TARGET CORP
Form 10-Q
August 23, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended July 28, 2012

Commission File Number 1-6049

TARGET CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	**41-0215170**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Nicollet Mall, Minneapolis, Minnesota	**55403**
(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

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 x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller Reporting company o

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

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 20, 2012 were 654,885,290.

TARGET CORPORATION

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
(millions, except per share data) (unaudited)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Sales	**$ 16,451**	$ 15,895	**$ 32,989**	$ 31,475
Credit card revenues	**328**	345	**657**	700
Total revenues	**16,779**	16,240	**33,646**	32,175
Cost of sales	**11,297**	10,872	**22,838**	21,710
Selling, general and administrative expenses	**3,588**	3,473	**6,981**	6,705
Credit card expenses	**108**	86	**228**	174
Depreciation and amortization	**531**	509	**1,060**	1,022
Earnings before interest expense and income taxes	**1,255**	1,300	**2,539**	2,564
Net interest expense	**184**	191	**366**	374
Earnings before income taxes	**1,071**	1,109	**2,173**	2,190
Provision for income taxes	**367**	405	**772**	797
Net earnings	**$ 704**	$ 704	**$ 1,401**	$ 1,393
Basic earnings per share	**$ 1.07**	$ 1.03	**$ 2.12**	$ 2.03
Diluted earnings per share	**$ 1.06**	$ 1.03	**$ 2.10**	$ 2.02
Weighted average common shares outstanding				
Basic	**656.7**	680.8	**661.5**	686.7
Diluted	**662.9**	685.1	**667.6**	691.2

See accompanying Notes to Consolidated Financial Statements.

[redacted]

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Financial Position

(millions)	**July 28, 2012**	January 28, 2012	July 30, 2011
Assets	**(unaudited)**		(unaudited)
Cash and cash equivalents, including short-term investments of **$830**, $194 and $116	**$ 1,442**	$ 794	$ 890
Credit card receivables, net of allowance of **$365**, $430 and $480	**5,540**	5,927	5,722
Inventory	**7,733**	7,918	7,926
Other current assets	**1,700**	1,810	1,521
Total current assets	**16,415**	16,449	16,059
Property and equipment			
Land	**6,137**	6,122	5,999
Buildings and improvements	**27,394**	26,837	26,092
Fixtures and equipment	**5,192**	5,141	4,906
Computer hardware and software	**2,333**	2,468	2,392
Construction-in-progress	**1,260**	963	571
Accumulated depreciation	**(12,542)**	(12,382)	(11,587)
Property and equipment, net	**29,774**	29,149	28,373
Other noncurrent assets	**1,136**	1,032	1,067
Total assets	**$ 47,325**	$ 46,630	$ 45,499
Liabilities and shareholders investment			
Accounts payable	**$ 6,505**	$ 6,857	$ 6,519
Accrued and other current liabilities	**3,539**	3,644	3,721
Unsecured debt and other borrowings	**2,535**	3,036	1,130
Nonrecourse debt collateralized by credit card receivables	**750**	750	250
Total current liabilities	**13,329**	14,287	11,620
Unsecured debt and other borrowings	**14,479**	13,447	12,661
Nonrecourse debt collateralized by credit card receivables	**750**	250	3,499
Deferred income taxes	**1,173**	1,191	969
Other noncurrent liabilities	**1,697**	1,634	1,644
Total noncurrent liabilities	**18,099**	16,522	18,773
Shareholders investment			
Common stock	**54**	56	56
Additional paid-in capital	**3,721**	3,487	3,385
Retained earnings	**12,774**	12,959	12,213
Accumulated other comprehensive loss			
Pension and other benefit liabilities	**(596)**	(624)	(525)
Currency translation adjustment and cash flow hedges	**(56)**	(57)	(23)
Total shareholders investment	**15,897**	15,821	15,106
Total liabilities and shareholders investment	**$ 47,325**	$ 46,630	$ 45,499
Common shares outstanding	**653.9**	669.3	675.2

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Six Months Ended	
(millions) (unaudited)	**July 28, 2012**	July 30, 2011
Operating activities		
Net earnings	**$ 1,401**	$ 1,393
Reconciliation to cash flow		
Depreciation and amortization	**1,060**	1,022
Share-based compensation expense	**48**	44
Deferred income taxes	**(92)**	122
Bad debt expense	**95**	27
Non-cash (gains)/losses and other, net	**(1)**	62
Changes in operating accounts:		
Accounts receivable originated at Target	**116**	143
Inventory	**185**	(330)
Other current assets	**72**	80
Other noncurrent assets	**(9)**	16
Accounts payable	**(352)**	(119)
Accrued and other current liabilities	**(150)**	(129)
Other noncurrent liabilities	**98**	5
Cash flow provided by operations	**2,471**	2,336
Investing activities		
Expenditures for property and equipment	**(1,603)**	(2,379)
Proceeds from disposal of property and equipment	**18**	2
Change in accounts receivable originated at third parties	**176**	261
Other investments	**(18)**	(19)
Cash flow required for investing activities	**(1,427)**	(2,135)
Financing activities		
Additions to long-term debt	**1,971**	1,000
Reductions of long-term debt	**(1,011)**	(238)
Dividends paid	**(399)**	(346)
Repurchase of stock	**(1,130)**	(1,493)
Stock option exercises and related tax benefit	**183**	34
Other	**(16)**	20
Cash flow required for financing activities	**(402)**	(1,023)
Effect of exchange rate changes on cash and cash equivalents	**6**	
Net increase (decrease) in cash and cash equivalents	**648**	(822)
Cash and cash equivalents at beginning of period	**794**	1,712
Cash and cash equivalents at end of period	**$ 1,442**	$ 890

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders Investment

(millions, except footnotes)	Common Stock Shares	Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
January 29, 2011	704.0	$ 59	$ 3,311	$ 12,698	$ (581)	$ 15,487
Net earnings				2,929		2,929
Other comprehensive income					(100)	(100)
Dividends declared				(777)		(777)
Repurchase of stock	(37.2)	(3)		(1,891)		(1,894)
Stock options and awards	2.5		176			176
January 28, 2012	669.3	$ 56	$ 3,487	$ 12,959	$ (681)	$ 15,821
(unaudited)						
Net earnings				**1,401**		**1,401**
Other comprehensive income					**29**	**29**
Dividends declared				**(434)**		**(434)**
Repurchase of stock	**(20.2)**	**(2)**		**(1,152)**		**(1,154)**
Stock options and awards	**4.8**		**234**			**234**
July 28, 2012	**653.9**	**$ 54**	**$ 3,721**	**$ 12,774**	**$ (652)**	**$ 15,897**

Dividends declared per share were $0.36 and $0.30 for the three months ended July 28, 2012 and July 30, 2011, respectively. For the fiscal year ended January 28, 2012, dividends declared per share were $1.15.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (unaudited)

1. Accounting Policies

The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statement disclosures contained in the 2011 Form 10-K for Target Corporation (Target or the Corporation). The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. See the notes in our Form 10-K for the fiscal year ended January 28, 2012, for those policies. In the opinion of management, all adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature.

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

2. Earnings Per Share

Basic earnings per share (EPS) is calculated as net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the potentially dilutive impact of share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued upon the exercise of stock options and the incremental shares assumed to be issued under performance share and restricted stock unit arrangements.

Earnings Per Share	Three Months Ended		Six Months Ended	
(millions, except per share data)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Net earnings	**$ 704**	$ 704	**$ 1,401**	$ 1,393
Basic weighted average common shares outstanding	**656.7**	680.8	**661.5**	686.7
Dilutive impact of share-based awards*(a)*	**6.2**	4.3	**6.1**	4.5
Diluted weighted average common shares outstanding	**662.9**	685.1	**667.6**	691.2
Basic earnings per share	**$ 1.07**	$ 1.03	**$ 2.12**	$ 2.03
Diluted earnings per share	**$ 1.06**	$ 1.03	**$ 2.10**	$ 2.02

(a) Excludes 5.8 million and 8.7 million share-based awards for the three and six months ended July 28, 2012, respectively, and 18.5 million and 16.5 million share-based awards for the three and six months ended July 30, 2011, respectively, because their effects were antidilutive.

3. Fair Value Measurements

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

6

Fair Value Measurements - Recurring Basis

(millions)	**Fair Value at July 28, 2012** Level 1	Level 2	Level 3	Fair Value at January 28, 2012 Level 1	Level 2	Level 3	Fair Value at July 30, 2011 Level 1	Level 2	Level 3
Assets									
Cash and cash equivalents									
Short-term investments	**$ 830**	**$**	**$**	$ 194	$	$	$ 116	$	$
Other current assets									
Interest rate swaps*(a)*		**19**			20				
Prepaid forward contracts	**72**			69			74		
Other								6	
Other noncurrent assets									
Interest rate swaps*(a)*		**93**			114			140	
Company-owned life insurance investments*(b)*		**386**			371			366	
Total	**$ 902**	**$ 498**	**$**	$ 263	$ 505	$	$ 190	$ 512	$
Liabilities									
Other current liabilities									
Interest rate swaps*(a)*	**$**	**$ 7**	**$**	$	$ 7	$	$	$	$
Other noncurrent liabilities									
Interest rate swaps*(a)*		**62**			69			68	
Total	**$**	**$ 69**	**$**	$	$ 76	$	$	$ 68	$

(a) There was one interest rate swap designated as an accounting hedge in all periods presented. See Note 7 for additional information on interest rate swaps.

(b) Company-owned life insurance investments consist of equity index funds and fixed income assets. Amounts are presented net of loans that are secured by some of these policies of $667 million at July 28, 2012, $669 million at January 28, 2012 and $656 million at July 30, 2011.

Position	**Valuation Technique**
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 (*e.g.*, interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads.
Company-owned life insurance investments	Includes investments in separate accounts that are valued based on market rates credited by the insurer.

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

Financial Instruments Not Measured at Fair Value	**July 28, 2012**		January 28, 2012		July 30, 2011	
(millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Other current assets						
Marketable securities*(a)*	**$ 32**	**$ 32**	$ 35	$ 35	$ 23	$ 23
Other noncurrent assets						
Marketable securities*(a)*	**6**	**6**	6	6		
Total	**$ 38**	**$ 38**	$ 41	$ 41	$ 23	$ 23
Financial liabilities						
Total debt*(b)*	**$ 16,647**	**$ 19,666**	$ 15,680	$ 18,142	$ 16,035	$ 17,931
Total	**$ 16,647**	**$ 19,666**	$ 15,680	$ 18,142	$ 16,035	$ 17,931

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

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

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

4. Credit Card Receivables

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

Age of Credit Card Receivables	**July 28, 2012**		January 28, 2012		July 30, 2011	
(dollars in millions)	**Amount**	**Percent of Receivables**	Amount	Percent of Receivables	Amount	Percent of Receivables
Current	**$ 5,439**	**92.2%**	$ 5,791	91.1%	$ 5,671	91.4%
1-29 days past due	**238**	**4.0**	260	4.1	242	3.9
30-59 days past due	**77**	**1.3**	97	1.5	101	1.6
60-89 days past due	**48**	**0.8**	62	1.0	60	1.0
90+ days past due	**103**	**1.7**	147	2.3	128	2.1
Period-end gross credit card receivables	**$ 5,905**	**100%**	$ 6,357	100%	$ 6,202	100%

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recognized in an amount equal to the anticipated future write-offs of existing receivables and includes provisions for uncollectible finance charges and other credit-related fees. We estimate future write-offs on the entire credit card portfolio collectively based on historical experience of delinquencies, risk scores, aging trends and industry risk trends.

Allowance for Doubtful Accounts	Three Months Ended		Six Months Ended	
(millions)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Allowance at beginning of period	**$ 395**	$ 565	**$ 430**	$ 690
Bad debt expense	**43**	15	**95**	27
Write-offs*(a)*	**(105)**	(142)	**(232)**	(326)
Recoveries*(a)*	**32**	42	**72**	89
Allowance at end of period	**$ 365**	$ 480	**$ 365**	$ 480

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

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

Receivables Credit Quality	**July 28, 2012**		January 28, 2012		July 30, 2011	
(dollars in millions)	**Amount**	**Percent of Receivables**	Amount	Percent of Receivables	Amount	Percent of Receivables
Nondelinquent accounts						
FICO score of 700 or above	**$ 2,854**	**48.3%**	$ 2,882	45.4%	$ 2,786	44.9 %
FICO score of 600 to 699	**2,251**	**38.1**	2,463	38.7	2,500	40.3
FICO score below 600	**572**	**9.7**	706	11.1	627	10.1
Total nondelinquent accounts	**5,677**	**96.1**	6,051	95.2	5,913	95.3
Delinquent accounts (30+ days past due)	**228**	**3.9**	306	4.8	289	4.7
Period-end gross credit card receivables	**$ 5,905**	**100%**	$ 6,357	100%	$ 6,202	100 %

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

Troubled Debt Restructurings	Three Months Ended		Six Months Ended	
(dollars in millions, contracts in thousands)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Average receivables	**$ 232**	$ 344	**$ 245**	$ 360
Finance charges	**$ 3**	$ 5	**$ 7**	$ 11
Defaults During the Period*(a)*				
Number of contracts	**3**	6	**5**	12
Amount defaulted*(b)*	**$ 8**	$ 17	**$ 15**	$ 36

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

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

Receivables in cardholder payment plans that meet the definition of a TDR are treated consistently with other receivables in determining our allowance for doubtful accounts. Accounts that complete their assigned payment plan are no longer considered TDRs. As of July 28, 2012 and July 30, 2011 there were 102 thousand and 133 thousand modified contracts with outstanding receivables of $226 million and $334 million, respectively. Payments received on troubled debt restructurings are first applied to finance charges and fees, then to the unpaid principal balance.

Funding for Credit Card Receivables

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

We consolidate the receivables within the Trust and any debt securities issued by the Trust, or a related trust, in our Consolidated Statements of Financial Position. The receivables transferred to the Trust are not available to general creditors of the Corporation.

All interests in our Credit Card Receivables issued by the Trust are accounted for as secured borrowings. Interest and principal payments are satisfied provided the cash flows from the Trust assets are sufficient and are nonrecourse to the general assets of the Corporation. If the cash flows are less than the periodic interest, the available amount, if any, is paid with respect to interest. Interest shortfalls will be paid to the extent subsequent cash flows from the assets in the Trust are sufficient. Future principal payments will be made from the third party s pro rata share of cash flows from the Trust assets.

Securitized Borrowings	**July 28, 2012**		January 28, 2012		July 30, 2011	
(millions)	**Debt Balance**	**Collateral**	Debt Balance	Collateral	Debt Balance	Collateral
2008 Series	**$**	**$**	$	$	$ 2,749	$ 2,828
2006/2007 Series	**1,500**	**1,899**	1,000	1,266	1,000	1,266
Total	**$ 1,500**	**$ 1,899**	$ 1,000	$ 1,266	$ 3,749	$ 4,094

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

5. Commitments and Contingencies

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

6. Notes Payable and Long-Term Debt

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

Commercial Paper	Three Months Ended		Six Months Ended	
(dollars in millions)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Maximum daily amount outstanding during the period	**$ 620**	$ 850	**$ 620**	$ 850
Average daily amount outstanding during the period	**$ 240**	$ 329	**$ 201**	$ 164
Amount outstanding at period-end	**$**	$	**$**	$
Weighted average interest rate	**0.21%**	0.12%	**0.16%**	0.12%

In June 2012, we issued $1.5 billion of unsecured fixed rate debt at 4.0% that matures in July 2042. Proceeds from this issuance were used for general corporate purposes.

7. Derivative Financial Instruments

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

As of July 28, 2012 and July 30, 2011, one swap was designated as a fair value hedge for accounting purposes, and no ineffectiveness was recognized during the three or six months ended July 28, 2012 or July 30, 2011.

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

Derivative Contracts - Effect on Results of Operations		Three Months Ended		Six Months Ended	
(millions)		**July 28,**	July 30,	**July 28,**	July 30,
Type of Contract	Classification of Income/(Expense)	**2012**	2011	**2012**	2011
Interest rate swaps	Net interest expense	**$ 9**	$ 11	**$ 19**	$ 22

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 $93 million, $111 million and $132 million, at July 28, 2012, January 28, 2012 and July 30, 2011, respectively.

8. Income Taxes

We file a U.S. federal income tax return and income tax returns in various states and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations for years before 2011 and, with few exceptions, are no longer subject to state and local or non-U.S. income tax examinations by tax authorities for years before 2003.

At July 28, 2012, foreign net operating loss carryforwards of approximately $340 million (resulting in a $90 million deferred tax asset) are available to offset future income. These carryforwards expire in 2032 and are expected to be fully utilized prior to expiration.

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

9. Share Repurchase

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

Share Repurchases	Three Months Ended		Six Months Ended	
(millions, except per share data)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Total number of shares purchased	**9.6**	14.3	**20.2**	29.7
Average price paid per share	**$ 57.09**	$ 48.11	**$ 57.21**	$ 50.81
Total investment	**$ 549**	$ 688	**$ 1,154**	$ 1,507

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

Settlement of Prepaid Forward Contracts*(a)*	Three Months Ended		Six Months Ended	
(millions)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Total number of shares purchased	**0.2**	0.2	**0.4**	0.3
Total cash investment	**$ 11**	$ 7	**$ 23**	$ 14
Aggregate market value*(b)*	**$ 11**	$ 7	**$ 24**	$ 14

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

(b) At their respective settlement dates.

10. Pension, Postretirement Health Care and Other Benefits

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

Net Pension and Postretirement Health Care Benefits Expense	Pension Benefits				Postretirement Health Care Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
(millions)	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011	**July 28, 2012**	July 30, 2011
Service cost benefits earned during the period	**$ 30**	$ 29	**$ 60**	$ 58	**$ 2**	$ 2	**$ 4**	$ 4
Interest cost on projected benefit obligation	**35**	35	**70**	69		1	**1**	2
Expected return on assets	**(55)**	(51)	**(110)**	(102)				
Amortization of losses	**26**	18	**52**	34	**1**	1	**2**	2
Amortization of prior service cost		(1)		(2)	**(2)**	(2)	**(4)**	(4)
Total	**$ 36**	$ 30	**$ 72**	$ 57	**$ 1**	$ 2	**$ 3**	$ 4

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

Our unfunded, nonqualified deferred compensation plan is offered to approximately 3,000 current and retired team members whose participation in our 401(k) plan is limited by statute or regulation. These team members choose from a menu of crediting rate alternatives that are the same as the investment choices in our 401(k) plan, including Target common stock. We credit an additional 2 percent per year to the accounts of all active participants, excluding members of our management executive committee, in part to recognize the risks inherent to their participation in a plan of this nature. We also maintain a nonqualified, unfunded deferred compensation plan that was frozen during 1996, covering substantially fewer than 100 participants, most of whom are retired. In this plan, deferred compensation earns returns tied to market levels of interest rates plus an additional 6 percent return, with a minimum of 12 percent and a maximum of 20 percent, as determined by the plan s terms.

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

The total change in fair value for contracts indexed to our own common stock recognized in earnings was pretax income of $4 million in each of the three months ended July 28, 2012 and July 30, 2011, and pretax income/(loss) of $15 million and $(3) million for the six months ended July 28, 2012 and July 30, 2011, respectively. For the six months ended July 28, 2012 and July 30, 2011, we invested $13 million and $29 million, respectively, in such investment instruments, and this activity is included in the Consolidated Statements of Cash Flows within other investing activities. Adjusting our position in these investment vehicles may involve repurchasing shares of Target common stock when settling the forward contracts as described in Note 9. The settlement dates of these instruments are regularly renegotiated with the counterparty.

Prepaid Forward Contracts on Target Common Stock (millions, except per share data)	Number of Shares	Contractual Price Paid per Share	Contractual Fair Value	Total Cash Investment
July 30, 2011	1.4	$ 45.43	$ 74	$ 65
January 28, 2012	1.4	44.21	69	61
July 28, 2012	**1.2**	**44.70**	**72**	**53**

11. Segment Reporting

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

Business Segment Results	**Three Months Ended July 28, 2012**				Three Months Ended July 30, 2011			
(millions)	U.S. Retail	U.S. Credit Card	Canadian	Total	U.S. Retail	U.S. Credit Card	Canadian	Total
Sales/Credit card revenues	**$ 16,451**	**$ 328**	**$**	**$ 16,779**	$ 15,895	$ 345	$	$ 16,240
Cost of sales	**11,297**			**11,297**	10,872			10,872
Bad debt expense*(a)*		**43**		**43**		15		15
Selling, general and administrative/ Operations and marketing expenses*(a), (b)*	**3,468**	**139**	**47**	**3,653**	3,382	137	25	3,544
Depreciation and amortization	**505**	**3**	**22**	**531**	494	4	11	509
Earnings/(loss) before interest expense and income taxes	**1,181**	**143**	**(69)**	**1,255**	1,147	189	(36)	1,300
Interest expense on nonrecourse debt collateralized by credit card receivables *(c)*		**3**		**3**		18		18
Segment profit/(loss)	**$ 1,181**	**$ 140**	**$ (69)**	**$ 1,252**	$ 1,147	$ 171	$ (36)	$ 1,282
Unallocated (income) and expenses:								
Other net interest expense *(c)*				**181**				173
Earnings before income taxes				**$ 1,071**				$ 1,109

Business Segment Results	**Six Months Ended July 28, 2012**				Six Months Ended July 30, 2011			
(millions)	**U.S. Retail**	**U.S. Credit Card**	**Canadian**	**Total**	U.S. Retail	U.S. Credit Card	Canadian	Total
Sales/Credit card revenues	**$ 32,989**	**$ 657**	**$**	**$ 33,646**	$ 31,475	$ 700	$	$ 32,175
Cost of sales	**22,838**			**22,838**	21,710			21,710
Bad debt expense*(a)*		**95**		**95**		27		27
Selling, general and administrative/ Operations and marketing expenses*(a), (b)*	**6,762**	**271**	**81**	**7,114**	6,554	262	36	6,852
Depreciation and amortization	**1,009**	**7**	**44**	**1,060**	1,002	9	11	1,022
Earnings/(loss) before interest expense and income taxes	**2,380**	**284**	**(125)**	**2,539**	2,209	402	(47)	2,564
Interest expense on nonrecourse debt collateralized by credit card receivables *(c)*		**5**		**5**		37		37
Segment profit/(loss)	**$ 2,380**	**$ 279**	**$ (125)**	**$ 2,534**	$ 2,209	$ 365	$ (47)	$ 2,527
Unallocated (income) and expenses:								
Other net interest expense *(c)*				**361**				337
Earnings before income taxes				**$ 2,173**				$ 2,190

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

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

(b) Loyalty program charges were $74 million and $66 million for the three months ended July 28, 2012 and July 30, 2011, respectively, and $138 million and $115 million for the six months ended July 28, 2012 and July 30, 2011, respectively. In all periods, these amounts were recorded as reductions to SG&A expenses within the U.S. Retail Segment and increases to operations and marketing expenses within the U.S. Credit Card Segment.

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

Total Assets by Segment (millions)	**July 28, 2012**	January 28, 2012	July 30, 2011
U.S. Retail	**$ 37,724**	$ 37,108	$ 36,823
U.S. Credit Card	**5,751**	6,135	5,931
Canadian	**3,850**	3,387	2,745
Total	**$ 47,325**	$ 46,630	$ 45,499

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

Executive Summary

Consolidated revenues were $16,779 million for the three months ended July 28, 2012, an increase of $539 million or 3.3 percent from the same period in the prior year. Consolidated earnings before interest expense and income taxes for second quarter 2012 decreased by $45 million or 3.5 percent from second quarter 2011 to $1,255 million. Cash flow provided by operations was $2,471 million and $2,336 million for the six months ended July 28, 2012 and July 30, 2011, respectively. Diluted earnings per share in the second quarter increased 3.4 percent to $1.06 from $1.03 in the same period a year ago. Adjusted diluted earnings per share, which we believe is useful in providing period-to-period comparisons of the results of our U.S. operations, increased 4.6 percent to $1.12 in second quarter 2012 from $1.07 in the same period a year ago.

Earnings Per Share	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	Change	**July 28, 2012**	July 30, 2011	Change
GAAP diluted earnings per share	**$ 1.06**	$ 1.03	3.4%	**$ 2.10**	$ 2.02	4.2%
Adjustments*(a)*	**0.06**	0.04		**0.13**	0.04	
Adjusted diluted earnings per share	**$ 1.12**	$ 1.07	4.6%	**$ 2.23**	$ 2.06	8.0%

Note: A reconciliation of non-GAAP financial measures to GAAP measures is provided on page 21.

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

Our financial results for the second quarter of 2012 in our U.S. Retail Segment reflect increased sales of 3.5 percent over the same period last year due to a 3.1 percent comparable-store increase combined with the contribution from new stores. Our second quarter 2012 U.S. Retail Segment EBITDA and EBIT margin rates remained largely consistent with the prior year.

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

During the three and six months ended July 28, 2012, loss before interest expense and income taxes in our Canadian Segment totaled $69 million and $125 million, respectively, comprised of start-up costs and depreciation, compared to $36 million and $47 million during the three and six months ended July 30, 2011, respectively.

Analysis of Results of Operations

U.S. Retail Segment

U.S. Retail Segment Results	Three Months Ended			Six Months Ended		
	July 28,	July 30,	Percent	**July 28,**	July 30,	Percent
(dollars in millions)	**2012**	2011	Change	**2012**	2011	Change
Sales	**$ 16,451**	$ 15,895	3.5 %	**$**		