and software                                                                 | 2,461                                       | 2,575               | 2,599                              |
| Construction-in-progress                                                                       | 448                                         | 502                 | 291                                |
| Accumulated depreciation                                                                       | (11,219)                                    | (10,485)            | (10,035)                           |
| Property and equipment, net                                                                    | 25,590                                      | 25,280              | 25,591                             |
| Other noncurrent assets                                                                        | 1,013                                       | 829                 | 805                                |
| <b>Total assets</b>                                                                            | \$ 44,949                                   | \$ 44,533           | \$ 45,979                          |
| <b>Liabilities and shareholders' investment</b>                                                |                                             |                     |                                    |
| Accounts payable                                                                               | \$ 7,761                                    | \$ 6,511            | \$ 7,641                           |
| Accrued and other current liabilities                                                          | 3,179                                       | 3,120               | 3,117                              |
| Unsecured debt and other borrowings                                                            | 814                                         | 796                 | 577                                |
| Nonrecourse debt collateralized by credit card receivables                                     | 36                                          | 900                 | 1,063                              |
| Total current liabilities                                                                      | 11,790                                      | 11,327              | 12,398                             |
| Unsecured debt and other borrowings                                                            | 11,737                                      | 10,643              | 11,432                             |
| Nonrecourse debt collateralized by credit card receivables                                     | 3,943                                       | 4,475               | 4,463                              |
| Deferred income taxes                                                                          | 814                                         | 835                 | 804                                |
| Other noncurrent liabilities                                                                   | 1,786                                       | 1,906               | 1,911                              |
| Total noncurrent liabilities                                                                   | 18,280                                      | 17,859              | 18,610                             |
| Shareholders' investment                                                                       |                                             |                     |                                    |
| Common stock                                                                                   | 59                                          | 62                  | 63                                 |
| Additional paid-in capital                                                                     | 3,128                                       | 2,919               | 2,866                              |
| Retained earnings                                                                              | 12,254                                      | 12,947              | 12,559                             |
| Accumulated other comprehensive loss                                                           | (562)                                       | (581)               | (517)                              |
| Total shareholders' investment                                                                 | 14,879                                      | 15,347              | 14,971                             |
| <b>Total liabilities and shareholders' investment</b>                                          | \$ 44,949                                   | \$ 44,533           | \$ 45,979                          |
| Common shares outstanding                                                                      | 707.9                                       | 744.6               | 752.2                              |

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Cash Flows**

|                                                            | Nine Months Ended   |                     |
|------------------------------------------------------------|---------------------|---------------------|
|                                                            | October 30,<br>2010 | October 31,<br>2009 |
| (millions) (unaudited)                                     |                     |                     |
| <b>Operating activities</b>                                |                     |                     |
| Net earnings                                               | \$ 1,885            | \$ 1,552            |
| Reconciliation to cash flow                                |                     |                     |
| Depreciation and amortization                              | 1,545               | 1,487               |
| Share-based compensation expense                           | 77                  | 72                  |
| Deferred income taxes                                      | 249                 | 451                 |
| Bad debt expense                                           | 445                 | 900                 |
| Loss/impairment of property and equipment, net             | 12                  | 85                  |
| Other non-cash items affecting earnings                    | 128                 | 44                  |
| Changes in operating accounts providing / (requiring) cash |                     |                     |
| Accounts receivable originated at Target                   | 241                 | 190                 |
| Inventory                                                  | (2,371)             | (2,677)             |
| Other current assets                                       | (187)               | (251)               |
| Other noncurrent assets                                    | (118)               | 27                  |
| Accounts payable                                           | 1,250               | 1,303               |
| Accrued and other current liabilities                      | (141)               | (148)               |
| Other noncurrent liabilities                               | (163)               | (8)                 |
| Cash flow provided by operations                           | 2,852               | 3,027               |
| <b>Investing activities</b>                                |                     |                     |
| Expenditures for property and equipment                    | (1,607)             | (1,440)             |
| Proceeds from disposal of property and equipment           | 36                  | 25                  |
| Change in accounts receivable originated at third parties  | 325                 | (29)                |
| Other investments                                          | (70)                | 10                  |
| Cash flow required for investing activities                | (1,316)             | (1,434)             |
| <b>Financing activities</b>                                |                     |                     |
| Additions to long-term debt                                | 997                 |                     |
| Reductions of long-term debt                               | (1,450)             | (1,255)             |
| Dividends paid                                             | (432)               | (369)               |
| Repurchase of stock                                        | (2,055)             |                     |
| Stock option exercises and related tax benefit             | 133                 | 31                  |
| Other                                                      | 7                   |                     |
| Cash flow required for financing activities                | (2,800)             | (1,593)             |
| Net (decrease)/increase in cash and cash equivalents       | (1,264)             |                     |
| Cash and cash equivalents at beginning of period           | 2,200               | 864                 |
| <b>Cash and cash equivalents at end of period</b>          | <b>\$ 936</b>       | <b>\$ 864</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<br>liability adjustments, net of<br>taxes of \$17 |                           |                       |                                  |                      | (27)                                                        |                                                     |                                                                | (27)             |
| Net change on cash flow<br>hedges, net of taxes of \$2                      |                           |                       |                                  |                      |                                                             |                                                     | 4                                                              | 4                |
| Currency translation<br>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<br>(unaudited)                                             | 744.6                     | \$ 62                 | \$ 2,919                         | \$ 12,947            | \$ (537)                                                    | \$                                                  | (44)                                                           | \$ 15,347        |
| Net earnings                                                                |                           |                       |                                  | 1,885                |                                                             |                                                     |                                                                | 1,885            |
| Other comprehensive income                                                  |                           |                       |                                  |                      |                                                             |                                                     |                                                                |                  |
| Pension and other benefit<br>liability adjustments, net of<br>taxes of \$11 |                           |                       |                                  |                      | 16                                                          |                                                     |                                                                | 16               |
| Net change on cash flow<br>hedges, net of taxes of \$2                      |                           |                       |                                  |                      |                                                             |                                                     | 2                                                              | 2                |
| Currency translation<br>adjustment, net of taxes of \$0                     |                           |                       |                                  |                      |                                                             |                                                     | 1                                                              | 1                |
| Total comprehensive income                                                  |                           |                       |                                  |                      |                                                             |                                                     |                                                                | 1,904            |
| Dividends declared                                                          |                           |                       |                                  | (483)                |                                                             |                                                     |                                                                | (483)            |
| Repurchase of stock                                                         | (40.2)                    | (3)                   |                                  | (2,095)              |                                                             |                                                     |                                                                | (2,098)          |
| Stock options and awards                                                    | 3.5                       |                       | 209                              |                      |                                                             |                                                     |                                                                | 209              |
| <b>October 30, 2010</b>                                                     | <b>707.9</b>              | <b>\$ 59</b>          | <b>\$ 3,128</b>                  | <b>\$ 12,254</b>     | <b>\$ (521)</b>                                             | <b>\$</b>                                           | <b>(41)</b>                                                    | <b>\$ 14,879</b> |

Dividends declared per share were \$0.25 and \$0.17 for the three months ended October 30, 2010, and October 31, 2009, respectively, and \$0.67 and \$0.50 for the nine months ended October 30, 2010 and October 31, 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 |                  | Nine Months Ended |                  | Three Months Ended |                  | Nine Months Ended |                  |
|                                                                               | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| (millions, except per share data)                                             |                    |                  |                   |                  |                    |                  |                   |                  |
| Net earnings                                                                  | \$ 535             | \$ 436           | \$ 1,885          | \$ 1,552         | \$ 535             | \$ 436           | \$ 1,885          | \$ 1,552         |
| Basic weighted average common shares outstanding                              | 715.4              | 751.8            | 728.8             | 752.0            | 715.4              | 751.8            | 728.8             | 752.0            |
| Incremental stock options, performance share units and restricted stock units |                    |                  |                   |                  | 5.6                | 3.9              | 5.6               | 2.3              |
| Weighted average common shares outstanding                                    | 715.4              | 751.8            | 728.8             | 752.0            | 721.0              | 755.7            | 734.4             | 754.3            |
| Earnings per share                                                            | \$ 0.75            | \$ 0.58          | \$ 2.59           | \$ 2.06          | \$ 0.74            | \$ 0.58          | \$ 2.57           | \$ 2.06          |

For the October 30, 2010 and October 31, 2009 computations, 10.7 million and 16.3 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

|                                             | Fair Value at<br>October 30, 2010 |         |         | Fair Value at<br>January 30, 2010 |         |         | Fair Value at<br>October 31, 2009 |         |         |
|---------------------------------------------|-----------------------------------|---------|---------|-----------------------------------|---------|---------|-----------------------------------|---------|---------|
| (millions)                                  | 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                       | \$ 349                            | \$      | \$      | \$ 1,617                          | \$      | \$      | \$ 273                            | \$      | \$      |
| Other current assets                        |                                   |         |         |                                   |         |         |                                   |         |         |
| Prepaid forward contracts                   | 62                                |         |         | 79                                |         |         | 54                                |         |         |
| Other noncurrent assets                     |                                   |         |         |                                   |         |         |                                   |         |         |
| Interest rate swaps(a)                      |                                   | 172     |         |                                   | 131     |         |                                   | 134     |         |
| Company-owned life insurance investments(b) |                                   | 337     |         |                                   | 305     |         |                                   | 292     |         |
| Total                                       | \$ 411                            | \$ 509  | \$      | \$ 1,696                          | \$ 436  | \$      | \$ 327                            | \$ 426  | \$      |
| <b>Liabilities</b>                          |                                   |         |         |                                   |         |         |                                   |         |         |
| Other noncurrent liabilities                |                                   |         |         |                                   |         |         |                                   |         |         |
| Interest rate swaps(a)                      | \$                                | \$ 80   | \$      | \$                                | \$ 23   | \$      | \$                                | \$ 21   | \$      |
| Total                                       | \$                                | \$ 80   | \$      | \$                                | \$ 23   | \$      | \$                                | \$ 21   | \$      |

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

(b) Company-owned life insurance investments consist of equity index funds and fixed income assets. Amounts are presented net of loans of \$242 million at October 30, 2010, \$244 million at January 30, 2010, and \$240 million at October 31, 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                      | 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**

|                               | Other current assets<br>Long-lived assets held for sale |             | Property and equipment<br>Long-lived assets held and used(a) |             |
|-------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------------|-------------|
|                               | Three Months                                            | Nine Months | Three Months                                                 | Nine Months |
| (millions)                    | Ended                                                   | Ended       | Ended                                                        | Ended       |
| Measured as of Oct. 30, 2010: |                                                         |             |                                                              |             |
| Carrying amount               | \$                                                      | \$ 2        | \$ 25                                                        | \$ 73       |
| Fair value measurement        |                                                         | 2           | 23                                                           | 63          |
| Gain/(loss)                   |                                                         |             | (2)                                                          | (10)        |
| Measured as of Oct. 31, 2009: |                                                         |             |                                                              |             |
| Carrying amount               | 34                                                      | 61          | 29                                                           | 83          |
| Fair value measurement        | 31                                                      | 49          | 22                                                           | 55          |
| Gain/(loss)                   | (3)                                                     | (12)        | (7)                                                          | (28)        |

(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**

|                              | October 30, 2010 |            | October 31, 2009 |            |
|------------------------------|------------------|------------|------------------|------------|
|                              | Carrying Amount  | Fair Value | Carrying Amount  | Fair Value |
| (millions)                   |                  |            |                  |            |
| <b>Financial assets</b>      |                  |            |                  |            |
| Other current assets         |                  |            |                  |            |
| Marketable securities(a)     | \$ 73            | \$ 73      | \$ 55            | \$ 55      |
| Other noncurrent assets      |                  |            |                  |            |
| Marketable securities(a)     |                  |            | 4                | 4          |
| Total                        | \$ 73            | \$ 73      | \$ 59            | \$ 59      |
| <b>Financial liabilities</b> |                  |            |                  |            |
| Total debt(b)                | \$ 16,037        | \$ 17,880  | \$ 17,149        | \$ 18,441  |
| Total                        | \$ 16,037        | \$ 17,880  | \$ 17,149        | \$ 18,441  |

(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 October 30, 2010.

**4. Credit Card Receivables**

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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 \$775 million at October 30, 2010, \$1,016 million at January 30, 2010 and \$1,025 million at October 31, 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 \$234 million at October 30, 2010, \$371 million at January 30, 2010 and \$370 million at October 31, 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 October 30, 2010, 6.7 percent at January 30, 2010, and 6.7 percent at October 31, 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 \$110 million and \$530 million for the three and nine months ended October 30, 2010, respectively, under the terms of this agreement. No payments were made during the nine months ended October 31, 2009. On November 26, 2010, TRC repaid an additional \$36 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 October 30, 2010, January 30, 2010, or October 31, 2009. There were no amounts outstanding under our commercial paper program at any time during the three and nine months ended October 30, 2010. During the three and nine months ended October 31, 2009 the maximum amount outstanding was \$112 million and the average amount outstanding was \$4 million and \$1 million, respectively.

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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. Historically our derivative instruments have primarily consisted of 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.

During 2008, we terminated or de-designated certain interest rate swaps that were accounted for as hedges. Total net gains amortized into net interest expense for terminated or de-designated swaps were \$11 million and \$13 million during the three months ended October 30, 2010 and October 31, 2009, respectively. Total net gains amortized into net interest expense for terminated and de-designated swaps were \$34 million and \$46 million during the nine months ended October 30, 2010 and October 31, 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 of the underlying debt totaled \$164 million, \$197 million and \$216 million, at October 30, 2010, January 30, 2010 and October 31, 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       | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------|---------------------------------------|--------------------|------------------|-------------------|------------------|
|                      |                                       | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| (millions)           | Classification of<br>Income/(Expense) |                    |                  |                   |                  |
| Interest Rate Swaps  | Other interest expense                | \$ 12              | \$ 17            | \$ 40             | \$ 48            |

At October 30, 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.

During the third quarter of 2010, we recorded a reduction to income tax expense of \$45 million due to the favorable resolution of various state income tax matters. As of October 30, 2010, our unrecognized tax benefit liability was \$337 million.

## 9. Share Repurchase

Since the inception of our share repurchase program, which began in the fourth quarter of 2007, we have repurchased 143.8 million shares of our common stock, for a total cash investment of \$7,413 million (average price per share of \$51.55).

During the three months ended October 30, 2010, we repurchased 15.2 million shares of our common stock, including 0.5 million shares through settlement of prepaid forward contracts, for a total cash investment of \$793 million (average price per share of \$52.29), of which \$9 million was paid in prior periods. The prepaid forward contracts settled during the three months ended October 30, 2010 had a total cash investment of \$24 million and an aggregate market value of \$26 million at their respective settlement dates.

During the nine months ended October 30, 2010, we repurchased 40.2 million shares of our common stock, including 0.8 million shares through settlement of prepaid forward contracts, for a total cash investment of \$2,093 million (average price per share of \$52.04), of which \$24 million was paid in prior periods. The prepaid forward contracts settled during the nine months ended October 30, 2010 had a total cash investment of \$39 million and an aggregate market value of \$42 million at their respective settlement dates.

During the three months ended October 31, 2009, we repurchased 0.3 million shares of our common stock, for a total cash investment of \$14 million (average price per share of \$43.80), of which \$9 million was paid in prior periods. All shares reacquired during the three months ended October 31, 2009 were delivered upon settlement of prepaid forward contracts. The prepaid forward contracts settled during the three months ended October 31, 2009 had a total cash investment of \$14 million and an aggregate market value of \$15 million at their respective settlement dates.

During the nine months ended October 31, 2009, we repurchased 1.5 million shares of our common stock, for a total cash investment of \$56 million (average price per share of \$36.57), of which \$42 million was paid in prior periods. All shares reacquired during the nine months ended October 31, 2009 were delivered upon settlement of prepaid forward contracts. The prepaid forward contracts settled during the nine months ended October 31, 2009 had a total cash investment of \$56 million and an aggregate market value of \$60 million at their respective settlement 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.

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

| Net Pension Expense and<br>Postretirement Healthcare<br>Expense<br>(millions) | Pension Benefits   |                  |                   |                  | Postretirement Health Care Benefits |                  |                   |                  |
|-------------------------------------------------------------------------------|--------------------|------------------|-------------------|------------------|-------------------------------------|------------------|-------------------|------------------|
|                                                                               | Three Months Ended |                  | Nine Months Ended |                  | Three Months Ended                  |                  | Nine Months Ended |                  |
|                                                                               | Oct. 30,<br>2010   | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 | Oct. 30,<br>2010                    | Oct. 31,<br>2009 | Oct. 30,<br>2010  | Oct. 31,<br>2009 |
| Service cost                                                                  | \$ 29              | \$ 25            | \$ 87             | \$ 75            | \$ 2                                | \$ 2             | \$ 7              | \$ 5             |
| Interest cost                                                                 | 32                 | 32               | 96                | 94               | 1                                   | 2                | 3                 | 6                |
| Expected return on assets                                                     | (48)               | (44)             | (144)             | (132)            |                                     |                  |                   |                  |
| Recognized losses                                                             | 11                 | 6                | 33                | 18               | 1                                   |                  | 3                 |                  |
| Recognized prior service cost                                                 |                    | (1)              | (1)               | (3)              | (2)                                 |                  | (7)               |                  |
| <b>Total</b>                                                                  | <b>\$ 24</b>       | <b>\$ 18</b>     | <b>\$ 71</b>      | <b>\$ 52</b>     | <b>\$ 2</b>                         | <b>\$ 4</b>      | <b>\$ 6</b>       | <b>\$ 11</b>     |

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We will likely make contributions in the range of \$100 million to \$300 million to our qualified defined benefit pension plan during the fourth quarter of 2010, depending on a variety of factors, including the calculation of the pension liability based on prevailing interest rates at the end of the fiscal year.

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 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.

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 gain of \$1 million and \$6 million for the three months ended October 30, 2010 and October 31, 2009, respectively, and a pretax gain of \$1 million and \$31 million for the nine months ended October 30, 2010 and October 31, 2009, respectively. For the nine months ended October 30, 2010, we invested approximately \$26 million in prepaid forward contracts in our own common stock. For the nine months ended October 31, 2009, we invested approximately \$14 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. For the three and nine months ended October 30, 2010, these repurchases totaled 0.5 million and 0.8 million shares, respectively, and for the three and nine months ended October 31, 2009, these repurchases totaled 0.3 million and 1.5 million shares, respectively, and are included in the total share repurchases described in Note 9, Share Repurchase.

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

| <b>Prepaid Forward Contracts on Target<br/>Common Stock</b> |  |                     |                         |               |  |                          |  |
|-------------------------------------------------------------|--|---------------------|-------------------------|---------------|--|--------------------------|--|
|                                                             |  | Contractual         |                         |               |  |                          |  |
|                                                             |  | Number of<br>Shares | Price Paid<br>per Share | Fair<br>Value |  | Total Cash<br>Investment |  |
| (millions, except per share data)                           |  |                     |                         |               |  |                          |  |
| October 31, 2009                                            |  | 1.1                 | \$ 41.11                | \$ 54         |  | \$ 46                    |  |
| January 30, 2010                                            |  | 1.5                 | 42.77                   | 79            |  | 66                       |  |
| <b>October 30, 2010</b>                                     |  | <b>1.2</b>          | <b>43.87</b>            | <b>62</b>     |  | <b>53</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 October 30, 2010 |        |        |     |       |        | Three Months Ended October 31, 2009 |        |        |     |       |        |
|--------------------------------------------------------------------------------|-------------------------------------|--------|--------|-----|-------|--------|-------------------------------------|--------|--------|-----|-------|--------|
|                                                                                |                                     |        | Credit |     |       |        |                                     |        | Credit |     |       |        |
| (millions)                                                                     | Retail                              |        | Card   |     | Total |        | Retail                              |        | Card   |     | Total |        |
| Sales/Credit card revenues                                                     | \$                                  | 15,226 | \$     | 379 | \$    | 15,605 | \$                                  | 14,789 | \$     | 487 | \$    | 15,276 |
| Cost of sales                                                                  |                                     | 10,562 |        |     |       | 10,562 |                                     | 10,229 |        |     |       | 10,229 |
| Bad debt expense(a)                                                            |                                     |        |        | 110 |       | 110    |                                     |        |        | 301 |       | 301    |
| Selling, general and administrative/ Operations and marketing expenses(a), (b) |                                     | 3,319  |        | 114 |       | 3,433  |                                     | 3,236  |        | 99  |       | 3,335  |
| Depreciation and amortization                                                  |                                     | 529    |        | 5   |       | 533    |                                     | 533    |        | 4   |       | 537    |
| Earnings before interest expense and income taxes                              |                                     | 816    |        | 150 |       | 967    |                                     | 791    |        | 83  |       | 874    |
| Interest expense on nonrecourse debt collateralized by credit card receivables |                                     |        |        | 20  |       | 20     |                                     |        |        | 23  |       | 23     |
| Segment profit                                                                 | \$                                  | 816    | \$     | 130 |       | 947    | \$                                  | 791    | \$     | 60  |       | 851    |
| Unallocated (income) and expenses                                              |                                     |        |        |     |       |        |                                     |        |        |     |       |        |
| Other interest expense                                                         |                                     |        |        |     |       | 175    |                                     |        |        |     |       | 168    |
| Interest income                                                                |                                     |        |        |     |       | (1)    |                                     |        |        |     |       |        |
| Earnings before income taxes                                                   |                                     |        |        |     | \$    | 773    |                                     |        |        |     | \$    | 683    |

|                                                                                | Nine Months Ended October 30, 2010 |        |        |       |       |        | Nine Months Ended October 31, 2009 |        |        |       |       |        |
|--------------------------------------------------------------------------------|------------------------------------|--------|--------|-------|-------|--------|------------------------------------|--------|--------|-------|-------|--------|
|                                                                                |                                    |        | Credit |       |       |        |                                    |        | Credit |       |       |        |
| (millions)                                                                     | Retail                             |        | Card   |       | Total |        | Retail                             |        | Card   |       | Total |        |
| Sales/Credit card revenues                                                     | \$                                 | 45,509 | \$     | 1,220 | \$    | 46,729 | \$                                 | 43,717 | \$     | 1,459 | \$    | 45,176 |
| Cost of sales                                                                  |                                    | 31,267 |        |       |       | 31,267 |                                    | 30,080 |        |       |       | 30,080 |
| Bad debt expense(a)                                                            |                                    |        |        | 445   |       | 445    |                                    |        |        | 900   |       | 900    |
| Selling, general and administrative/ Operations and marketing expenses(a), (b) |                                    | 9,689  |        | 307   |       | 9,997  |                                    | 9,345  |        | 312   |       | 9,658  |
| Depreciation and amortization                                                  |                                    | 1,532  |        | 14    |       | 1,545  |                                    | 1,476  |        | 11    |       | 1,487  |
| Earnings before interest expense and income taxes                              |                                    | 3,021  |        | 454   |       | 3,475  |                                    | 2,816  |        | 236   |       | 3,051  |
| Interest expense on nonrecourse debt collateralized by credit card receivables |                                    |        |        | 64    |       | 64     |                                    |        |        | 74    |       | 74     |
| Segment profit                                                                 | \$                                 | 3,021  | \$     | 390   |       | 3,411  | \$                                 | 2,816  | \$     | 162   |       | 2,977  |
| Unallocated (income) and expenses                                              |                                    |        |        |       |       |        |                                    |        |        |       |       |        |
| Other interest expense                                                         |                                    |        |        |       |       | 505    |                                    |        |        |       |       | 517    |
| Interest income                                                                |                                    |        |        |       |       | (2)    |                                    |        |        |       |       | (3)    |
| Earnings before income taxes                                                   |                                    |        |        |       | \$    | 2,908  |                                    |        |        |       | \$    | 2,463  |

- (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) Loyalty Program discounts are recorded as reductions to sales in our Retail Segment. Effective with the October 2010 nationwide launch of our new 5% REDcard rewards loyalty program, we changed the formula under which our Credit Card segment reimburses our Retail Segment to better align with the attributes of the new program. In the three months and nine months ended October 30, 2010, these reimbursed amounts were \$26 million and \$60 million, respectively, compared with \$19 million and \$59 million in the corresponding periods in 2009. In all periods these amounts were recorded as reductions to SG&A expenses within the Retail Segment and increases to

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*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.*

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## Total Assets by Segment

|              | October 30, 2010 |          |           | January 30, 2010 |          |           | October 31, 2009 |          |           |
|--------------|------------------|----------|-----------|------------------|----------|-----------|------------------|----------|-----------|
|              | Credit           |          |           | Credit           |          |           | Credit           |          |           |
| (millions)   | Retail           | Card     | Total     | Retail           | Card     | Total     | Retail           | Card     | Total     |
| Total assets | \$ 38,617        | \$ 6,332 | \$ 44,949 | \$ 37,200        | \$ 7,333 | \$ 44,533 | \$ 38,519        | \$ 7,460 | \$ 45,979 |

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 third quarter of 2010 in our Retail Segment reflect increased sales of 3.0 percent over the same period last year due to a 1.6 percent comparable-store increase combined with the contribution from new stores. Our Retail Segment EBITDA and EBIT margin rates remained essentially unchanged in the third quarter of 2010 compared with 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 \$2,852 million and \$3,027 million for the nine months ended October 30, 2010 and October 31, 2009, respectively. We opened 13 new stores and 75 new stores in the first three quarters of 2010 and 2009, respectively. During the first three quarters of 2010, we remodeled 341 stores under our current store remodel program, significantly more than the 62 stores we remodeled in the comparable prior year period.

### Analysis of Results of Operations

#### Retail Segment

#### Retail Segment Results

|                               | Three Months Ended |             |         |    | Nine Months Ended |             |         |
|-------------------------------|--------------------|-------------|---------|----|-------------------|-------------|---------|
|                               | October 30,        | October 31, | Percent |    | October 30,       | October 31, | Percent |
| (millions)                    | 2010               | 2009        | Change  |    | 2010              | 2009        | Change  |
| Sales                         | \$ 15,226          | \$ 14,789   | 3.0%    | \$ | 45,509            | \$ 43,717   | 4.1%    |
| Cost of sales                 | 10,562             | 10,229      | 3.3     |    | 31,267            | 30,080      | 3.9     |
| Gross margin                  | 4,664              | 4,560       | 2.3     |    | 14,242            | 13,637      | 4.4     |
| SG&A expenses(a)              | 3,319              | 3,236       | 2.6     |    | 9,689             | 9,345       | 3.7     |
| EBITDA                        | 1,345              | 1,324       | 1.6     |    | 4,553             | 4,292       | 6.1     |
| Depreciation and amortization | 529                | 533         | (0.8)   |    | 1,532             | 1,476       | 3.8     |
| EBIT                          | \$ 816             | \$ 791      | 3.2%    | \$ | 3,021             | \$ 2,816    | 7.3%    |

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

EBIT is earnings before interest expense and income taxes.

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(a) *Loyalty Program discounts are recorded as reductions to sales in our Retail Segment. Effective with the October 2010 nationwide launch of our new 5% REDcard rewards loyalty program, we changed the formula under which our Credit Card segment reimburses our Retail Segment to better align with the attributes of the new program. In the three months and nine months ended October 30, 2010, these reimbursed amounts were \$26 million and \$60 million, respectively, compared with \$19 million and \$59 million in the corresponding periods in 2009. In all periods these amounts were recorded as reductions to SG&A expenses within the Retail Segment and increases to operations and marketing expenses within the Credit Card Segment.*

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### Retail Segment Rate Analysis

|                                            | Three Months Ended  |                     | Nine Months Ended   |                     |
|--------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                            | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Gross margin rate                          | 30.6%               | 30.8%               | 31.3%               | 31.2%               |
| SG&A expense rate                          | 21.8%               | 21.9%               | 21.3%               | 21.4%               |
| EBITDA margin rate                         | 8.8%                | 9.0%                | 10.0%               | 9.8%                |
| Depreciation and amortization expense rate | 3.5%                | 3.6%                | 3.4%                | 3.4%                |
| EBIT margin rate                           | 5.4%                | 5.3%                | 6.6%                | 6.4%                |

*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  |                     | Nine Months Ended   |                     |
|--------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                  | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Comparable-store sales                           | 1.6 %               | (1.6)%              | 2.0 %               | (3.9)%              |
| Components of changes in comparable-store sales: |                     |                     |                     |                     |
| Number of transactions                           | 2.1 %               | 0.6 %               | 2.3 %               | (1.1)%              |
| Average transaction amount                       | (0.5)%              | (2.2)%              | (0.2)%              | (2.8)%              |
| Units per transaction                            | 3.0 %               | (1.6)%              | 2.1 %               | (2.4)%              |
| Selling price per unit                           | (3.3)%              | (0.6)%              | (2.2)%              | (0.4)%              |

*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.*

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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.

Beginning April 2010, all new qualified credit card applicants receive the Target Card, and we no longer issue the Target Visa to credit card applicants. Existing Target Visa cardholders are not affected. Beginning October 2010, guests receive a 5 percent discount on virtually all purchases at check-out every day when they use a REDcard at any Target store or on Target.com. Target's REDcards include the Target Credit Card, Target Visa Credit Card and Target Debit Card. This new REDcard rewards program replaced the existing rewards program in which account holders received an initial 10 percent-off coupon for opening the account and earned points toward a 10 percent-off coupon on subsequent purchases. These changes are intended to simplify the program and to generate profitable incremental retail sales.

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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 of the incremental purchases on the REDcards representing a shift in tender type.

### REDcard Penetration Analysis

|                                 | Three Months Ended  |                     | Nine Months Ended   |                     |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                 | October 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010 | October 31,<br>2009 |
| Target Credit Penetration       | 4.9%                | 5.1%                | 4.7%                | 5.2%                |
| Target Debit Penetration        | 0.6%                | 0.4%                | 0.5%                | 0.4%                |
| Total Store REDcard Penetration | 5.5%                | 5.5%                | 5.2%                | 5.6%                |

### 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 and nine months ended October 30, 2010, our gross margin rate was 30.6 percent and 31.3 percent respectively, compared with 30.8 percent and 31.2 percent in the same periods last year. Sales mix had little impact on gross margin rates as overall sales growth rates were similar for both lower margin rate categories and higher margin rate categories for the three and nine months ended October 30, 2010. There were no other significant variances in the drivers of gross margin rate.

### 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 nine months ended October 30, 2010, SG&A expense rates of 21.8 percent and 21.3 percent, respectively, were essentially unchanged from the 21.9 percent and 21.4 percent in the same periods last year.

### Depreciation and Amortization Expense Rate

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Our depreciation and amortization expense rate represents depreciation and amortization expense as a percentage of sales. For the three and nine months ended October 30, 2010, our depreciation and amortization expense rate was 3.5 percent and 3.4 percent, respectively, largely consistent with the 3.6 percent and 3.4 percent for the respective periods last year.

### Store Data

During the three months ended October 30, 2010, we opened 10 new general merchandise stores (9 net of one relocation). During the three months ended October 31, 2009, we opened 25 new stores, including 20 general merchandise stores (19 net of one relocation) and 5 SuperTarget stores. During the nine months ended October 30, 2010, we opened 13 new general merchandise stores (12 net of one relocation). During the nine months ended October 31, 2009, we opened 75 new stores (61 net of relocations and closings). During the first three quarters of 2010, we remodeled 341 stores under our current store remodel program, significantly more than the 62 stores we remodeled in the comparable prior year period.

**Number of Stores and Retail  
Square Feet**

|                                   | Number of Stores    |                     |                     | Retail Square Feet(a) |                     |                     |
|-----------------------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
|                                   | October 30,<br>2010 | January 30,<br>2010 | October 31,<br>2009 | October 30,<br>2010   | January 30,<br>2010 | October 31,<br>2009 |
| Target general merchandise stores | 1,501               | 1,489               | 1,491               | 189,354               | 187,449             | 187,481             |
| SuperTarget stores                | 251                 | 251                 | 252                 | 44,504                | 44,492              | 44,645              |
| Total                             | 1,752               | 1,740               | 1,743               | 233,858               | 231,941             | 232,126             |

(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. Beginning April 2010, all new qualified credit card applicants receive the Target Card, and we no longer issue the Target Visa to credit card applicants. Existing Target Visa cardholders are not affected. Beginning October 2010, guests receive a 5 percent discount on virtually all purchases at check-out every day when they use a REDcard at any Target store or on Target.com. This new REDcard rewards program replaced the existing rewards program in which account holders received an initial 10 percent-off coupon for opening the account and earned points toward a 10 percent-off coupon on subsequent purchases. These changes are intended to simplify the program and to generate profitable incremental retail sales.

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>October 30, 2010 |                       | Three Months Ended<br>October 31, 2009 |                       |
|--------------------------------------------------------------------------------|----------------------------------------|-----------------------|----------------------------------------|-----------------------|
|                                                                                | Amount<br>(in millions)                | Annualized<br>Rate(d) | Amount<br>(in millions)                | Annualized<br>Rate(d) |
| (millions)                                                                     |                                        |                       |                                        |                       |
| Finance charge revenue                                                         | \$ 315                                 | 18.4%                 | \$ 365                                 | 17.8%                 |
| Late fees and other revenue                                                    | 38                                     | 2.2                   | 92                                     | 4.5                   |
| Third party merchant fees                                                      | 26                                     | 1.5                   | 30                                     | 1.5                   |
| Total revenues                                                                 | 379                                    | 22.1                  | 487                                    | 23.8                  |
| Bad debt expense                                                               | 110                                    | 6.4                   | 301                                    | 14.7                  |
| Operations and marketing expenses(a)                                           | 114                                    | 6.7                   | 99                                     | 4.8                   |
| Depreciation and amortization                                                  | 5                                      | 0.3                   | 4                                      | 0.2                   |
| Total expenses                                                                 | 229                                    | 13.4                  | 404                                    | 19.7                  |
| EBIT                                                                           | 150                                    | 8.8                   | 83                                     | 4.1                   |
| Interest expense on nonrecourse debt collateralized by credit card Receivables | 20                                     |                       | 23                                     |                       |
| Segment profit                                                                 | \$ 130                                 |                       | \$ 60                                  |                       |
| Average receivables funded by Target(b)                                        | \$ 2,811                               |                       | \$ 2,677                               |                       |
| Segment pretax ROIC(c)                                                         | 18.5%                                  |                       | 9.0%                                   |                       |

|                                                                                | Nine Months Ended<br>October 30, 2010 |                       | Nine Months Ended<br>October 31, 2009 |                       |
|--------------------------------------------------------------------------------|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
|                                                                                | Amount<br>(in millions)               | Annualized<br>Rate(d) | Amount<br>(in millions)               | Annualized<br>Rate(d) |
| (millions)                                                                     |                                       |                       |                                       |                       |
| Finance charge revenue                                                         | \$ 989                                | 18.4%                 | \$ 1,097                              | 17.4%                 |
| Late fees and other revenue                                                    | 152                                   | 2.8                   | 270                                   | 4.3                   |
| Third party merchant fees                                                      | 79                                    | 1.5                   | 92                                    | 1.5                   |
| Total revenues                                                                 | 1,220                                 | 22.7                  | 1,459                                 | 23.1                  |
| Bad debt expense                                                               | 445                                   | 8.3                   | 900                                   | 14.3                  |
| Operations and marketing expenses(a)                                           | 307                                   | 5.7                   | 312                                   | 4.9                   |
| Depreciation and amortization                                                  | 14                                    | 0.3                   | 11                                    | 0.2                   |
| Total expenses                                                                 | 766                                   | 14.3                  | 1,223                                 | 19.4                  |
| EBIT                                                                           | 454                                   | 8.4                   | 236                                   | 3.7                   |
| Interest expense on nonrecourse debt collateralized by credit card receivables | 64                                    |                       | 74                                    |                       |
| Segment profit                                                                 | \$ 390                                |                       | \$ 162                                |                       |
| Average receivables funded by Target(b)                                        | \$ 2,705                              |                       | \$ 2,910                              |                       |
| Segment pretax ROIC(c)                                                         | 19.2%                                 |                       | 7.4%                                  |                       |

- (a) Loyalty Program discounts are recorded as reductions to sales in our Retail Segment. Effective with the October 2010 nationwide launch of our new 5% REDcard rewards loyalty program, we changed the formula under which our Credit Card segment reimburses our Retail Segment to better align with the attributes of the new program. In the three months and nine months ended October 30, 2010, these reimbursed amounts were \$26 million and \$60 million, respectively, compared with \$19 million and \$59 million in the corresponding periods in 2009. In all periods these amounts were recorded as reductions to SG&A expenses within the Retail Segment and increases 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 \$4,048 million and \$4,461 million for the three and nine months ended October 30, 2010, respectively, and \$5,520 million and \$5,508 million for the three and nine months ended October 31, 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**

|                    | Three Months Ended<br>October 30, 2010 |                    | Three Months Ended<br>October 31, 2009 |                    |
|--------------------|----------------------------------------|--------------------|----------------------------------------|--------------------|
|                    | Amount<br>(in millions)                | Annualized<br>Rate | Amount<br>(in millions)                | Annualized<br>Rate |
| EBIT               | \$ 150                                 | 8.8% (c) \$        | 83                                     | 4.1% (c)           |
| LIBOR(a)           |                                        | 0.3%               |                                        | 0.3%               |
| Spread to LIBOR(b) | \$ 146                                 | 8.5% (c) \$        | 78                                     | 3.8% (c)           |

|                    | Nine Months Ended<br>October 30, 2010 |                    | Nine Months Ended<br>October 31, 2009 |                    |
|--------------------|---------------------------------------|--------------------|---------------------------------------|--------------------|
|                    | Amount<br>(in millions)               | Annualized<br>Rate | Amount<br>(in millions)               | Annualized<br>Rate |
| EBIT               | \$ 454                                | 8.4% (c) \$        | 236                                   | 3.7% (c)           |
| LIBOR(a)           |                                       | 0.3%               |                                       | 0.3%               |
| Spread to LIBOR(b) | \$ 439                                | 8.1% (c) \$        | 213                                   | 3.4% (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. Additionally, beginning in August 2010 late fee limitations went into effect that resulted in reduced late fee revenue.

Credit Card Segment profit for the three months ended October 30, 2010 increased to \$130 million from \$60 million for the three months ended October 31, 2009, driven mostly by favorability in bad debt expense. Segment revenues were \$379 million, a decrease of \$107 million, or 22.1 percent, from the same period in the prior year, primarily driven by lower average receivables as well as reduced late fees. Segment expenses were \$229 million, a decrease of \$174 million, or 43.2 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, due to a decrease in nonrecourse debt securitized by credit card receivables.

During the nine months ended October 30, 2010, Credit Card Segment profit increased to \$390 million from \$162 million in the same period last year driven mostly by favorability in bad debt expense. Segment revenues were \$1,220 million, a decrease of \$239 million, or 16.4 percent, from the same period in the prior year, primarily due to lower average receivables as well as reduced late fees. Segment expenses were \$766 million, a decrease of \$458 million, or 37.4 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 \$10 million from last year, due to a decrease in nonrecourse debt securitized by credit card receivables.



**Receivables Rollforward Analysis**

|                                                                                                                      | Three Months Ended |             | Nine Months Ended |             |
|----------------------------------------------------------------------------------------------------------------------|--------------------|-------------|-------------------|-------------|
|                                                                                                                      | October 30,        | October 31, | October 30,       | October 31, |
| (millions)                                                                                                           | 2010               | 2009        | 2010              | 2009        |
| Beginning gross credit card receivables                                                                              | \$ 6,988           | \$ 8,293    | \$ 7,982          | \$ 9,094    |
| Charges at Target                                                                                                    | 811                | 799         | 2,295             | 2,445       |
| Charges at third parties                                                                                             | 1,409              | 1,648       | 4,357             | 5,080       |
| Payments                                                                                                             | (2,643)            | (2,870)     | (8,350)           | (9,071)     |
| Other                                                                                                                | 165                | 178         | 446               | 500         |
| Period-end gross credit card receivables                                                                             | \$ 6,730           | \$ 8,048    | \$ 6,730          | \$ 8,048    |
| Average gross credit card receivables                                                                                | \$ 6,859           | \$ 8,197    | \$ 7,166          | \$ 8,418    |
| Accounts with three or more payments (60+ days) past due as a percentage of period-end gross credit card receivables | 4.9%               | 6.5%        | 4.9%              | 6.5%        |
| Accounts with four or more payments (90+ days) past due as a percentage of period-end gross credit card receivables  | 3.5%               | 4.6%        | 3.5%              | 4.6%        |

**Allowance for Doubtful Accounts**

|                                                                                      | Three Months Ended |             | Nine Months Ended |             |
|--------------------------------------------------------------------------------------|--------------------|-------------|-------------------|-------------|
|                                                                                      | October 30,        | October 31, | October 30,       | October 31, |
| (millions)                                                                           | 2010               | 2009        | 2010              | 2009        |
| Allowance at beginning of period                                                     | \$ 851             | \$ 1,004    | \$ 1,016          | \$ 1,010    |
| Bad debt expense                                                                     | 110                | 301         | 445               | 900         |
| Net write-offs(a)                                                                    | (186)              | (280)       | (686)             | (885)       |
| Allowance at end of period                                                           | \$ 775             | \$ 1,025    | \$ 775            | \$ 1,025    |
| As a percentage of period-end gross credit card receivables                          | 11.5%              | 12.7%       | 11.5%             | 12.7%       |
| Net write-offs as a percentage of average gross credit card receivables (annualized) | 10.9%              | 13.7%       | 12.8%             | 14.0%       |

(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 October 30, 2010 were \$6,730 million compared with \$8,048 million at October 31, 2009, a decrease of 16.4 percent. Average gross credit card receivables for the three months ended October 30, 2010 decreased 16.3 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 \$194 million for the three months ended October 30, 2010, increasing \$3 million, or 1.4 percent from the same period last year due to a higher average net portfolio interest rate, partially offset by lower average debt balances reflecting lower average credit card receivables. Net interest expense was \$567 million for the nine months ended October 30, 2010, decreasing \$21 million, or 3.6 percent from the same period last year due to lower average debt balances reflecting lower average credit card receivables, partially offset by a higher average net portfolio interest rate.



## **Provision for Income Taxes**

Our effective income tax rate for the nine months ended October 30, 2010 was 35.2 percent compared with 37.0 percent for the nine months ended October 31, 2009. The third quarter effective tax rate decreased to 30.8 percent in 2010 from 36.1 percent in 2009 primarily due to the favorable resolution of various state income tax matters, which reduced income tax expense by \$45 million.

## **Analysis of Financial Condition**

### **Liquidity and Capital Resources**

Cash flow provided by operations was \$2,852 million for the nine months ended October 30, 2010 compared with \$3,027 million for the same period last year. This cash flow, combined with our year-end cash position, allowed us to fund capital expenditures, pay dividends to shareholders, and continue our share repurchase program.

Our period-end gross credit card receivables were \$6,730 million at October 30, 2010 compared with \$8,048 million at October 31, 2009, a decrease of 16.4 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 \$110 million and \$530 million for the three and nine months ended October 30, 2010, respectively, under the terms of our agreement with them as described in Note 4, Credit Card Receivables. No payments were made during the nine months ended October 31, 2009. 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 \$168 million, or 1.8 percent, from October 31, 2009 to October 30, 2010, reflecting higher inventory levels required to support comparatively higher retail square footage, as well as to support traffic-driving strategic initiatives. Accounts payable increased by \$121 million, or 1.6 percent over the same period.

Capital expenditures for the three months ended October 30, 2010 were \$616 million compared with \$399 million for the three months ended October 31, 2009. This increase was driven by higher capital expenditures for store remodels, partially offset by lower expenditures for new stores. Capital expenditures for the nine months ended October 30, 2010 were \$1,607 million compared with \$1,440 million for the nine months ended October 31, 2009, due to higher capital expenditures for store remodels, partially offset by lower expenditures for new stores.

During the three and nine months ended October 30, 2010, we repurchased 15.2 million and 40.2 million shares, respectively, of our common stock for a total cash investment of \$793 million and \$2,093 million, respectively. During the three and nine months ended October 31, 2009, we repurchased 0.3 million and 1.5 million shares, respectively, of our common stock for a total cash investment of \$14 million and \$56 million, respectively.

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We paid dividends totaling \$181 million and \$432 million during the three and nine months ended October 30, 2010, respectively, an increase of 41.5 percent and 17.3 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.

We will likely make contributions in the range of \$100 million to \$300 million to our qualified defined benefit pension plan during the fourth quarter of 2010, depending on a variety of factors, including the calculation of the pension liability based on prevailing interest rates at the end of the fiscal year.

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 October 30, 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 current initiatives, the most significant of which are our store remodel program and the new 5 percent REDcard rewards program.

Beginning October 2010, guests receive a 5 percent discount on virtually all purchases at check-out every day when they use a REDcard at any Target store or on Target.com. Target's REDcards include the Target Credit Card, Target Visa Credit Card and Target Debit Card. This new REDcard rewards program replaced the existing rewards program in which account holders received an initial 10 percent-off coupon for opening the account and earned points toward a 10 percent-off coupon on subsequent purchases. These changes are intended to simplify the program and drive incremental sales.

In our Retail Segment in the fourth quarter, we expect that comparable-store sales will increase in the 2 percent to 4 percent range. This is driven by our expectation that our store remodel program will contribute over a full percentage point of incremental comparable store sales in the fourth quarter, and separately that our new REDcard rewards program will add about a full percentage point of incremental comparable fourth quarter sales. 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 than in prior quarters as the initiatives more fully roll out. On an overall basis, we expect to produce an EBITDA margin rate in the fourth quarter 2010 consistent with the fourth quarter 2009, due to favorable leverage of SG&A expenses offsetting the gross margin rate declines associated with our store remodel and new rewards strategies. Additionally, we expect a slightly better EBIT margin rate in the fourth quarter compared with the same period last year and into 2011, due to continued favorable leverage of depreciation and amortization expenses.

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In our Credit Card Segment in the fourth quarter, we expect continued improvement in segment profit. We expect year-over-year receivables declines in the fourth quarter to be in line with our year-to-date experience, inclusive of a small increment of high credit-quality receivables resulting from the 5% REDcard rewards program. The dollar value of expected write-offs is expected to be consistent with our third quarter experience. We expect that the allowance for doubtful accounts will continue to decline in the fourth quarter, with the extent of that decline dependent on continued improvement in portfolio risks and reflective of seasonal factors.

Effective with the October 2010 nationwide launch of our new 5% REDcard rewards loyalty program, we changed the formula under which our Credit Card segment reimburses our Retail Segment to better align with the attributes of the new program. The overall effects of this change are not expected to be significant.

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 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 341 remodeled stores under our store remodel program.

## **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, gross credit card receivables, write-offs, allowance for doubtful accounts, and bad debt expense; on a consolidated basis, the expected compliance with debt covenants, our expectations related to our new REDcard rewards program and store remodel program, the continued execution of our share repurchase program, our expected capital expenditures, our intentions regarding future dividends, 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-Q for the quarter ended July 31, 2010 and 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**

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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

The following governmental enforcement proceedings relating to environmental matters are reported pursuant to instruction 5(C) of Item 103 of Regulation S-K because they involve potential monetary sanctions in excess of \$100,000:

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 the Court has issued a preliminary injunction requiring that Target comply with all California hazardous waste laws.

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.

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

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.

### Item 1A. Risk Factors

Other than as described in our Form 10-Q for the quarter ended July 31, 2010, there have been no changes to the risk factors described in our annual report on Form 10-K for the fiscal year ended January 30, 2010.

### 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 October 30, 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 143.8 million common shares of our common stock, for a total cash investment of \$7,413 million (\$51.55 average price per share).

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| Period                                   | Total<br>Number<br>of Shares<br>Purchased(b) | Average<br>Price Paid<br>per Share(b) | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program(b) | Approximate<br>Dollar Value of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Program |
|------------------------------------------|----------------------------------------------|---------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| August 1, 2010 through August 28, 2010   | 3,371,000                                    | \$ 51.06                              | 132,011,395                                                                                 | \$ 3,207,496,908                                                                                 |
| August 29, 2010 through October 2, 2010  | 6,814,286(a)                                 | 51.90                                 | 138,757,471                                                                                 | 2,857,342,156                                                                                    |
| October 3, 2010 through October 30, 2010 | 5,044,453                                    | 53.62                                 | 143,801,924                                                                                 | 2,586,865,984                                                                                    |
|                                          | 15,229,739                                   | \$ 52.29                              | 143,801,924                                                                                 | \$ 2,586,865,984                                                                                 |

(a) 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 October 30, 2010, 68,210 shares were acquired at an average per share price of \$52.71 pursuant to our long-term incentive plan.

(b) The table above includes shares reacquired upon settlement of prepaid forward contracts. For the three months ended October 30, 2010, 0.5 million shares were reacquired through these contracts. At October 30, 2010, we held asset positions in prepaid forward contracts for 1.2 million shares of our common stock, for a total cash investment of \$53 million, or \$43.87 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)
- (10)A\* Target Corporation Executive Excess Long Term Disability Plan (restated effective January 1, 2010)
- (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                                                                                                         |

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|         |                                               |
|---------|-----------------------------------------------|
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

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- \* Management Compensation plan required to be filed as an exhibit to this Form 10-Q.
- (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

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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: December 3, 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 |
| (10)A          | Target Corporation Executive Excess Long Term Disability Plan (restated effective January 1, 2010)                                                   | Filed Electronically      |
| (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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