

TARGET CORP  
Form 10-Q  
August 28, 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 August 3, 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 August 23, 2013 were 631,124,948.

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**TARGET CORPORATION**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Statements of Operations

| (millions, except per share data) (unaudited)        | Three Months Ended |                  | Six Months Ended  |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | August 3,<br>2013  | July 28,<br>2012 | August 3,<br>2013 | July 28,<br>2012 |
| Sales  | \$ 17,117          | \$ 16,451        | \$ 33,823         | \$ 32,989        |
| Credit card revenues                                 |                    | 328              |                   | 657              |
| Total revenues                                       | 17,117             | 16,779           | 33,823            | 33,646           |
| Cost of sales  | 11,745             | 11,297           | 23,308            | 22,838           |
| Selling, general and administrative expenses         | 3,698              | 3,588            | 7,287             | 6,981            |
| Credit card expenses                                 |                    | 108              |                   | 228              |
| Depreciation and amortization                        | 542                | 531              | 1,079             | 1,060            |
| Gain on receivables transaction                      |                    |                  | (391)             |                  |
| Earnings before interest expense and income taxes    | 1,132              | 1,255            | 2,540             | 2,539            |
| Net interest expense                                 | 171                | 184              | 801               | 366              |
| Earnings before income taxes                         | 961                | 1,071            | 1,739             | 2,173            |
| Provision for income taxes                           | 350                | 367              | 629               | 772              |
| <b>Net earnings</b>                                  | \$ 611             | \$ 704           | \$ 1,110          | \$ 1,401         |
| <b>Basic earnings per share</b>                      | \$ 0.96            | \$ 1.07          | \$ 1.74           | \$ 2.12          |
| <b>Diluted earnings per share</b>                    | \$ 0.95            | \$ 1.06          | \$ 1.72           | \$ 2.10          |
| Weighted average common shares outstanding           |                    |                  |                   |                  |
| Basic  | 634.8              | 656.7            | 638.4             | 661.5            |
| Dilutive impact of share-based awards <sup>(a)</sup> | 7.2                | 6.2              | 7.3               | 6.1              |
| Diluted  | 642.0              | 662.9            | 645.7             | 667.6            |

<sup>(a)</sup> Excludes 0.1 million and 2.2 million share-based awards for the three and six months ended August 3, 2013, respectively, and 5.8 million and 8.7 million share-based awards for the three and six months ended July 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 |                  | Six Months Ended  |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | August 3,<br>2013  | July 28,<br>2012 | August 3,<br>2013 | July 28,<br>2012 |
| Net earnings   | \$ 611             | \$ 704           | \$ 1,110          | \$ 1,401         |
| Other comprehensive income/(loss), net of tax  |                    |                  |                   |                  |
| Pension and other benefit liabilities, net of taxes of \$8, \$9, \$34 and \$19                 | 12                 | 14               | 52                | 28               |
| Currency translation adjustment and cash flow hedges, net of taxes of \$(2), \$16, \$7 and \$0 | (100)              | (25)             | (129)             | 1                |
| Other comprehensive (loss)/income  | (88)               | (11)             | (77)              | 29               |
| <b>Comprehensive income</b>  | <b>\$ 523</b>      | <b>\$ 693</b>    | <b>\$ 1,033</b>   | <b>\$ 1,430</b>  |

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Financial Position**

| (millions)  | <b>August 3,<br/>2013</b> | February 2,<br>2013 | July 28,<br>2012   |
|---|---------------------------|---------------------|--------------------|
| <b>Assets</b>   | <b>(unaudited)</b>        |                     | <b>(unaudited)</b> |
| Cash and cash equivalents, including short-term investments of \$249, \$130 and \$830 | \$ 1,018                  | \$ 784              | \$ 1,442           |
| Inventory   | 8,441                     | 7,903               | 7,733              |
| Other current assets  | 1,944                     | 1,860               | 1,700              |
| Credit card receivables, held for sale  |                           | 5,841               |                    |
| Credit card receivables, net of allowance of \$0, \$0 and \$365                       |                           |                     | 5,540              |
| Total current assets  | <b>11,403</b>             | 16,388              | 16,415             |
| Property and equipment  |                           |                     |                    |
| Land  | 6,213                     | 6,206               | 6,137              |
| Buildings and improvements  | 29,336                    | 28,653              | 27,394             |
| Fixtures and equipment  | 5,351                     | 5,362               | 5,192              |
| Computer hardware and software  | 2,532                     | 2,567               | 2,333              |
| Construction-in-progress  | 1,456                     | 1,176               | 1,260              |
| Accumulated depreciation  | (13,483)                  | (13,311)            | (12,542)           |
| Property and equipment, net   | 31,405                    | 30,653              | 29,774             |
| Other noncurrent assets   | 1,354                     | 1,122               | 1,136              |
| <b>Total assets</b>   | <b>\$ 44,162</b>          | \$ 48,163           | \$ 47,325          |
| <b>Liabilities and shareholders' investment</b>                                       |                           |                     |                    |
| Accounts payable  | \$ 7,078                  | \$ 7,056            | \$ 6,505           |
| Accrued and other current liabilities   | 3,705                     | 3,981               | 3,539              |
| Current portion of long-term debt and other borrowings                                | 1,833                     | 2,994               | 3,285              |
| Total current liabilities   | 12,616                    | 14,031              | 13,329             |
| Long-term debt and other borrowings   | 12,655                    | 14,654              | 15,229             |
| Deferred income taxes   | 1,331                     | 1,311               | 1,173              |
| Other noncurrent liabilities  | 1,540                     | 1,609               | 1,697              |
| Total noncurrent liabilities  | 15,526                    | 17,574              | 18,099             |
| Shareholders' investment  |                           |                     |                    |
| Common stock  | 53                        | 54                  | 54                 |
| Additional paid-in capital  | 4,335                     | 3,925               | 3,721              |
| Retained earnings   | 12,285                    | 13,155              | 12,774             |
| Accumulated other comprehensive loss  |                           |                     |                    |
| Pension and other benefit liabilities   | (480)                     | (532)               | (596)              |
| Currency translation adjustment and cash flow hedges                                  | (173)                     | (44)                | (56)               |
| Total shareholders' investment  | 16,020                    | 16,558              | 15,897             |
| <b>Total liabilities and shareholders' investment</b>                                 | <b>\$ 44,162</b>          | \$ 48,163           | \$ 47,325          |

**Common Stock** Authorized 6,000,000,000 shares, \$.0833 par value; 630,924,647, 645,294,423 and 653,907,367 shares issued and outstanding at August 3, 2013, February 2, 2013 and July 28, 2012, respectively.

**Preferred Stock** Authorized 5,000,000 shares, \$.01 par value; no shares were issued or outstanding at August 3, 2013, February 2, 2013 or July 28, 2012.

See accompanying Notes to Consolidated Financial Statements.



**Consolidated Statements of Cash Flows**

| (millions) (unaudited)  | Six Months Ended          |                  |
|---|---------------------------|------------------|
|   | <b>August 3,<br/>2013</b> | July 28,<br>2012 |
| <b>Operating activities</b>   |                           |                  |
| Net earnings  | \$ 1,110                  | \$ 1,401         |
| Adjustments to reconcile net earnings to cash provided by operations  |                           |                  |
| Depreciation and amortization   | 1,079                     | 1,060            |
| Share-based compensation expense                                      | 55                        | 48               |
| Deferred income taxes   | (136)                     | (92)             |
| Bad debt expense <sup>(a)</sup>                                       | 41                        | 95               |
| Gain on receivables transaction                                       | (391)                     |                  |
| Loss on debt extinguishment   | 445                       |                  |
| Noncash (gains)/losses and other, net                                 | (2)                       | (1)              |
| Changes in operating accounts:  |                           |                  |
| Accounts receivable originated at Target                              | 157                       | 116              |
| Proceeds on sale of accounts receivable originated at Target          | 2,703                     |                  |
| Inventory   | (527)                     | 185              |
| Other current assets  | (56)                      | 72               |
| Other noncurrent assets   | 47                        | (9)              |
| Accounts payable  | 17                        | (352)            |
| Accrued and other current liabilities                                 | (403)                     | (150)            |
| Other noncurrent liabilities  | (30)                      | 98               |
| Cash provided by operations   | 4,109                     | 2,471            |
| <b>Investing activities</b>   |                           |                  |
| Expenditures for property and equipment                               | (1,917)                   | (1,603)          |
| Proceeds from disposal of property and equipment                      | 48                        | 18               |
| Change in accounts receivable originated at third parties             | 121                       | 176              |
| Proceeds from sale of accounts receivable originated at third parties | 3,002                     |                  |
| Cash paid for acquisitions, net of cash assumed                       | (58)                      |                  |
| Other investments   | 73                        | (18)             |
| Cash provided by/(required for) investing activities                  | 1,269                     | (1,427)          |
| <b>Financing activities</b>   |                           |                  |
| Change in commercial paper, net                                       | (163)                     |                  |
| Additions to long-term debt   |                           | 1,971            |
| Reductions of long-term debt  | (3,424)                   | (1,011)          |
| Dividends paid  | (463)                     | (399)            |
| Repurchase of stock   | (1,461)                   | (1,130)          |
| Stock option exercises and related tax benefit                        | 363                       | 183              |
| Other   |                           | (16)             |
| Cash required for financing activities                                | (5,148)                   | (402)            |
| Effect of exchange rate changes on cash and cash equivalents          | 4                         | 6                |
| Net increase in cash and cash equivalents                             | 234                       | 648              |
| Cash and cash equivalents at beginning of period                      | 784                       | 794              |
| <b>Cash and cash equivalents at end of period</b>                     | <b>\$ 1,018</b>           | <b>\$ 1,442</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 six months ended July 28, 2012.

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 | Accumulated<br>Other<br>Comprehensive<br>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<br>(unaudited)   | 645.3                     | \$ 54                 | \$ 3,925                         | \$ 13,155            | \$ (576)   | \$ 16,558        |
| Net earnings                      |                           |                       |                                  | <b>1,110</b>         |  | <b>1,110</b>     |
| Other comprehensive income        |                           |                       |                                  |                      | (77)   | (77)             |
| Dividends declared                |                           |                       |                                  | (504)                |  | (504)            |
| Repurchase of stock               | (21.9)                    | (2)                   |                                  | (1,476)              |  | (1,478)          |
| Stock options and awards          | 7.5                       | 1                     | 410                              |                      |  | 411              |
| <b>August 3, 2013</b>             | <b>630.9</b>              | <b>\$ 53</b>          | <b>\$ 4,335</b>                  | <b>\$ 12,285</b>     | <b>\$ (653)</b>  | <b>\$ 16,020</b> |

Dividends declared per share were \$0.43 and \$0.36 for the three months ended August 3, 2013 and July 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**

These financial statements should be read in conjunction with the financial statement disclosures contained in our 2012 Form 10-K. The same accounting policies are followed in preparing quarterly and annual financial data. 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 March 13, 2013, we sold our entire U.S. consumer credit card portfolio to TD Bank Group (TD) and recognized a gain of \$391 million. Consideration received included cash of \$5.7 billion, equal to the gross (par) value of the outstanding receivables at the time of closing, and a \$225 million beneficial interest asset. This transaction was accounted for as a sale, and the receivables are no longer reported in our Consolidated Statements of Financial Position. The beneficial interest asset effectively represents a receivable for the present value of future profit-sharing we expect to receive on the receivables sold. 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.

The U.S. Segment earned credit card revenues prior to the close of the transaction and during the three and six months ended August 3, 2013 earned \$183 million and \$288 million, respectively, of profit-sharing income from TD. On a consolidated basis, this profit-sharing income is offset by a \$29 million and \$45 million reduction in the beneficial interest asset, for a net \$154 million and \$243 million impact for the three and six months ended August 3, 2013, respectively. These amounts are classified within SG&A expenses in the Consolidated Statements of Operations.

The \$225 million beneficial interest asset recognized at the close of the transaction was reduced during the three and six months ended August 3, 2013 by \$31 million and \$45 million, respectively, of profit-sharing payments related to sold receivables. The beneficial interest asset also had a \$2 million revaluation adjustment during the three months ended August 3, 2013, with no net revaluation adjustment for the six months ended August 3, 2013. As of August 3, 2013, \$180 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. Based on historical payment patterns, we estimate that the beneficial interest asset will be reduced over a four-year period following the close of the transaction, with larger reductions in the early years.



**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<br>August 3, 2013 |               |               | Fair Value at<br>February 2, 2013 |               |           | Fair Value at<br>July 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                                  | \$ 249                          | \$            | \$            | \$ 130                            | \$            | \$        | \$ 830                         | \$            | \$        |
| Other current assets                                    |                                 |               |               |                                   |               |           |                                |               |           |
| Interest rate swaps <sup>(a)</sup>                      |                                 |               |               |                                   | 4             |           |                                | 19            |           |
| Prepaid forward contracts                               | 73                              |               |               | 73                                |               |           | 72                             |               |           |
| Beneficial interest asset <sup>(b)</sup>                |                                 |               | 91            |                                   |               |           |                                |               |           |
| Other noncurrent assets                                 |                                 |               |               |                                   |               |           |                                |               |           |
| Interest rate swaps <sup>(a)</sup>                      |                                 | 74            |               |                                   | 85            |           |                                | 93            |           |
| Company-owned life insurance investments <sup>(c)</sup> |                                 | 297           |               |                                   | 269           |           |                                | 386           |           |
| Beneficial interest asset <sup>(b)</sup>                |                                 |               | 89            |                                   |               |           |                                |               |           |
| <b>Total</b>  | <b>\$ 322</b>                   | <b>\$ 371</b> | <b>\$ 180</b> | <b>\$ 203</b>                     | <b>\$ 358</b> | <b>\$</b> | <b>\$ 902</b>                  | <b>\$ 498</b> | <b>\$</b> |
| <b>Liabilities</b>                                      |                                 |               |               |                                   |               |           |                                |               |           |
| Other current liabilities                               |                                 |               |               |                                   |               |           |                                |               |           |
| Interest rate swaps <sup>(a)</sup>                      | \$                              | \$            | \$            | \$                                | 2             | \$        | \$                             | 7             | \$        |
| Other noncurrent liabilities                            |                                 |               |               |                                   |               |           |                                |               |           |
| Interest rate swaps <sup>(a)</sup>                      |                                 | 45            |               |                                   | 54            |           |                                | 62            |           |
| <b>Total</b>  | <b>\$</b>                       | <b>\$ 45</b>  | <b>\$</b>     | <b>\$</b>                         | <b>\$ 56</b>  | <b>\$</b> | <b>\$</b>                      | <b>\$ 69</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 \$787 million at August 3, 2013, \$817 million at February 2, 2013 and \$667 million at July 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 \$26 million. A one percentage point change in the forecasted discount rate would impact our fair value estimate by approximately \$6 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 carrying amount and estimated fair value of debt, a significant financial instrument not measured at fair value in the Consolidated Statements of Financial Position, was \$12,484 million and \$14,018 million, respectively, at August 3, 2013, \$15,618 million and \$18,143 million, respectively, at February 2, 2013, and \$16,647 million and \$19,666 million, respectively at July 28, 2012. 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. The carrying amount and estimated fair value of debt excludes unamortized swap valuation adjustments and capital lease obligations.

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.

| <b>Commercial Paper</b>                            | Three Months Ended |                  | Six Months Ended  |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | August 3,<br>2013  | July 28,<br>2012 | August 3,<br>2013 | July 28,<br>2012 |
| (dollars in millions)                              |                    |                  |                   |                  |
| Maximum daily amount outstanding during the period | \$ 920             | \$ 620           | \$ 1,465          | \$ 620           |
| Average daily amount outstanding during the period | 301                | 240              | 394               | 201              |
| Amount outstanding at period-end                   | 807                |                  | 807               |                  |
| Weighted average interest rate                     | 0.19 %             | 0.21 %           | 0.14 %            | 0.16 %           |

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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

We use interest rate swaps to mitigate interest-rate risk. As a result of our use of derivative instruments, we have counterparty credit risk with large global financial institutions. 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 August 3, 2013 and July 28, 2012, one swap was designated as a fair value hedge for accounting purposes, and no ineffectiveness was recognized during the three and six months ended August 3, 2013 or July 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)          |                                    | Three Months Ended              |                  | Six Months Ended                |                  |
|---------------------|------------------------------------|---------------------------------|------------------|---------------------------------|------------------|
| Type of Contract    | Classification of Income/(Expense) | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 |
| Interest rate swaps | Net interest expense               | \$ 7                            | \$ 9             | \$ 15                           | \$ 19            |

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 \$63 million, \$75 million and \$93 million, at August 3, 2013, February 2, 2013 and July 28, 2012, respectively.

## 6. Share Repurchase

### Share Repurchases

| (millions, except per share data) | Three Months Ended              |                  | Six Months Ended                |                  |
|-----------------------------------|---------------------------------|------------------|---------------------------------|------------------|
|                                   | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 |
| Total number of shares purchased  | <b>13.3</b>                     | 9.6              | <b>21.9</b>                     | 20.2             |
| Average price paid per share      | \$ <b>69.57</b>                 | \$ 57.09         | \$ <b>67.41</b>                 | \$ 57.21         |
| Total investment                  | \$ <b>927</b>                   | \$ 549           | \$ <b>1,474</b>                 | \$ 1,154         |

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

### Settlement of Prepaid Forward Contracts<sup>(a)</sup>

| (millions)                            | Three Months Ended              |                  | Six Months Ended                |                  |
|---------------------------------------|---------------------------------|------------------|---------------------------------|------------------|
|                                       | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 |
| Total number of shares purchased      | <b>0.1</b>                      | 0.2              | <b>0.2</b>                      | 0.4              |
| Total cash investment                 | \$ <b>7</b>                     | \$ 11            | \$ <b>14</b>                    | \$ 23            |
| Aggregate market value <sup>(b)</sup> | \$ <b>8</b>                     | \$ 11            | \$ <b>17</b>                    | \$ 24            |



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(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 benefit pension plans, unfunded nonqualified pension plans and provide certain postretirement health care benefits to eligible team members.

**Net Pension and Postretirement**

**Health Care Benefits Expense**

| (millions)                         | Pension Benefits   |               |                  |               | Postretirement Health Care Benefits |               |                  |               |
|------------------------------------|--------------------|---------------|------------------|---------------|-------------------------------------|---------------|------------------|---------------|
|                                    | Three Months Ended |               | Six Months Ended |               | Three Months Ended                  |               | Six Months Ended |               |
|                                    | August 3, 2013     | July 28, 2012 | August 3, 2013   | July 28, 2012 | August 3, 2013                      | July 28, 2012 | August 3, 2013   | July 28, 2012 |
| Service cost                       | \$ 29              | \$ 30         | \$ 59            | \$ 60         | \$ 1                                | \$ 2          | \$ 3             | \$ 4          |
| Interest cost                      | 34                 | 35            | 69               | 70            | 1                                   |               | 1                | 1             |
| Expected return on assets          | (58)               | (55)          | (117)            | (110)         |                                     |               |                  |               |
| Amortization of losses             | 25                 | 26            | 50               | 52            | 2                                   | 1             | 3                | 2             |
| Amortization of prior service cost | (2)                |               | (5)              |               | (4)                                 | (2)           | (8)              | (4)           |
| Total                              | \$ 28              | \$ 36         | \$ 56            | \$ 72         | \$                                  | \$ 1          | \$ (1)           | \$ 3          |

*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.

The total change in fair value for contracts indexed to our own common stock recognized in earnings was pretax income of \$1 million and \$4 million for the three months ended August 3, 2013 and July 28, 2012, respectively, and pretax income of \$12 million and \$15 million for the six months ended August 3, 2013 and July 28, 2012, respectively. For the six months ended August 3, 2013 and July 28, 2012, we invested \$6 million and \$13 million, respectively, in such investment instruments, and this activity is included in the Consolidated Statements of Cash Flows within other investing activities. Adjusting our position in these investment vehicles may involve repurchasing shares of Target common stock when settling the forward contracts as described in Note 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 |
|-----------------------------------|------------------|----------------------------------|------------------------|-----------------------|
| July 28, 2012                     | 1.2              | \$ 44.70                         | \$ 72                  | \$ 53                 |
| February 2, 2013                  | 1.2              | 45.46                            | 73                     | 54                    |
| <b>August 3, 2013</b>             | <b>1.0</b>       | <b>45.01</b>                     | <b>73</b>              | <b>46</b>             |

**8. Accumulated Other Comprehensive Income**

| (millions)  | Cash Flow Hedges | Currency Translation Adjustment | Pension and Other Benefit | Total    |
|---|------------------|---------------------------------|---------------------------|----------|
| February 2, 2013                                    | \$ (29)          | \$ (15)                         | \$ (532)                  | \$ (576) |
| Other comprehensive income before reclassifications |                  | (30)                            | 28                        | (2)      |
| Amounts reclassified from AOCI                      | 1(a)             |                                 | 12(b)                     | 13       |
| May 4, 2013   | \$ (28)          | \$ (45)                         | \$ (492)                  | \$ (565) |
| Other comprehensive income before reclassifications |                  | (101)                           |                           | (101)    |
| Amounts reclassified from AOCI                      | 1(a)             |                                 | 12(b)                     | 13       |

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|                |    |      |    |       |    |       |    |       |
|----------------|----|------|----|-------|----|-------|----|-------|
| August 3, 2013 | \$ | (27) | \$ | (146) | \$ | (480) | \$ | (653) |
|----------------|----|------|----|-------|----|-------|----|-------|

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

(b) 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

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<br>(millions)            | Three Months Ended August 3, 2013 |          |           | Three Months Ended July 28, 2012 |          |           |
|---|-----------------------------------|----------|-----------|----------------------------------|----------|-----------|
|   | U.S.                              | Canadian | Total     | U.S.                             | Canadian | Total     |
| Sales   | \$ 16,841                         | \$ 275   | \$ 17,117 | \$ 16,451                        | \$       | \$ 16,451 |
| Cost of sales                                     | 11,556                            | 188      | 11,745    | 11,297                           |          | 11,297    |
| Selling, general and administrative expenses(a)   | 3,462                             | 207      | 3,669     | 3,322                            | 47       | 3,368     |
| Depreciation and amortization                     | 493                               | 49       | 542       | 508                              | 22       | 531       |
| Segment profit                                    | \$ 1,330                          | \$ (169) | \$ 1,161  | \$ 1,324                         | \$ (69)  | \$ 1,255  |
| Gain on receivables transaction                   |                                   |          |           |                                  |          |           |
| Reduction of beneficial interest asset(a)         |                                   |          | (29)      |                                  |          |           |
| Earnings before interest expense and income taxes |                                   |          | 1,132     |                                  |          | 1,255     |
| Net interest expense                              |                                   |          | 171       |                                  |          | 184       |
| Earnings before income taxes                      |                                   | \$       | 961       |                                  | \$       | 1,071     |

| Business Segment Results<br>(millions)            | Six Months Ended August 3, 2013 |          |           | Six Months Ended July 28, 2012 |          |           |
|---|---------------------------------|----------|-----------|--------------------------------|----------|-----------|
|   | U.S.                            | Canadian | Total     | U.S.                           | Canadian | Total     |
| Sales   | \$ 33,462                       | \$ 361   | \$ 33,823 | \$ 32,989                      | \$       | \$ 32,989 |
| Cost of sales                                     | 23,067                          | 241      | 23,308    | 22,838                         |          | 22,838    |
| Selling, general and administrative expenses(a)   | 6,842                           | 400      | 7,242     | 6,471                          | 81       | 6,552     |
| Depreciation and amortization                     | 984                             | 94       | 1,079     | 1,016                          | 44       | 1,060     |
| Segment profit                                    | 2,569                           | (374)    | 2,194     | 2,664                          | (125)    | 2,539     |
| Gain on receivables transaction                   |                                 |          | 391       |                                |          |           |
| Reduction of beneficial interest asset(a)         |                                 |          | (45)      |                                |          |           |
| Earnings before interest expense and income taxes |                                 |          | 2,540     |                                |          | 2,539     |
| Net interest expense                              |                                 |          | 801       |                                |          | 366       |
| Earnings before income taxes                      |                                 | \$       | 1,739     |                                | \$       | 2,173     |

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

Note: 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. 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) Our U.S. Segment includes all TD profit-sharing amounts in segment EBIT; however, under GAAP, some amounts received from TD reduce the beneficial interest asset and are not recorded in consolidated earnings. Segment SG&A expenses plus these amounts equal consolidated SG&A expenses.

**Total Assets by Segment**

| (millions)             |    | <b>August 3,<br/>2013</b> |    | February 2,<br>2013 |    | July 28,<br>2012 |
|------------------------|----|---------------------------|----|---------------------|----|------------------|
| U.S.                   | \$ | <b>37,810</b>             | \$ | 43,289              | \$ | 43,475           |
| Canadian               |    | <b>6,172</b>              |    | 4,722               |    | 3,850            |
| Total segment assets   |    | <b>43,982</b>             |    | 48,011              |    | 47,325           |
| Unallocated assets (a) |    | <b>180</b>                |    | 152                 |    |                  |
| Total assets           | \$ | <b>44,162</b>             | \$ | 48,163              | \$ | 47,325           |

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 August 3, 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**

Notable items for the second quarter of 2013 include:

- GAAP earnings per share were \$0.95, including \$0.21 of dilution related to the Canadian Segment
- Adjusted earnings per share were \$1.19 on a comparable sales increase of 1.2 percent
- We paid dividends of \$231 million and repurchased 13.3 million of our shares for \$927 million
- We opened 44 Canadian stores, bringing the total Canadian store count to 68

Sales were \$17,117 million for the three months ended August 3, 2013, an increase of \$666 million or 4.0 percent from the same period in the prior year. Cash flow provided by operations was \$4,109 million and \$2,471 million for the six months ended August 3, 2013 and July 28, 2012, respectively. On March 13, 2013, we sold our entire U.S. consumer credit card portfolio to TD Bank Group (TD) and recognized a gain of \$391 million. This transaction is described in Note 2 to the financial statements included in this Form 10-Q. In connection with the sale of our U.S. credit card receivables, we received cash of \$5.7 billion. Of this amount, \$2.7 billion is included in cash flow provided by operations and \$3.0 billion is included in cash flow provided by investing activities.

**Earnings Per Share**

|                                     | Three Months Ended |                  |         | Six Months Ended  |                  |         |
|-------------------------------------|--------------------|------------------|---------|-------------------|------------------|---------|
|                                     | August 3,<br>2013  | July 28,<br>2012 | Change  | August 3,<br>2013 | July 28,<br>2012 | Change  |
| GAAP diluted earnings per share     | \$ 0.95            | \$ 1.06          | (10.4)% | \$ 1.72           | \$ 2.10          | (18.1)% |
| Adjustments <sup>(a)</sup>          | 0.24               | 0.06             |         | 0.52              | 0.13             |         |
| Adjusted diluted earnings per share | \$ 1.19            | \$ 1.12          | 6.1%    | \$ 2.24           | \$ 2.23          | 0.5%    |

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.

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

| (dollars in millions) | Three Months Ended |                  |                   | Six Months Ended  |                  |                   |
|-----------------------|--------------------|------------------|-------------------|-------------------|------------------|-------------------|
|                       | August 3,<br>2013  | July 28,<br>2012 | Percent<br>Change | August 3,<br>2013 | July 28,<br>2012 | Percent<br>Change |

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|                               |           |           |       |           |           |         |
|-------------------------------|-----------|-----------|-------|-----------|-----------|---------|
| Sales                         | \$ 16,841 | \$ 16,451 | 2.4 % | \$ 33,462 | \$ 32,989 | 1.4 %   |
| Cost of sales                 | 11,556    | 11,297    | 2.3   | 23,067    | 22,838    | 1.0     |
| Gross margin                  | 5,285     | 5,154     | 2.5   | 10,395    | 10,151    | 2.4     |
| SG&A expenses(a)              | 3,462     | 3,322     | 4.2   | 6,842     | 6,471     | 5.8     |
| EBITDA                        | 1,823     | 1,832     | (0.5) | 3,553     | 3,680     | (3.5)   |
| Depreciation and amortization | 493       | 508       | (3.1) | 984       | 1,016     | (3.2)   |
| EBIT                          | \$ 1,330  | \$ 1,324  | 0.4 % | \$ 2,569  | \$ 2,664  | (3.6) % |

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.

(a) SG&A includes credit card revenues and expenses for all periods presented prior to the March 2013 sale of our U.S. consumer credit card portfolio to TD Bank. For the three and six months ended August 3, 2013, SG&A also includes \$183 million and \$288 million, respectively, of profit-sharing income from the arrangement with TD.

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| U.S. Segment Rate Analysis                 | Three Months Ended July 28, 2012  |                          |  |                                | 2013 U.S. Segment Change vs. 2012 |                                |
|--|-----------------------------------|--------------------------|--|--------------------------------|-----------------------------------|--------------------------------|
|  | Three Months Ended August 3, 2013 | U.S. Segment, as revised | Impact of Historical U.S. Credit Card Segment(a) | Historical U.S. Retail Segment | U.S. Segment, as revised          | Historical U.S. Retail Segment |
| Gross margin rate                          | 31.4 %                            | 31.3 %                   |  | 31.3 %                         | 0.1 pp                            | 0.1 pp                         |
| SG&A expense rate                          | 20.6                              | 20.2                     | (0.9)  | 21.1                           | 0.4                               | (0.5)                          |
| EBITDA margin rate                         | 10.8                              | 11.1                     | 0.9  | 10.2                           | (0.3)                             | 0.6                            |
| Depreciation and amortization expense rate | 2.9                               | 3.1                      |  | 3.1                            | (0.2)                             | (0.2)                          |
| EBIT margin rate                           | 7.9                               | 8.0                      | 0.8  | 7.2                            | (0.1)                             | 0.7                            |

| U.S. Segment Rate Analysis                 | Six Months Ended July 28, 2012  |                          |  |                                | 2013 U.S. Segment Change vs. 2012 |                                |
|--|---------------------------------|--------------------------|--|--------------------------------|-----------------------------------|--------------------------------|
|  | Six Months Ended August 3, 2013 | U.S. Segment, as revised | Impact of Historical U.S. Credit Card Segment(a) | Historical U.S. Retail Segment | U.S. Segment, as revised          | Historical U.S. Retail Segment |
| Gross margin rate                          | 31.1 %                          | 30.8 %                   |  | 30.8 %                         | 0.3 pp                            | 0.3 pp                         |
| SG&A expense rate                          | 20.4                            | 19.6                     | (0.9)  | 20.5                           | 0.8                               | (0.1)                          |
| EBITDA margin rate                         | 10.6                            | 11.2                     | 0.9  | 10.3                           | (0.5)                             | 0.3                            |
| Depreciation and amortization expense rate | 2.9                             | 3.1                      |  | 3.1                            | (0.1)                             | (0.2)                          |
| EBIT margin rate                           | 7.7                             | 8.1                      | 0.9  | 7.2                            | (0.4)                             | 0.5                            |

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 into one U.S. Segment. Compared with the historical U.S. Retail Segment results for the same period, segment results, as revised, reflect lower SG&A rates and increased EBIT and EBITDA margin rates resulting from the inclusion of credit card profits, net of expenses, within SG&A compared with historical U.S. Segment results for the same period.

## 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 |               | Six Months Ended |               |
|----------------------------|--------------------|---------------|------------------|---------------|
|                            | August 3, 2013     | July 28, 2012 | August 3, 2013   | July 28, 2012 |
| Household essentials       | 27 %               | 27 %          | 27 %             | 27 %          |
| Hardlines                  | 15                 | 15            | 15               | 16            |
| Apparel and accessories    | 20                 | 20            | 20               | 20            |
| Food and pet supplies      | 20                 | 20            | 21               | 20            |
| Home furnishings and décor | 18                 | 18            | 17               | 17            |
| Total                      | 100 %              | 100 %         | 100 %            | 100 %         |

Comparable 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. Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies. Comparable sales include all sales, except sales from stores open less than 13 months.



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| Comparable Sales                       | Three Months Ended |                  | Six Months Ended  |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | August 3,<br>2013  | July 28,<br>2012 | August 3,<br>2013 | July 28,<br>2012 |
| Comparable sales change                | 1.2 %              | 3.1 %            | 0.3 %             | 4.2 %            |
| Drivers of change in comparable sales: |                    |                  |                   |                  |
| Number of transactions                 | (1.4)              | 0.7              | (1.6)             | 1.3              |
| Average transaction amount             | 2.7                | 2.4              | 2.0               | 2.8              |
| Selling price per unit                 | 1.6                | 1.1              | 0.5               | 1.8              |
| Units per transaction                  | 1.0                | 1.3              | 1.4               | 1.0              |

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.

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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.

| <b>REDcard Penetration</b> | Three Months Ended        |                  | Six Months Ended          |                  |
|----------------------------|---------------------------|------------------|---------------------------|------------------|
|                            | <b>August 3,<br/>2013</b> | July 28,<br>2012 | <b>August 3,<br/>2013</b> | July 28,<br>2012 |
| Target Credit Cards        | <b>9.3 %</b>              | 7.7 %            | <b>8.9 %</b>              | 7.4 %            |
| Target Debit Card          | <b>9.4</b>                | 5.1              | <b>9.0</b>                | 4.8              |
| Total REDcard Penetration  | <b>18.7 %</b>             | 12.8 %           | <b>17.9 %</b>             | 12.2 %           |

### **Gross Margin Rate**

For the three and six months ended August 3, 2013, our gross margin rate was 31.4 percent and 31.1 percent, increasing from 31.3 percent and 30.8 percent in the comparable periods last year. The improvement in our gross margin rate is primarily due to underlying rate improvements within categories and a 0.2 percentage point benefit in each period related to changes we made to certain merchandise vendor contracts. Vendor contract changes regarding payments received in support of marketing programs resulted in more vendor consideration being recognized in 2013 as a reduction of our cost of sales rather than a reduction to SG&A. The change to vendor contracts increased our gross margin rate for both the three and six months ended August 3, 2013, with an equal and offsetting increase in our SG&A rate, and has no impact on EBITDA or EBIT margin rates. The benefits to the gross margin rate were partially offset in each period by a 0.3 percentage point impact from our integrated growth strategies of our 5% REDcard Rewards loyalty program and our store remodel program.

### **Selling, General and Administrative Expense Rate**

For the three and six months ended August 3, 2013, our SG&A expense rate was 20.6 percent and 20.4 percent, increasing from 20.2 percent and 19.6 percent in the comparable periods last year. The SG&A rate increased 0.6 percentage points in each period due to a smaller contribution from the credit card portfolio. Our continued investment in technology and distribution in support of multichannel initiatives also increased the rate. The 2013 change to certain merchandise vendor contracts increased our SG&A rate by 0.2 percentage points for both periods, with an equal and offsetting increase to the gross margin rate discussed above. Increases in the SG&A rate were partially offset by the continued benefit from our expense optimization efforts and a 0.6 and 0.4 percentage point benefit for the three and six months ended August 3, 2013, respectively, from favorable incentive compensation and store hourly payroll.

### **Depreciation and Amortization Expense Rate**

For the three and six months ended August 3, 2013, our depreciation and amortization expense rate was 2.9 percent compared with 3.1 percent in both periods last year. The decrease was due to the favorable impact of higher sales combined with stable depreciation and amortization expenses from the steady pace of capital investments in recent years.

**Store Data**

| <b>Change in Number of Stores</b>            | Three Months Ended              |                  | Six Months Ended                |                  |
|--|---------------------------------|------------------|---------------------------------|------------------|
|  | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 | <b>August 3,</b><br><b>2013</b> | July 28,<br>2012 |
| Beginning store count                        | <b>1,784</b>                    | 1,764            | <b>1,778</b>                    | 1,763            |
| Opened                                       | <b>4</b>                        | 9                | <b>10</b>                       | 12               |
| Closed                                       |                                 |                  |                                 | (1)              |
| Relocated                                    |                                 | (1)              |                                 | (2)              |
| Ending store count                           | <b>1,788</b>                    | 1,772            | <b>1,788</b>                    | 1,772            |
| Number of stores remodeled during the period | <b>36</b>                       | 106              | <b>68</b>                       | 220              |

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| Number of Stores and<br>Retail Square Feet | Number of Stores  |                     |                  | Retail Square Feet <sup>(a)</sup> |                     |                  |
|--|-------------------|---------------------|------------------|-----------------------------------|---------------------|------------------|
|  | August 3,<br>2013 | February 2,<br>2013 | July 28,<br>2012 | August 3,<br>2013                 | February 2,<br>2013 | July 28,<br>2012 |
| General merchandise stores                 | 324               | 391                 | 428              | 38,094                            | 46,584              | 50,974           |
| Expanded food assortment stores            | 1,206             | 1,131               | 1,090            | 155,868                           | 146,249             | 141,020          |
| SuperTarget stores                         | 251               | 251                 | 251              | 44,500                            | 44,500              | 44,500           |
| CityTarget stores                          | 7                 | 5                   | 3                | 703                               | 514                 | 314              |
| Total                                      | 1,788             | 1,778               | 1,772            | 239,165                           | 237,847             | 236,808          |

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

### Canadian Segment

We opened our first 68 stores in Canada during the first half 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<br>(dollars in millions) | Three Months Ended |                  |                   | Six Months Ended  |                  |                   |
|---|--------------------|------------------|-------------------|-------------------|------------------|-------------------|
|   | August 3,<br>2013  | July 28,<br>2012 | Percent<br>Change | August 3,<br>2013 | July 28,<br>2012 | Percent<br>Change |
| Sales   | \$ 275             | \$               | n/a %             | \$ 361            | \$               | n/a %             |
| Cost of sales                                     | 188                |                  | n/a               | 241               |                  | n/a               |
| Gross margin                                      | 87                 |                  | n/a               | 120               |                  | n/a               |
| SG&A expenses                                     | 207                | 47               | 340.3             | 400               | 81               | 391.4             |
| EBITDA  | (120)              | (47)             | 155.3             | (280)             | (81)             | 243.8             |
| Depreciation and amortization                     | 49                 | 22               | 121.8             | 94                | 44               | 117.7             |
| EBIT  | \$ (169)           | \$ (69)          | 144.5 %           | \$ (374)          | \$ (125)         | 199.9 %           |

### Canadian Segment Rate Analysis

|  | Three Months Ended<br>August 3, 2013 | Six Months Ended<br>August 3, 2013 |
|--|--------------------------------------|------------------------------------|
| Gross margin rate                          | 31.6 %                               | 33.2 %                             |
| SG&A expense rate                          | 75.2                                 | 110.6                              |
| EBITDA margin rate                         | (43.6)                               | (77.4)                             |
| Depreciation and amortization expense rate | 17.9                                 | 26.1                               |
| EBIT margin rate                           | (61.5)                               | (103.6)                            |

Due to the start-up nature of our Canadian Segment operations, the rates above may not be indicative of future results.

### REDcard Penetration

|                           | Three Months Ended<br>August 3, 2013 | Six Months Ended<br>August 3, 2013 |
|---------------------------|--------------------------------------|------------------------------------|
| Target Credit Cards       | 1.1 %                                | 1.0 %                              |
| Target Debit Card         | 1.2                                  | 1.2                                |
| Total REDcard Penetration | 2.3 %                                | 2.2 %                              |

### Change in Number of Stores

Three Months Ended

Six Months Ended

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|                       | <b>August 3,<br/>2013</b> | July 28,<br>2012 | <b>August 3,<br/>2013</b> | July 28,<br>2012 |
|-----------------------|---------------------------|------------------|---------------------------|------------------|
| Beginning store count | <b>24</b>                 |                  |                           |                  |
| Opened                | <b>44</b>                 |                  | <b>68</b>                 |                  |
| Ending store count    | <b>68</b>                 |                  | <b>68</b>                 |                  |

| Number of Stores and Retail Square Feet | Number of Stores  |                     | Retail Square Feet <sup>(a)</sup> |                     |
|---|-------------------|---------------------|-----------------------------------|---------------------|
|   | August 3,<br>2013 | February 2,<br>2013 | August 3,<br>2013                 | February 2,<br>2013 |
| General merchandise stores              | 68                |                     | 7,774                             |                     |

(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 and six months ended August 3, 2013 was \$171 million and \$801 million, respectively, compared with \$184 million and \$366 million for the three and six months ended July 28, 2012. Net interest expense for the six months ended August 3, 2013 includes a \$445 million loss on early retirement of debt.

#### Provision for Income Taxes

Our effective income tax rate for the three and six months ended August 3, 2013 was 36.4 percent and 36.2 percent, respectively, up from 34.3 percent and 35.5 percent for the three and six months ended July 28, 2012, respectively. This change is primarily due to the favorable resolution of income tax matters in 2012, which reduced tax expense by \$23 million and \$31 million for the three and six months ended July 28, 2012 compared with \$2.8 million and \$3.5 million for the same periods this year.

#### 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<br>GAAP Total |
|--|----------|-----------|---------------------|----------------------------|
| <b>Three Months Ended August 3, 2013</b>       |          |           |                     |                            |
| Segment profit                                 | \$ 1,330 | \$ (169)  | \$                  | \$ 1,161                   |
| Net interest expense                           | 152      | 20        |                     | 171                        |
| Reduction of beneficial interest asset         |          |           | 29                  | 29                         |
| Earnings before income taxes                   | 1,178    | (189)     | (29)                | 961                        |
| Provision for income taxes <sup>(b)</sup>      | 416      | (53)      | (14) <sup>(e)</sup> | 350                        |
| Net earnings                                   | \$ 762   | \$ (136)  | \$ (15)             | \$ 611                     |
| Diluted earnings per share <sup>(c)</sup>      | \$ 1.19  | \$ (0.21) | \$ (0.02)           | \$ 0.95                    |
| <b>Three Months Ended July 28, 2012</b>        |          |           |                     |                            |
| Segment profit                                 | \$ 1,324 | \$ (69)   | \$                  | \$ 1,255                   |
| Net interest expense                           | 164      | 19        |                     | 184                        |
| Earnings before income taxes                   | 1,160    | (88)      |                     | 1,071                      |
| Provision for income taxes <sup>(b)</sup>      | 418      | (27)      | (23) <sup>(e)</sup> | 367                        |
| Net earnings                                   | \$ 742   | \$ (61)   | \$ 23               | \$ 704                     |
| Diluted earnings per share <sup>(c)</sup>      | \$ 1.12  | \$ (0.09) | \$ 0.03             | \$ 1.06                    |
| <b>Six Months Ended August 3, 2013</b>         |          |           |                     |                            |
| Segment profit                                 | \$ 2,569 | \$ (374)  | \$                  | \$ 2,194                   |
| Net interest expense                           | 317      | 39        | 445 <sup>(d)</sup>  | 801                        |
| Gain on receivables transaction <sup>(a)</sup> |          |           | (391)               | (391)                      |
| Reduction of beneficial interest asset         |          |           | 45                  | 45                         |
| Earnings before income taxes                   | 2,252    | (413)     | (99)                | 1,739                      |
| Provision for income taxes <sup>(b)</sup>      | 807      | (125)     | (53) <sup>(e)</sup> | 629                        |
| Net earnings                                   | \$ 1,445 | \$ (288)  | \$ (46)             | \$ 1,110                   |
| Diluted earnings per share <sup>(c)</sup>      | \$ 2.24  | \$ (0.45) | \$ (0.07)           | \$ 1.72                    |
| <b>Six Months Ended July 28, 2012</b>          |          |           |                     |                            |
| Segment profit                                 | \$ 2,664 | \$ (125)  | \$                  | \$ 2,539                   |
| Net interest expense                           | 328      | 38        |                     | 366                        |
| Earnings before income taxes                   | 2,336    | (163)     |                     | 2,173                      |
| Provision for income taxes <sup>(b)</sup>      | 850      | (47)      | (31) <sup>(e)</sup> | 772                        |
| Net earnings                                   | \$ 1,486 | \$ (116)  | \$ 31               | \$ 1,401                   |
| Diluted earnings per share <sup>(c)</sup>      | \$ 2.23  | \$ (0.17) | \$ 0.05             | \$ 2.10                    |

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 and six months ended August 3, 2013 average diluted shares outstanding were 642.0 million and 645.7 million, respectively, and for the three and six months ended July 28, 2012, average diluted shares outstanding were 662.9 million and 667.6 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 August 3, 2013 include a \$11 million tax benefit for the reduction of the beneficial interest asset. The results for the six months ended August 3, 2013 include a \$127 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 \$1,018 million compared with \$1,442 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 six months of 2013 were funded by both internally and externally generated funds. Cash flow provided by operations was \$4,109 million for the six months ended August 3, 2013 compared with \$2,471 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 applied the remaining proceeds from the sale to reduce our debt and repurchase shares.

#### *Share Repurchases*

During the three and six months ended August 3, 2013, we repurchased 13.3 million shares and 21.9 million shares, respectively, of our common stock for a total investment of \$927 million (\$69.57 per share) and \$1,474 million (\$67.41 per share), respectively. During the three and six months ended July 28, 2012, we repurchased 9.6 million shares and 20.2 million shares, respectively, of our common stock for a total investment of \$549 million (\$57.09 per share) and \$1,154 million (\$57.21 per share), respectively.

#### *Dividends*

We paid dividends totaling \$231 million and \$463 million for the three and six months ended August 3, 2013, and \$198 million and \$399 million during the three and six months ended July 28, 2012, an increase of 16.4 percent and 15.9 percent, respectively. We declared dividends totaling \$271 million (\$0.43 per share) in second quarter 2013, an increase of 15.2 percent over the \$235 million (\$0.36 per share) of declared dividends during the second 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 August 3, 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 and 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 ratings 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 six months of 2013, our ratio of earnings to fixed charges was 5.0x compared with 5.9x for the first six 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 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 August 3, 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**

Our 2012 Form 10-K included a summary of contractual obligations and commitments as of February 2, 2013. During the three months ended August 3, 2013, there were no material changes outside the ordinary course of business.

#### **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 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**

There were no changes in our internal control over financial reporting during the second quarter of 2013 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. 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

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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 August 3, 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 49.1 million shares of our common stock, for a total cash investment of \$3,096 million (\$62.99 average price per share).

| Period                              | Total Number<br>of Shares<br>Purchased<br>(a)(b) | Average<br>Price<br>Paid per<br>Share(a) | Total Number of<br>Shares Purchased<br>as Part of the<br>Current Program(a) | Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Program |
|-------------------------------------|--|--|---|---|
| May 5, 2013 through June 1, 2013    | 3,106,327  | \$ 69.45                                 | 38,929,092  | \$ 2,615,587,317  |
| June 2, 2013 through July 6, 2013   | 10,120,162                                       | 69.65                                    | 49,042,962  | 1,911,168,336   |
| July 7, 2013 through August 3, 2013 | 106,183  | 64.95                                    | 49,148,329  | 1,904,324,394   |
|                                     | 13,332,672                                       | \$ 69.57                                 | 49,148,329  | \$ 1,904,324,394  |

(a) The table above includes shares reacquired upon settlement of prepaid forward contracts. For the three months ended August 3, 2013, 0.1 million shares were reacquired through these contracts. At August 3, 2013, we held asset positions in prepaid forward contracts for 1 million shares of our common stock, for a total cash investment of \$46 million, or \$45.01 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 August 3, 2013, 7,435 shares were reacquired at an average per share price of \$71.45 pursuant to our long-term incentive plan.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

|         |  |
|---------|--|
| (3)A    | Amended and Restated Articles of Incorporation (as amended through June 9, 2010)(1)  |
| (3)B    | By-laws (as amended through September 9, 2009)(2)  |
| (12)    | Statements of Computations of Ratios of Earnings to Fixed Charges  |
| (31)A   | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| (31)B   | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| (32)A   | Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (32)B   | Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

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

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

**SIGNATURE**

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

TARGET CORPORATION

Dated: August 28, 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**

| <b>Exhibit</b> | <b>Description</b>   | <b>Manner of Filing</b>   |
|----------------|--|---------------------------|
| (3)A           | Amended and Restated Articles of Incorporation (as amended through June 9, 2010)   | Incorporated by Reference |
| (3)B           | By-Laws (as amended through September 9, 2009)   | Incorporated by Reference |
| (12)           | Statements of Computations of Ratios of Earnings to Fixed Charges  | Filed Electronically      |
| (31)A          | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | Filed Electronically      |
| (31)B          | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | Filed Electronically      |
| (32)A          | Certification of the Chief Executive Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed Electronically      |
| (32)B          | Certification of the Chief Financial Officer As Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed Electronically      |
| 101.INS        | XBRL Instance Document   | Filed Electronically      |
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