

TARGET CORP  
Form 10-Q  
May 30, 2013

**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 May 4, 2013

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  
incorporation or organization)  
**1000 Nicollet Mall, Minneapolis, Minnesota**

**41-0215170**  
(I.R.S. Employer  
Identification No.)  
**55403**

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(Address of principal executive offices)

(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 \$0.0833, outstanding at May 28, 2013 were 641,703,245.

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TARGET CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Statements of Operations

(millions, except per share data) (unaudited)	Three Months Ended	
	May 4, 2013	April 28, 2012
Sales	\$ 16,706	\$ 16,537
Credit card revenues		330
Total revenues	16,706	16,867
Cost of sales	11,563	11,541
Selling, general and administrative expenses	3,590	3,392
Credit card expenses		120
Depreciation and amortization	536	529
Gain on receivables transaction	(391)	
Earnings before interest expense and income taxes	1,408	1,285
Net interest expense	629	184
Earnings before income taxes	779	1,101
Provision for income taxes	281	404
<b>Net earnings</b>	<b>\$ 498</b>	<b>\$ 697</b>
<b>Basic earnings per share</b>	<b>\$ 0.78</b>	<b>\$ 1.05</b>
<b>Diluted earnings per share</b>	<b>\$ 0.77</b>	<b>\$ 1.04</b>
Weighted average common shares outstanding		
Basic	642.1	666.3
Dilutive impact of share-based awards <sup>(a)</sup>	7.4	6.1
Diluted	649.5	672.4

<sup>(a)</sup> Excludes 4.4 million and 11.5 million share-based awards for the three months ended May 4, 2013 and April 28, 2012, respectively, because their effects were antidilutive.

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Comprehensive Income**

(millions) (unaudited)	Three Months Ended		April 28,
	<b>May 4,</b>		2012
	<b>2013</b>		
Net earnings	\$ <b>498</b>	\$	697
Other comprehensive income/(loss), net of tax			
Pension and other benefit liabilities, net of taxes of <b>\$26</b> and \$9	<b>40</b>		14
Currency translation adjustment and cash flow hedges, net of taxes of <b>\$9</b> and \$17	<b>(29)</b>		26
Other comprehensive income	<b>11</b>		40
<b>Comprehensive income</b>	<b>\$ 509</b>	\$	737

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Financial Position**

(millions)	<b>May 4, 2013</b>	February 2, 2013	April 28, 2012
<b>Assets</b>	<b>(unaudited)</b>		<b>(unaudited)</b>
Cash and cash equivalents, including short-term investments of \$1,112, \$130 and \$18	\$ 1,819	\$ 784	\$ 675
Inventory	8,099	7,903	7,670
Other current assets	1,939	1,860	1,698
Credit card receivables, held for sale		5,841	
Credit card receivables, net of allowance of \$0, \$0 and \$395			5,548
<b>Total current assets</b>	<b>11,857</b>	16,388	15,591
Property and equipment			
Land	6,213	6,206	6,136
Buildings and improvements	28,949	28,653	27,037
Fixtures and equipment	5,199	5,362	4,979
Computer hardware and software	2,382	2,567	2,275
Construction-in-progress	1,348	1,176	1,232
Accumulated depreciation	(13,017)	(13,311)	(12,151)
Property and equipment, net	31,074	30,653	29,508
Other noncurrent assets	1,303	1,122	1,076
<b>Total assets</b>	<b>\$ 44,234</b>	\$ 48,163	\$ 46,175
<b>Liabilities and shareholders' investment</b>			
Accounts payable	\$ 6,721	\$ 7,056	\$ 6,292
Accrued and other current liabilities	3,915	3,981	3,671
Current portion of long-term debt and other borrowings	523	2,994	2,483
<b>Total current liabilities</b>	<b>11,159</b>	14,031	12,446
Long-term debt and other borrowings	13,691	14,654	14,967
Deferred income taxes	1,295	1,311	1,209
Other noncurrent liabilities	1,569	1,609	1,690
<b>Total noncurrent liabilities</b>	<b>16,555</b>	17,574	17,866
Shareholders' investment			
Common stock	53	54	55
Additional paid-in capital	4,159	3,925	3,595
Retained earnings	12,873	13,155	12,854
Accumulated other comprehensive loss			
Pension and other benefit liabilities	(492)	(532)	(610)
Currency translation adjustment and cash flow hedges	(73)	(44)	(31)
<b>Total shareholders' investment</b>	<b>16,520</b>	16,558	15,863
<b>Total liabilities and shareholders' investment</b>	<b>\$ 44,234</b>	\$ 48,163	\$ 46,175

**Common Stock** Authorized 6,000,000,000 shares, \$.0833 par value; 641,253,199, 645,294,423 and 661,096,903 shares issued and outstanding at May 4, 2013, February 2, 2013 and April 28, 2012, respectively.

**Preferred Stock** Authorized 5,000,000 shares, \$.01 par value; no shares were issued or outstanding at May 4, 2013, February 2, 2013 or April 28, 2012.

See accompanying Notes to Consolidated Financial Statements.



**Consolidated Statements of Cash Flows**

(millions) (unaudited)	Three Months Ended	
	<b>May 4, 2013</b>	April 28, 2012
<b>Operating activities</b>		
Net earnings	\$ 498	\$ 697
Reconciliation to cash flow		
Depreciation and amortization	536	529
Share-based compensation expense	29	25
Deferred income taxes	(66)	7
Bad debt expense <sup>(a)</sup>	41	52
Gain on receivables transaction	(391)	
Loss on debt extinguishment	445	
Noncash (gains)/losses and other, net	8	2
Changes in operating accounts:		
Accounts receivable originated at Target	157	142
Proceeds on sale of accounts receivable originated at Target	2,717	
Inventory	(175)	248
Other current assets	(64)	88
Other noncurrent assets	20	(3)
Accounts payable	(375)	(566)
Accrued and other current liabilities	(146)	28
Other noncurrent liabilities	(4)	58
Cash flow provided by operations	3,230	1,307
<b>Investing activities</b>		
Expenditures for property and equipment	(901)	(829)
Proceeds from disposal of property and equipment	19	1
Change in accounts receivable originated at third parties	121	185
Proceeds from sale of accounts receivable originated at third parties	3,020	
Cash paid for acquisitions, net of cash assumed	(58)	
Other investments	52	(16)
Cash flow provided by/(required for) investing activities	2,253	(659)
<b>Financing activities</b>		
Change in commercial paper, net	(970)	450
Additions to long-term debt		500
Reductions of long-term debt	(2,916)	(1,005)
Dividends paid	(232)	(201)
Repurchase of stock	(540)	(592)
Stock option exercises and related tax benefit	209	82
Other		(2)
Cash flow required for financing activities	(4,449)	(768)
Effect of exchange rate changes on cash and cash equivalents	1	1
Net increase/(decrease) in cash and cash equivalents	1,035	(119)
Cash and cash equivalents at beginning of period	784	794
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,819</b>	<b>\$ 675</b>

<sup>(a)</sup> Includes net write-offs of credit card receivables prior to the sale of receivables on March 13, 2013, and bad debt expense on credit card receivables during the three months ended April 28, 2012.

See accompanying Notes to Consolidated Financial Statements.





**Consolidated Statements of Shareholders Investment**

	Common Stock Shares	Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
(millions, except per share data)						
January 28, 2012	669.3	\$ 56	\$ 3,487	\$ 12,959	\$ (681)	\$ 15,821
Net earnings				2,999		2,999
Other comprehensive income					105	105
Dividends declared				(903)		(903)
Repurchase of stock	(32.2)	(3)		(1,900)		(1,903)
Stock options and awards	8.2	1	438			439
February 2, 2013 (unaudited)	645.3	\$ 54	\$ 3,925	\$ 13,155	\$ (576)	\$ 16,558
Net earnings				<b>498</b>		<b>498</b>
Other comprehensive income					<b>11</b>	<b>11</b>
Dividends declared				<b>(231)</b>		<b>(231)</b>
Repurchase of stock	<b>(8.5)</b>	<b>(1)</b>		<b>(549)</b>		<b>(550)</b>
Stock options and awards	<b>4.5</b>		<b>234</b>			<b>234</b>
<b>May 4, 2013</b>	<b>641.3</b>	<b>\$ 53</b>	<b>\$ 4,159</b>	<b>\$ 12,873</b>	<b>\$ (565)</b>	<b>\$ 16,520</b>

Dividends declared per share were \$0.36 and \$0.30 for the three months ended May 4, 2013 and April 28, 2012, respectively. For the fiscal year ended February 2, 2013, dividends declared per share were \$1.38.

See accompanying Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements (unaudited)**

**1. Accounting Policies**

The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statement disclosures contained in the 2012 Form 10-K for Target Corporation (Target). The same accounting policies are followed in preparing quarterly and annual financial data. See the notes in our 2012 Form 10-K 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. Credit Card Receivables Transaction**

On October 22, 2012, we reached an agreement to sell our entire U.S. consumer credit card portfolio to TD Bank Group (TD) for cash consideration equal to the gross (par) value of the outstanding receivables at the time of closing. Historically, our credit card receivables were recorded at par value less an allowance for doubtful accounts. Following this agreement, our receivables were classified as held for sale and recorded at the lower of cost (par) or fair value.

On March 13, 2013, we completed the sale of our entire U.S. consumer credit card portfolio to TD Bank Group (TD) for cash consideration of \$5.7 billion, equal to the gross (par) value of the outstanding receivables at the time of closing. This transaction was accounted for as a sale, and the receivables are no longer reported in our Consolidated Statements of Financial Position. Concurrent with the sale of the portfolio, we repaid the nonrecourse debt collateralized by credit card receivables (2006/2007 Series Variable Funding Certificate) at par of \$1.5 billion, resulting in net cash proceeds of \$4.2 billion.

TD now underwrites, funds and owns Target Credit Card and Target Visa consumer receivables in the U.S. TD controls risk management policies and oversees regulatory compliance, and we perform account servicing and primary marketing functions. We earn a substantial portion of the profits generated by the Target Credit Card and Target Visa portfolios. Income from the TD profit-sharing arrangement and our related account servicing expenses are classified within SG&A expenses in the U.S. Segment.

In the first quarter of 2013, we recognized a gain on sale of \$391 million related to consideration received in excess of the recorded amount of the receivables. Consideration received included cash of \$5.7 billion and a \$225 million beneficial interest asset. The beneficial interest asset effectively represents a receivable for the present value of future profit-sharing we expect to receive on the receivables sold. As a result, a portion of the profit-sharing payments we receive from TD will reduce the beneficial interest asset and will not be recorded as income in our Consolidated Statements of Operations. Based on historical payment patterns, we estimate that the beneficial interest asset will be reduced over a four-year period, with larger reductions in the early years.

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During the three months ended May 4, 2013, the U.S. Segment earned credit card revenues prior to the close of the transaction and \$105 million of profit-sharing income from TD after the close of the transaction. On a consolidated basis, this profit-sharing income is offset by a \$17 million reduction in the beneficial interest asset, for a net \$88 million impact. These amounts are classified within SG&A expenses in the Consolidated Statements of Operations.

The \$225 million beneficial interest asset was reduced during the quarter ended May 4, 2013 by \$15 million of profit-sharing payments related to sold receivables, and it was also reduced by a \$2 million income statement charge due to revaluing the remaining asset. As of May 4, 2013, \$208 million of a beneficial interest asset remains and is recorded within other current assets and other noncurrent assets in our Consolidated Statements of Financial Position.

### 3. Fair Value Measurements

Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

#### Fair Value Measurements - Recurring Basis

(millions)	Fair Value at May 4, 2013			Fair Value at February 2, 2013			Fair Value at April 28, 2012		
	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									
Short-term investments	\$ 1,112	\$	\$	\$ 130	\$	\$	\$ 18	\$	\$
Other current assets									
Interest rate swaps <sup>(a)</sup>		1			4			15	
Prepaid forward contracts	74			73			74		
Beneficial interest asset <sup>(b)</sup>			98						
Other noncurrent assets									
Interest rate swaps <sup>(a)</sup>		83			85			104	
Company-owned life insurance investments <sup>(c)</sup>		285			269			372	
Beneficial interest asset <sup>(b)</sup>			110						
<b>Total</b>	<b>\$ 1,186</b>	<b>\$ 369</b>	<b>\$ 208</b>	<b>\$ 203</b>	<b>\$ 358</b>	<b>\$</b>	<b>\$ 92</b>	<b>\$ 491</b>	<b>\$</b>
<b>Liabilities</b>									
Other current liabilities									
Interest rate swaps <sup>(a)</sup>	\$	\$	\$	\$	\$ 2	\$	\$	\$ 5	\$
Other noncurrent liabilities									
Interest rate swaps <sup>(a)</sup>		53			54			65	
<b>Total</b>	<b>\$</b>	<b>\$ 53</b>	<b>\$</b>	<b>\$</b>	<b>\$ 56</b>	<b>\$</b>	<b>\$</b>	<b>\$ 70</b>	<b>\$</b>

(a) There was one interest rate swap designated as an accounting hedge in all periods presented. See Note 5 for additional information on interest rate swaps.

(b) A rollforward of the Level 3 beneficial interest asset is included in Note 2.

(c) Company-owned life insurance investments consist of equity index funds and fixed income assets. Amounts are presented net of nonrecourse loans that are secured by some of these policies. These loan amounts were \$782 million at May 4, 2013, \$817 million at February 2, 2013 and \$677 million at April 28, 2012.

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<b>Position</b>	<b>Valuation Technique</b>
Short-term investments	Carrying value 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 ( <i>e.g.</i> , 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.
Beneficial interest asset	Valued using a cash-flow based economic-profit model, which includes inputs of the forecasted performance of the receivables portfolio and a market-based discount rate. Internal data is used to forecast expected payment patterns and write-offs, revenue, and operating expenses (credit EBIT yield) related to the credit card portfolio. Changes in macroeconomic conditions in the United States could affect the estimated fair value. A one percentage point change in the forecasted credit EBIT yield would impact our fair value estimate by approximately \$32 million. A one percentage point change in the forecasted discount rate would impact our fair value estimate by approximately \$7 million. As described in Note 2, this beneficial interest asset effectively represents a receivable for the present value of future profit-sharing we expect to receive on the receivables sold. As a result, a portion of the profit-sharing payments we receive from TD will reduce the beneficial interest asset. As the asset is reduced over time, changes in the forecasted credit EBIT yield and the forecasted discount rate will have a smaller impact on the estimated fair value.

The following table presents the carrying amounts and estimated fair values of financial instruments not measured at fair value in the Consolidated Statements of Financial Position. The fair value of marketable securities is determined using available market prices at the reporting date and would be classified as Level 1. The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments and would be classified as Level 2.

**Financial Instruments Not Measured at Fair Value**

(millions)	May 4, 2013		February 2, 2013		April 28, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>						
Other current assets						
Marketable securities <i>(a)</i>	\$ 10	\$ 10	\$ 61	\$ 61	\$ 43	\$ 43
Other noncurrent assets						
Marketable securities <i>(a)</i>	4	4	4	4	2	2
Total	\$ 14	\$ 14	\$ 65	\$ 65	\$ 45	\$ 45
<b>Financial liabilities</b>						
Total debt <i>(b)</i>	\$ 12,178	\$ 14,591	\$ 15,618	\$ 18,143	\$ 15,630	\$ 18,057
Total	\$ 12,178	\$ 14,591	\$ 15,618	\$ 18,143	\$ 15,630	\$ 18,057

*(a)* Held-to-maturity investments that are held to satisfy the regulatory requirements of Target Bank and Target National Bank.

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

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Prior to the March 13, 2013 sale described in Note 2, we owned a portfolio of consumer credit card receivables. As of February 2, 2013, the receivables were recorded at the lower of cost (par) or fair value because they were classified as held for sale. We estimated the fair value of the receivables to be approximately \$6.3 billion as of February 2, 2013. As of April 28, 2012, we estimated that the fair value of our credit card receivables approximated par value.

The carrying amounts of accounts payable and certain accrued and other current liabilities approximate fair value due to their short-term nature.

#### 4. Notes Payable and Long-Term Debt

We obtain short-term financing from time to time under our commercial paper program, a form of notes payable.

##### Commercial Paper

(dollars in millions)	Three Months Ended	
	May 4, 2013	April 28, 2012
Maximum daily amount outstanding during the period	\$ 1,465	\$ 605
Average daily amount outstanding during the period	488	162
Amount outstanding at period-end		450
Weighted average interest rate	0.11 %	0.15 %

Concurrent with the sale of our credit card receivables portfolio, we repaid \$1.5 billion of nonrecourse debt collateralized by credit card receivables (the 2006/2007 Series Variable Funding Certificate). We also used \$1.4 billion of proceeds from the transaction to repurchase at market value an additional \$970 million of debt during the first quarter of 2013. We recognized a loss on this early retirement of \$445 million, which was recorded in net interest expense in our Consolidated Statements of Operations. Refer to Note 2 for more information on our credit card receivables transaction.

#### 5. Derivative Financial Instruments

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

As of May 4, 2013 and April 28, 2012, one swap was designated as a fair value hedge for accounting purposes, and no ineffectiveness was recognized during the three months ended May 4, 2013 or April 28, 2012.

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

##### Derivative Contracts - Effect on Results of Operations

(millions)	Classification of Income/(Expense)	Three Months Ended	
		May 4, 2013	April 28, 2012
Interest rate swaps	Net interest expense	\$ 8	\$ 10



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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 \$69 million, \$75 million and \$102 million, at May 4, 2013, February 2, 2013 and April 28, 2012, respectively.

### 6. Share Repurchase

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

#### Share Repurchases

(millions, except per share data)	Three Months Ended	
	May 4, 2013	April 28, 2012
Total number of shares purchased	8.5	10.5
Average price paid per share	\$ 64.04	\$ 57.31
Total investment	\$ 547	\$ 604

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

**Settlement of Prepaid Forward Contracts**(a)

(millions)	Three Months Ended	
	May 4, 2013	April 28, 2012
Total number of shares purchased	0.1	0.2
Total cash investment	\$ 7	\$ 12
Aggregate market value(b)	\$ 9	\$ 12

(a) These contracts are among the investment vehicles used to reduce our economic exposure related to our nonqualified deferred compensation plans. The details of our positions in prepaid forward contracts are provided in Note 7.

(b) At their respective settlement dates.

**7. Pension, Postretirement Health Care and Other Benefits**

*Pension and Postretirement Health Care Benefits*

We have qualified defined benefits pension plans, unfunded nonqualified pension plans and provide certain post-retirement health care benefits to eligible team members.

**Net Pension and Postretirement Health Care Benefits Expense**

(millions)	Pension Benefits Three Months Ended		Postretirement Health Care Benefits Three Months Ended	
	May 4, 2013	April 28, 2012	May 4, 2013	April 28, 2012
Service cost benefits earned during the period	\$ 30	\$ 30	\$ 2	\$ 2
Interest cost on projected benefit obligation	35	36		2
Expected return on assets	(59)	(55)		
Amortization of losses	25	25	1	1
Amortization of prior service cost	(3)		(4)	(3)
Total	\$ 28	\$ 36	\$ (1)	\$ 2

*Other Benefits*

We offer unfunded nonqualified deferred compensation plans to certain team members. We mitigate some of our risk of these plans through investing in vehicles, including company-owned life insurance and prepaid forward contracts in our own common stock, that offset a substantial portion of our economic exposure to the returns of these plans. These investment vehicles are general corporate assets and are marked to market with the related gains and losses recognized in the Consolidated Statements of Operations in the period they occur.

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The total change in fair value for contracts indexed to our own common stock recognized in earnings was pretax income of \$11 million for both the three months ended May 4, 2013 and April 28, 2012. For the three months ended May 4, 2013, we made no investments in prepaid forward contracts in our own common stock. For the three months ended April 28, 2012, we invested \$7 million in such investment instruments, and this activity is included in the Consolidated Statements of Cash Flows within other investing activities. Adjusting our position in these investment vehicles may involve repurchasing shares of Target common stock when settling the forward contracts as described in Note 6. The settlement dates of these instruments are regularly renegotiated with the counterparty.

### Prepaid Forward Contracts on Target Common Stock

(millions, except per share data)	Number of Shares	Contractual Price Paid per Share	Contractual Fair Value	Total Cash Investment
April 28, 2012	1.3	\$ 45.56	\$ 74	\$ 58
February 2, 2013	1.2	45.46	73	54
<b>May 4, 2013</b>	<b>1.0</b>	<b>45.07</b>	<b>74</b>	<b>47</b>

## 8. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive income (AOCI) by component, net of tax, for the three months ended May 4, 2013.

(millions)	Cash Flow Hedges	Currency Translation Adjustment	Pension and Other Benefit Liabilities	Total
February 2, 2013	\$ (29)	\$ (15)	\$ (532)	\$ (576)
Other comprehensive income before reclassifications		(30)	28	(2)
Amounts reclassified from AOCI	1 <sup>(a)</sup>		12 <sup>(b)</sup>	13
Net other comprehensive income	1	(30)	40	11
<b>May 4, 2013</b>	<b>\$ (28)</b>	<b>\$ (45)</b>	<b>\$ (492)</b>	<b>\$ (565)</b>

<sup>(a)</sup> Represents gains and losses on cash flow hedges, net of \$1 million of taxes, which are recorded in net interest expense on the Consolidated Statements of Operations.

<sup>(b)</sup> Represents amortization of pension and other benefit liabilities, net of \$8 million of taxes, which is recorded in SG&A expenses on the Consolidated Statements of Operations. See Note 7 for additional information.

## 9. Segment Reporting

Through fiscal 2012, we operated as three business segments: U.S. Retail, U.S. Credit Card and Canadian. Following the sale of our credit card receivables portfolio described in Note 2, we operate as two segments: U.S. and Canadian. Our segment measure of profit is used by management to evaluate the return on our investment and to make operating decisions.

Business Segment Results (millions)	Three Months Ended May 4, 2013			Three Months Ended April 28, 2012		
	U.S.	Canadian	Total	U.S.	Canadian	Total
Sales	\$ 16,620	\$ 86	\$ 16,706	\$ 16,537	\$	\$ 16,537
Cost of sales	11,509	53	11,563	11,541		11,541
Selling, general and administrative expenses <sup>(a)</sup>	3,381	193	3,573	3,148	34	3,182
Depreciation and amortization	491	45	536	508	21	529
Segment profit	\$ 1,239	\$ (205)	\$ 1,034	\$ 1,340	\$ (55)	\$ 1,285
Gain on receivables transaction			391			
Reduction of beneficial interest asset <sup>(a)</sup>			(17)			
Earnings before interest expense and income taxes			1,408			1,285
Net interest expense			629			184
Earnings before income taxes			\$ 779			\$ 1,101

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

Note: Prior period segment results have been revised to reflect the combination of our historical U.S. Retail Segment and U.S. Credit Card Segment into one U.S. Segment.

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(a) For the three months ended May 4, 2013, the U.S. Segment recognizes within SG&A all amounts related to the profit-sharing arrangement with TD and related servicing expenses. For purposes of consolidated results, a portion of the profit-sharing is recognized as a reduction to the beneficial interest asset. As a result, SG&A expenses for the U.S. and Canadian Segments of \$3,573 million plus the reduction of the beneficial interest asset of \$17 million equals consolidated SG&A expenses. For the three months ended April 28, 2012, the combination of SG&A expenses and credit card expenses, less credit card revenues, in our Consolidated Statements of Operations equals total SG&A as reported in our business segment results, as revised.

**Total Assets by Segment**

(millions)		<b>May 4, 2013</b>		February 2, 2013		April 28, 2012
U.S.	\$	<b>38,591</b>	\$	43,289	\$	42,597
Canadian		<b>5,435</b>		4,722		3,578
Total segment assets		<b>44,026</b>		48,011		46,175
Unallocated assets <i>(a)</i>		<b>208</b>		152		
Total assets	\$	<b>44,234</b>	\$	48,163	\$	46,175

Note: Prior period segment results have been revised to reflect the combination of our historical U.S. Retail Segment and U.S. Credit Card Segment into one U.S. Segment.

*(a)* Represents the beneficial interest asset for the period ended May 4, 2013. For the period ended February 2, 2013, represents the net adjustment to eliminate our allowance for doubtful accounts and record our credit card receivables at lower of cost (par) or fair value.

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

Sales were \$16,706 million for the three months ended May 4, 2013, an increase of \$169 million or 1.0 percent from the same period in the prior year. Cash flow provided by operations was \$3,230 million and \$1,307 million for the three months ended May 4, 2013 and April 28, 2012, respectively. In connection with the sale of our U.S. credit card receivables, we received cash of \$5.7 billion in the first quarter of 2013. Of this amount, \$2.7 billion was included in cash flow provided by operations and \$3.0 billion was included in cash flow provided by investing activities.

Notable items impacting earnings for the first quarter of 2013 include:

- A \$391 million gain on the sale of our U.S. credit card receivables
- A \$445 million loss on the early retirement of debt
- A \$205 million loss before interest expense and income taxes in our Canadian Segment, as compared to a \$55 million loss in the comparable period last year

Diluted earnings per share in the first quarter, which includes the impact of matters described above, decreased 26.0 percent to \$0.77 from \$1.04 in the same period a year ago. Excluding the impact of matters described above, adjusted diluted earnings per share, which we believe is useful in providing period-to-period comparisons of the results of our U.S. operations, decreased 5.0 percent to \$1.05 in first quarter 2013 from \$1.11 in the same period a year ago.

**Earnings Per Share**

	Three Months Ended		Change
	May 4, 2013	April 28, 2012	
GAAP diluted earnings per share	\$ 0.77	\$ 1.04	(26.0)%
Adjustments (a)	0.28	0.07	
Adjusted diluted earnings per share	\$ 1.05	\$ 1.11	(5.0)%

Note: A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 18.

(a) Adjustments represent the diluted EPS impact of our 2013 Canadian market entry, adjustments related to the sale of our U.S. credit card receivables portfolio, favorable resolution of various income tax matters and the loss on early retirement of debt.

Following the sale of our U.S. credit card portfolio in March 2013, we no longer have a U.S. Credit Card Segment, and therefore have two reportable segments: a new U.S. Segment and a Canadian Segment. For comparison purposes, historical U.S. Retail Segment and U.S. Credit Card Segment results are combined to form the new U.S. Segment. All prior U.S. Credit Card Segment amounts are classified within SG&A expenses, except interest expense on nonrecourse debt collateralized by credit card receivables, which is excluded from our segment measure of profit.

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Our first quarter 2013 financial results in our U.S. Segment reflect increased sales of 0.5 percent over the same period last year on a 0.6 percent decline in comparable-store sales that was offset by the contribution from new stores. Our first quarter 2013 U.S. Segment earnings before interest expense, income taxes, depreciation and amortization (EBITDA) and earnings before interest expense and income taxes (EBIT) margin rates decreased from the prior period, primarily due to an increase in our SG&A rate, partially offset by a higher gross margin rate. See further discussion in the U.S. Segment section below.

During the three months ended May 4, 2013 and April 28, 2012, the loss in our Canadian Segment totaled \$205 million and \$55 million, respectively, comprised of start-up expenses, operating expenses and depreciation in both periods, offset in the three months ended May 4, 2013 by gross margin generated by sales in our first 24 stores.



**Credit Card Receivables Transaction**

On March 13, 2013, we completed the sale of our entire U.S. consumer credit card portfolio to TD Bank Group (TD) for cash consideration of \$5.7 billion, equal to the gross (par) value of the outstanding receivables at the time of closing. This transaction was accounted for as a sale, and the receivables are no longer reported in our Consolidated Statements of Financial Position. Concurrent with the sale of the portfolio, we repaid the nonrecourse debt collateralized by credit card receivables (2006/2007 Series Variable Funding Certificate) at par of \$1.5 billion, resulting in net cash proceeds of \$4.2 billion.

TD now underwrites, funds and owns Target Credit Card and Target Visa consumer receivables in the U.S. TD controls risk management policies and oversees regulatory compliance, and we perform account servicing and primary marketing functions. We earn a substantial portion of the profits generated by the Target Credit Card and Target Visa portfolios. Income from the TD profit-sharing arrangement and our related account servicing expenses are classified within SG&A expenses in the U.S. Segment.

In the first quarter of 2013, we recognized a gain on sale of \$391 million related to consideration received in excess of the recorded amount of the receivables. Consideration received included cash of \$5.7 billion and a \$225 million beneficial interest asset. The beneficial interest asset effectively represents a receivable for the present value of future profit-sharing we expect to receive on the receivables sold. As a result, a portion of the profit-sharing payments we receive from TD will reduce the beneficial interest asset and will not be recorded as income in our Consolidated Statements of Operations. Based on historical payment patterns, we estimate that the beneficial interest asset will be reduced over a four-year period, with larger reductions in the early years.

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

(dollars in millions)	Three Months Ended		Percent Change
	May 4, 2013	April 28, 2012	
Sales	\$ 16,620	\$ 16,537	0.5 %
Cost of sales	11,509	11,541	(0.3)
Gross margin	5,111	4,996	2.3
SG&A expenses (a)	3,381	3,148	7.4
EBITDA	1,730	1,848	(6.4)
Depreciation and amortization	491	508	(3.3)
EBIT	\$ 1,239	\$ 1,340	(7.5)%

Note: Prior period segment results have been revised to reflect the combination of our historical U.S. Retail Segment and U.S. Credit Card Segment into one U.S. Segment. Quarterly and full-year historical information for the three most recently completed years reflecting the results for the U.S. Segment and Canadian Segment are attached as Exhibit (99) to our current report on Form 8-K filed April 16, 2013.

Note: See Note 9 to our consolidated financial statements for a reconciliation of our segment results to earnings before income taxes.

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(a)SG&A includes credit card revenue and expenses for both periods presented prior to the close of the transaction. For the three months ended May 4, 2013, SG&A also includes \$105 million of profit-sharing income from the arrangement with TD.

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**U.S. Segment Rate Analysis Reconciliation**

	Three Months Ended April 28, 2012				2013 U.S. Segment Change vs. 2012	
	Three Months Ended May 4, 2013	U.S. Segment	Impact of		U.S. Segment(b)	Historical U.S. Retail Segment(c)
			Historical U.S. Credit Card Segment(a)	Historical U.S. Retail Segment		
Gross margin rate	30.7%	30.2 %		30.2 %	0.5 pp	0.5 pp
SG&A expense rate	20.3	19.0	(0.9)	19.9	1.3	0.4
EBITDA margin rate	10.4	11.2	0.9	10.3	(0.8)	0.1
Depreciation and amortization expense rate	3.0	3.1	0.1	3.0	(0.1)	
EBIT margin rate	7.5	8.1	0.8	7.3	(0.6)	0.2

Rate analysis metrics are computed by dividing the applicable amount by sales.

(a) Represents the impact of combining the historical U.S. Credit Card Segment and the U.S. Retail Segment to form the U.S. Segment for the three months ended April 28, 2012. Revised U.S. Segment results for prior periods reflect lower SG&A rates and increased EBIT and EBITDA margin rates as compared to the historical U.S. Retail Segment from the inclusion of credit card profits, net of expenses, within SG&A.

(b) Represents the year-over-year difference between the U.S. Segment rates. On an isolated basis, the SG&A rate is higher than prior periods due to credit card profit retained by TD under the profit-sharing arrangement.

(c) Represents the year-over-year difference between the U.S. Segment rates and the historical U.S. Retail Segment rates. On an isolated basis, the SG&A rate is reduced and EBITDA and EBIT margin rates are increased as compared to historical 2012 results because of the credit card profit now included in the U.S. Segment.

**Sales**

Sales include merchandise sales, net of expected returns, from our stores and our digital business, as well as gift card breakage. See Item 1 in our Form 10-K for the fiscal year ended February 2, 2013 for a description of our product categories.

**Sales by Product Category**

	Three Months Ended	
	May 4, 2013	April 28, 2012
Household essentials	27 %	26 %
Hardlines	15	16
Apparel and accessories	20	20
Food and pet supplies	22	21
Home furnishings and décor	16	17
Total	100 %	100 %

Comparable-store sales is a measure that highlights the performance of our existing stores and digital sales by measuring the change in sales 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 include all sales, except sales from stores open less than thirteen months.

**Comparable-Store Sales**

Three Months Ended

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	<b>May 4, 2013</b>	April 28, 2012
Comparable-store sales change	<b>(0.6) %</b>	5.3 %
Drivers of change in comparable-store sales:		
Number of transactions	<b>(1.9)</b>	2.0
Average transaction amount	<b>1.3</b>	3.2
Selling price per unit	<b>(0.6)</b>	2.6
Units per transaction	<b>1.8</b>	0.6

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

Credit is offered by TD to qualified guests through branded proprietary credit cards: the Target Credit Card and the Target Visa (Target Credit Cards). Additionally, we offer a branded proprietary Target Debit Card. Collectively, we refer to these products as REDcards®. Guests receive a 5-percent discount on virtually all purchases when they use a REDcard at Target.

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

**REDcard Penetration**

	Three Months Ended	
	May 4,	April 28,
	2013	2012
Target Credit Cards	8.5 %	7.1 %
Target Debit Card	8.6	4.5
Total REDcard Penetration	17.1 %	11.6 %

**Gross Margin Rate**

For the three months ended May 4, 2013, our gross margin rate was 30.7 percent, increasing from 30.2 percent in the comparable period last year. The improvement in our gross margin rate is due to underlying rate improvements within categories, partially offset by the 0.3 percentage point impact of our integrated growth strategies of our 5% REDcard Rewards loyalty program and our store remodel program. Beginning in 2013, we made changes to certain merchandise vendor contracts regarding payments received in support of marketing programs. As a result, this vendor consideration will be recognized in 2013 as a reduction of our cost of sales, rather than as a reduction to SG&A. This change increased our gross margin rate by 0.2 percentage points with an equal and offsetting increase in our SG&A rate, and has no impact on EBITDA or EBIT margin rates.

**Selling, General and Administrative Expense Rate**

For the three months ended May 4, 2013, our SG&A expense rate was 20.3 percent, increasing from 19.0 percent in the comparable period last year. The SG&A rate increased 0.5 percentage points due to a smaller benefit from credit card income, including the impact of profit-sharing with TD. Technology and multichannel investments increased the SG&A rate by 0.4 percentage points. In addition, the 2013 change to certain merchandise vendor contracts increased our SG&A rate by 0.2 percentage points, with an equal and corresponding increase to the gross margin rate as discussed above.

**Depreciation and Amortization Expense Rate**

For the three months ended May 4, 2013, our depreciation and amortization expense rate was 3.0 percent, compared with 3.1 percent last year. The decrease was due to the favorable impact of higher sales combined with stable depreciation and amortization expenses, reflecting the stable pace of capital investments in recent years.



**Store Data****Change in Number of Stores**

	Three Months Ended	
	May 4, 2013	April 28, 2012
Beginning store count	1,778	1,763
Opened	6	3
Closed		(1)
Relocated		(1)
Ending store count	1,784	1,764
Number of stores remodeled during the period	32	114

**Number of Stores and Retail Square Feet**

	Number of Stores			Retail Square Feet <sup>(a)</sup>		
	May 4, 2013	February 2, 2013	April 28, 2012	May 4, 2013	February 2, 2013	April 28, 2012
General merchandise stores	359	391	521	42,435	46,584	62,464
Expanded food assortment stores	1,168	1,131	992	151,119	146,249	128,885
SuperTarget stores	251	251	251	44,500	44,500	44,503
CityTarget stores	6	5		614	514	
Total	1,784	1,778	1,764	238,668	237,847	235,852

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

**Canadian Segment**

We opened our first 24 stores in Canada during the first quarter of 2013, and continue to expect to open a total of 124 stores in Canada in 2013. Our Canadian Segment includes costs incurred in the U.S. and Canada related to stores already open and start-up expenses for the stores that will be opening later this year.

**Canadian Segment Results**

	Three Months Ended		
(dollars in millions)	May 4, 2013	April 28, 2012	Percent Change
Sales	\$ 86	\$	n/a %
Cost of sales	53		n/a
Gross margin	33		n/a
SG&A expenses	193	34	461.3
EBITDA	(160)	(34)	365.2
Depreciation and amortization	45	21	113.4
EBIT	\$ (205)	\$ (55)	269.1 %

**Canadian Segment Rate Analysis Reconciliation**

	Three Months Ended May 4, 2013
Gross margin rate	38.4 %
SG&A expense rate	223.9
EBITDA margin rate	(185.6)
Depreciation and amortization expense rate	52.6
EBIT margin rate	(238.1)

Due to the start-up nature of our Canadian Segment operations, we do not expect the above rates to continue in the long-term. For the three months ended May 4, 2013, our gross margin rate of 38.4 percent is higher than our long-term expectations in the Canadian Segment as a result of the favorable initial mix of merchandise categories and the lack of meaningful clearance markdown activity in the quarter.



**REDcard Penetration**

	<b>Three Months Ended May 4, 2013</b>
Target Credit Cards	<b>1.0 %</b>
Target Debit Card	<b>1.0</b>
Total REDcard Penetration	<b>2.0 %</b>

**Number of Stores and Retail Square Feet**

	Number of Stores		Retail Square Feet <sup>(a)</sup>	
	<b>May 4, 2013</b>	February 2, 2013	<b>May 4, 2013</b>	February 2, 2013
General merchandise stores	<b>24</b>		<b>2,832</b>	

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

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

Net interest expense for the three months ended May 4, 2013 and April 28, 2012 was \$629 million and \$184 million, respectively, including \$19 million and \$20 million, respectively, of interest on Canadian capitalized leases. Net interest expense for the three months ended May 4, 2013 includes a \$445 million loss on early retirement of debt.

**Provision for Income Taxes**

Our effective income tax rate for the three months ended May 4, 2013 was 36.0 percent, down from 36.7 percent for the same period in 2012. This change is primarily due to increased tax benefits related to foreign earnings, slightly offset by the impact of the sale of our U.S. credit card portfolio. Various income tax matters were resolved in the first quarter of 2013 and 2012 which reduced tax expense by \$1 million and \$8 million, respectively.

**Reconciliation of Non-GAAP Financial Measures to GAAP Measures**

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



**Reconciliation of Non-GAAP Financial Measures to GAAP Measures**

(millions, except per share data)	U.S.	Canadian	Other	Consolidated GAAP Total
<b>Three Months Ended May 4, 2013</b>				
Segment profit	\$ 1,239	\$ (205)	\$	\$ 1,034
Net interest expense	165	19	445 <i>(d)</i>	629
Gain on receivables transaction <sup>(a)</sup>			(391)	(391)
Reduction of beneficial interest asset			17	17
Earnings before income taxes	1,074	(224)	(71)	779
Provision for income taxes <sup>(b)</sup>	391	(71)	(39) <i>(e)</i>	281
Net earnings	\$ 683	\$ (153)	\$ (32)	\$ 498
Diluted earnings per share <sup>(c)</sup>	\$ 1.05	\$ (0.24)	\$ (0.05)	\$ 0.77
<b>Three Months Ended April 28, 2012</b>				
Segment profit	\$ 1,340	\$ (55)	\$	\$ 1,285
Net interest expense	164	20		184
Earnings before income taxes	1,176	(75)		1,101
Provision for income taxes <sup>(b)</sup>	432	(20)	(8) <i>(e)</i>	404
Net earnings	\$ 744	\$ (55)	\$ 8	\$ 697
Diluted earnings per share <sup>(c)</sup>	\$ 1.11	\$ (0.08)	\$ 0.01	\$ 1.04

Note: A non-GAAP financial measures summary is provided on page 13. The sum of the non-GAAP adjustments may not equal the total adjustment amounts due to rounding.

*(a)* Represents consideration received from the sale of our U.S. credit card receivables in the first quarter of 2013 in excess of the recorded amount of the receivables. Consideration included a beneficial interest asset of \$225 million.

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

*(c)* For the three months ended May 4, 2013 and April 28, 2012, average diluted shares outstanding were 649.5 million and 672.4 million, respectively.

*(d)* Represents the loss on early retirement of debt.

*(e)* Represents the effect of resolution of income tax matters. The results for the three months ended May 4, 2013 also include a \$138 million tax expense for the gain on receivables transaction and the reduction of the beneficial interest asset, and a \$176 million tax benefit related to the loss on early retirement of debt.

## **Analysis of Financial Condition**

### **Liquidity and Capital Resources**

Our period-end cash and cash equivalents balance was \$1,819 million compared with \$675 million for the same period in 2012. Our investment policy is designed to preserve principal and liquidity of our short-term investments. This policy allows investments in large money market funds or in highly rated direct short-term instruments that mature in 60 days or less. We also place certain dollar limits on our investments in individual funds or instruments.

#### *Cash Flows*

Operations during the first three months of 2013 were funded by both internally and externally generated funds. Cash flow provided by operations was \$3,230 million for the three months ended May 4, 2013 compared with \$1,307 million for the same period in 2012. Our cash flows, combined with our prior year-end cash position, allowed us to pay current debt maturities, repurchase long term debt, repay outstanding commercial paper, invest in the business, pay dividends and continue purchases under our share repurchase program.

Concurrent with the sale of our U.S. credit card portfolio described in Note 2 of the Notes to Consolidated Financial Statements included in Item 1, Financial Statements, we repaid the nonrecourse debt collateralized by credit card receivables (2006/2007 Series Variable Funding Certificate) at par of \$1.5 billion. Also during the first quarter of 2013, we used \$1.4 billion of the net proceeds received from the sale to repurchase at market value \$970 million of debt. We have and expect to continue to apply the remaining proceeds from the sale in a manner that will preserve our strong investment-grade credit ratings by further reducing our debt position, while also continuing to repurchase shares.

#### *Share Repurchases*

During first quarter 2012, we completed the \$10 billion share repurchase program authorized by our Board of Directors in November 2007, and we began repurchasing shares under the \$5 billion program authorized by our Board of Directors in January 2012. During the three months ended May 4, 2013 and April 28, 2012, we repurchased 8.5 million shares and 10.5 million shares, respectively, of our common stock for a total investment of \$547 million (\$64.04 per share) and \$604 million (\$57.31 per share), respectively.

#### *Dividends*

We paid dividends totaling \$232 million and \$201 million for the three months ended May 4, 2013 and April 28, 2012, respectively, an increase of 15.4 percent. We declared dividends totaling \$231 million (\$0.36 per share) in first quarter 2013, an increase of 16.4 percent over the \$199 million (\$0.30 per share) of declared dividends during the first quarter of 2012. We have paid dividends every quarter since our 1967 initial public offering, and it is our intent to continue to do so in the future.

*Short-term and Long-term Financing*

Our financing strategy is to ensure liquidity and access to capital markets, to manage our net exposure to floating interest rate volatility, and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our borrowing costs.

Our ability to access the long-term debt and commercial paper markets has provided us with ample sources of liquidity. Our continued access to these markets depends on multiple factors including the condition of debt capital markets, our operating performance and maintaining strong credit ratings. As of May 4, 2013 our credit ratings were as follows:

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

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

As a measure of our financial condition we monitor our ratio of earnings to fixed charges, representing the ratio of pretax earnings before fixed charges to fixed charges. Fixed charges include interest expense and the interest portion of rent expense. For the first three months of 2013, our ratio of earnings to fixed charges was 4.5x compared with 6.0x for the first three months of 2012 (see Exhibit (12) for a description of how the gain on sale of our U.S. credit card receivables portfolio and loss on early retirement of debt affected the 2013 calculation).

We have additional liquidity through a committed \$2.25 billion revolving credit facility obtained in October 2011 and expiring in October 2017. No balances were outstanding at any time during the first quarter of 2013 or 2012.

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 May 4, 2013, no notes or debentures contained provisions requiring acceleration of payment upon a debt rating downgrade, except that certain outstanding notes allow the note holders to put the notes to us if within a matter of months of each other we experience both (i) a change in control; and (ii) our long-term debt ratings are either reduced and the resulting rating is non-investment grade, or our long-term debt ratings are placed on watch for possible reduction and those ratings are subsequently reduced and the resulting rating is non-investment grade.

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

### **Contractual Obligations and Commitments**

A summary of future obligations under our various contractual obligations and commitments as of February 2, 2013 was disclosed in our 2012 10-K. During the three months ended May 4, 2013, there were no material changes outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including internal development of new products, programs and technology applications and acquisitions.

### **New Accounting Pronouncements**

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

## **Forward-Looking Statements**

This report contains forward-looking statements, which are based on our current assumptions and expectations. These statements are typically accompanied by the words expect, may, could, believe, would, might, anticipates, or words of similar import. The principal forward-looking statements in this report include: For our Canadian Segment, our financial performance and the timing and amount of our store openings and capital investments in Canada; on a consolidated basis, statements regarding the adequacy of and costs associated with our sources of liquidity, the fair value and amount of the beneficial interest asset, the application of proceeds from the sale of our U.S. consumer credit card portfolio, the continued execution of our share repurchase program, the expected compliance with debt covenants, the expected impact of new accounting pronouncements, our intentions regarding future dividends and the effects of macroeconomic conditions.

All such forward-looking statements are intended to enjoy the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, as amended. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth on our description of risk factors in Item 1A of our Form 10-K for the fiscal year ended February 2, 2013, 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 February 2, 2013.

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

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

We have continued to expand our implementation of enterprise resource planning software from SAP AG, including the implementation in April 2013 of functionality of accounting for property and equipment and nonmerchandise expenditures. There were no other 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.

### **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.

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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.



**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

No response is required under Item 103 of Regulation S-K.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013.

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

The table below presents information with respect to Target common stock purchases made during the three months ended May 4, 2013, by Target or any affiliated purchaser of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

In January 2012, our Board of Directors authorized the repurchase of \$5 billion of our common stock. There is no stated expiration for the share repurchase program. Since the inception of this share repurchase program, we have repurchased 35.8 million shares of our common stock, for a total cash investment of \$2,169 million (\$60.54 average price per share).

Period	Total Number of Shares Purchased (a)(b)	Average Price Paid per Share(a)	Total Number of Shares Purchased as Part of the Current Program(a)	Dollar Value of Shares that May Yet Be Purchased Under the Program
February 3, 2013 through March 2, 2013	4,703,833	\$ 62.12	31,979,505	\$ 3,086,477,045
March 3, 2013 through April 6, 2013	1,383,898	61.70	33,234,381	3,009,054,166
April 7, 2013 through May 4, 2013	2,601,689	68.66	35,823,092	2,831,307,854
	8,689,420	\$ 64.04	35,823,092	\$ 2,831,307,854

(a) The table above includes shares reacquired upon settlement of prepaid forward contracts. For the three months ended May 4, 2013, 0.1 million shares were reacquired through these contracts. At May 4, 2013, we held asset positions in prepaid forward contracts for 1.0 million shares of our common stock, for a total cash investment of \$47 million, or \$45.07 per share.

(b) The number of shares above includes shares of common stock reacquired from team members who wish to tender owned shares to satisfy the tax withholding on equity awards as part of our long-term incentive plans or to satisfy the exercise price on stock option exercises. For the three months ended May 4, 2013, 142,705 shares were reacquired at an average per share price of \$67.24 pursuant to our long-term incentive plan.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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### Item 6. Exhibits

(2)G	First Amendment to Purchase and Sale Agreement dated March 13, 2013 among Target National Bank, Target Receivables LLC, Target Corporation and TD Bank USA, N.A.(1)
(3)A	Amended and Restated Articles of Incorporation (as amended through June 9, 2010)(2)
(3)B	By-laws (as amended through September 9, 2009)(3)
(10)X	Credit Card Program Agreement dated October 22, 2012 among Target Corporation, Target Enterprise, Inc. and TD Bank USA, N.A.
(12)	Statements of Computations of Ratios of Earnings to Fixed Charges
(31)A	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31)B	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32)A	Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(32)B	Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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*Excludes Schedules A through N, Annex A and Exhibits A-1 through C-2 referred to in the agreement and First Amendment, which Target Corporation agrees to furnish supplementally to the Securities and Exchange Commission upon request.*

*Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.*

(1) Incorporated by reference to Exhibit (2)G to Target's Form 8-K Report filed March 13, 2013.

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

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

**SIGNATURE**

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

TARGET CORPORATION

Dated: May 30, 2013

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

## EXHIBIT INDEX

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(10)X	Credit Card Program Agreement dated October 22, 2012 among Target Corporation, Target Enterprise, Inc. and TD Bank USA, N.A.	Filed Electronically
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