

TARGET CORP  
Form 10-Q  
November 30, 2007

**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 November 3, 2007**

**Commission File Number 1-6049**







# TARGET CORPORATION

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(Exact name of registrant as specified in its charter)



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Minnesota  
(State or other jurisdiction of  
incorporation or organization)

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

1000 Nicollet Mall, Minneapolis, Minnesota  
(Address of principal executive offices)

55403  
(Zip Code)

Registrant's telephone number, including area code: 612/304-6073

Former name, former address and former fiscal year, if changed since last report: N/A

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

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**Large accelerated filer**  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practicable date. Total shares of Common Stock, par value \$.0833, outstanding at November 29, 2007 were 830,844,997.

**TARGET CORPORATION**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Consolidated Statements of Operations

(unaudited) (millions, except per share data)	Three Months Ended		Nine Months Ended	
	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006
Sales	\$ 14,342	\$ 13,156	\$ 42,132	\$ 38,609
Net credit card revenues	493	414	1,364	1,171
Total revenues	14,835	13,570	43,496	39,780
Cost of sales	9,771	8,891	28,396	26,050
Selling, general and administrative expenses	3,455	3,151	9,875	9,016
Credit card expenses	222	182	574	512
Depreciation and amortization	429	389	1,225	1,094
Earnings before interest expense and income taxes	958	957	3,426	3,108
Net interest expense	177	149	467	421
Earnings before income taxes	781	808	2,959	2,687
Provision for income taxes	298	302	1,138	1,019
<b>Net earnings</b>	\$ 483	\$ 506	\$ 1,821	\$ 1,668
<b>Basic earnings per share</b>	\$ 0.57	\$ 0.59	\$ 2.14	\$ 1.93
<b>Diluted earnings per share</b>	\$ 0.56	\$ 0.59	\$ 2.11	\$ 1.92
Weighted average common shares outstanding				
Basic	845.6	857.8	850.8	863.1
Diluted	851.0	864.4	856.3	869.7

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Financial Position**

(millions)	<b>Nov. 3, 2007</b>	February 3, 2007	Oct. 28, 2006
<b>Assets</b>	<b>(unaudited)</b>		<b>(unaudited)</b>
Cash and cash equivalents	\$ 627	\$ 813	\$ 451
Accounts receivable, net	7,120	6,194	5,634
Inventory	8,746	6,254	7,797
Other current assets	1,841	1,445	1,466
Total current assets	<b>18,334</b>	14,706	15,348
Property and equipment			
Land	5,387	4,934	4,739
Buildings and improvements	17,211	16,110	14,992
Fixtures and equipment	3,659	3,553	3,311
Computer hardware and software	2,361	2,188	2,078
Construction-in-progress	2,524	1,596	2,483
Accumulated depreciation	(7,536)	(6,950)	(6,677)
Property and equipment, net	<b>23,606</b>	21,431	20,926
Other non-current assets	1,349	1,212	1,593
<b>Total assets</b>	<b>\$ 43,289</b>	\$ 37,349	\$ 37,867
<b>Liabilities and shareholders' investment</b>			
Accounts payable	\$ 7,852	\$ 6,575	\$ 7,086
Accrued and other current liabilities	2,812	3,180	2,582
Current portion of long-term debt and notes payable	2,899	1,362	2,253
Total current liabilities	<b>13,563</b>	11,117	11,921
Long-term debt	11,239	8,675	9,123
Deferred income taxes	421	577	714
Other non-current liabilities	1,906	1,347	1,309
Shareholders' investment			
Common stock	70	72	72
Additional paid-in-capital	2,636	2,387	2,307
Retained earnings	13,630	13,417	12,423
Accumulated other comprehensive loss	(176)	(243)	(2)
Total shareholders' investment	<b>16,160</b>	15,633	14,800
<b>Total liabilities and shareholders' investment</b>	<b>\$ 43,289</b>	\$ 37,349	\$ 37,867
Common shares outstanding	<b>845.0</b>	859.8	858.9

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Cash Flows**

(unaudited) (millions)	Nine Months Ended	
	Nov. 3, 2007	Oct. 28, 2006
<b>Operating activities</b>		
Net earnings	\$ 1,821	\$ 1,668
Reconciliation of net earnings to operating cash flows		
Depreciation and amortization	1,225	1,094
Share-based compensation expense	59	64
Deferred income taxes	(72)	(167)
Bad debt provision	311	278
Loss on disposal of property and equipment, net	34	58
Other non-cash items affecting earnings	82	33
Changes in operating accounts providing / (requiring) cash		
Accounts receivable originated at Target	(260)	(44)
Inventory	(2,492)	(1,961)
Other current assets	(164)	(111)
Other non-current assets	4	4
Accounts payable	1,277	818
Accrued and other current liabilities	(297)	(66)
Other non-current liabilities	58	44
Cash flow provided by operations	1,586	1,712
<b>Investing activities</b>		
Expenditures for property and equipment	(3,418)	(3,004)
Proceeds from disposal of property and equipment	53	20
Change in accounts receivable originated at third parties	(978)	(203)
Other investments	(189)	(119)
Cash flow required for investing activities	(4,532)	(3,306)
<b>Financing activities</b>		
Change in commercial paper, net	578	955
Additions to short-term notes payable	1,000	-
Additions to long-term debt	3,650	1,250
Reductions of long-term debt	(1,254)	(752)
Dividends paid	(324)	(277)
Repurchase of stock	(1,071)	(901)
Stock option exercises and related tax benefit	204	126
Other	(23)	(4)
Cash flow provided by financing activities	2,760	397
Net decrease in cash and cash equivalents	(186)	(1,197)
Cash and cash equivalents at beginning of period	813	1,648
<b>Cash and cash equivalents at end of period</b>	<b>\$ 627</b>	<b>\$ 451</b>

Amounts presented herein are on a cash basis and therefore may differ from those shown in other sections of this Form 10-Q. Consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows, cash flows related to accounts receivable are classified as either an operating activity or an investing activity, depending on their origin.

See accompanying Notes to Consolidated Financial Statements.



## Consolidated Statements of Shareholders Investment

(millions, except per share data)	Common Stock Shares	Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total
January 28, 2006	874.1	\$ 73	\$ 2,121	\$ 12,013	(2)	14,205
Net earnings	-	-	-	2,787	-	2,787
Other comprehensive loss, net of taxes of \$5	-	-	-	-	(7)	(7)
Total comprehensive income						2,780
Cumulative effect of adopting SFAS 158, net of taxes of \$152	-	-	-	-	(234)	(234)
Dividends declared	-	-	-	(396)	-	(396)
Repurchase of stock	(19.5)	(2)	-	(987)	-	(989)
Stock options and awards	5.2	1	266	-	-	267
February 3, 2007 (unaudited)	859.8	72	2,387	13,417	(243)	15,633
Net earnings	-	-	-	1,821	-	1,821
Other comprehensive income						
Amortization of pension and post-retirement plan amounts, net of taxes of \$10	-	-	-	-	16	16
Other	-	-	-	-	(3)	(3)
Total comprehensive income						1,834
Cumulative effect of adopting new accounting pronouncements	-	-	-	(31)	54	23
Dividends declared	-	-	-	(339)	-	(339)
Repurchase of stock	(19.7)	(2)	-	(1,238)	-	(1,240)
Stock options and awards	4.9	-	249	-	-	249
<b>November 3, 2007</b>	<b>845.0</b>	<b>\$ 70</b>	<b>\$ 2,636</b>	<b>\$ 13,630</b>	<b>(176)</b>	<b>16,160</b>

Dividends declared per share were \$.14 and \$.12 for the three months ended November 3, 2007 and October 28, 2006, respectively, and \$.40 and \$.34 for the nine months ended November 3, 2007 and October 28, 2006, respectively. For the fiscal year ended February 3, 2007, dividends declared per share were \$.46.

See accompanying Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements**

## 1. Accounting Policies

The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statement disclosures contained in our 2006 Form 10-K. The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. In the opinion of management, all adjustments necessary for a fair statement 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.

We operate as a single business segment.

## 2. New Accounting Pronouncements

### Current adoptions

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires sponsors of defined benefit pension and other postretirement benefit plans (collectively postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position and provide additional disclosures. We adopted the recognition and disclosure provisions of SFAS 158 during 2006. We adopted the SFAS 158 measurement date provision at the beginning of the first quarter of 2007, and the details of our adoption of this provision are described in Note 10.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the financial statement recognition and measurement criteria for tax positions taken in a tax return, clarifies when tax benefits should be recorded and how they should be classified in financial statements and requires certain disclosures of uncertain tax matters. We adopted the provisions of FIN 48 at the beginning of the first quarter of 2007, and the details of our adoption of FIN 48 are described in Note 8.

At the beginning of the first quarter of 2007, we adopted the FASB's Emerging Issues Task Force Issue No. 06-5, *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance* and recorded a \$4 million increase to other non-current assets, with a corresponding increase to retained earnings of \$4 million.

### Future adoptions

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157). SFAS 157 defines fair value, provides guidance for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 will be effective at the beginning of fiscal 2008. The adoption of this statement is not expected to have a material impact on our consolidated net earnings, cash flows or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective at the beginning of fiscal 2008. The adoption of this statement is not expected to have a material impact on our consolidated net earnings, cash flows or financial position.



### 3. Cost of Sales and Selling, General and Administrative Expenses

The following table illustrates the primary costs classified in each major expense category:

<b>Cost of Sales</b>	<b>Selling, General and Administrative Expenses</b>
Total cost of products sold including:	Compensation and benefit costs including:
Freight expenses associated with moving merchandise from our vendors to our distribution centers and our retail stores, and among our distribution and retail facilities	Stores
Vendor income that is not reimbursement of specific, incremental and identifiable costs	Headquarters, including buying and merchandising
Inventory shrink	Distribution operations
Markdowns	Occupancy and operating costs of retail, distribution and headquarters facilities
Shipping and handling expenses	Advertising, offset by vendor income that is a reimbursement of specific, incremental and identifiable costs
Terms cash discount	Pre-opening costs of stores and other facilities
	Other administrative costs

*The classification of these expenses varies across the retail industry.*

Compensation, benefits and other expenses for buying, merchandising and distribution operations classified in selling, general and administrative expenses were approximately \$335 million and \$315 million for the three months ended November 3, 2007 and October 28, 2006, respectively, and approximately \$976 million and \$917 million for the nine months ended November 3, 2007 and October 28, 2006, respectively.

### 4. Earnings per Share

Basic earnings per share (EPS) is net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the incremental shares assumed to be issued upon the exercise of stock options and the incremental shares assumed to be issued under performance share and restricted stock unit arrangements.

	Basic EPS				Diluted EPS			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	Nov. 3,	Oct. 28,	Nov. 3,	Oct. 28,	Nov. 3,	Oct. 28,	Nov. 3,	Oct. 28,
(millions, except per share data)	<b>2007</b>	2006	<b>2007</b>	2006	<b>2007</b>	2006	<b>2007</b>	2006
Net earnings	\$ 483	\$ 506	\$ 1,821	\$ 1,668	\$ 483	\$ 506	\$ 1,821	\$ 1,668
	-	-	-	-	(3)	-	(11)	-

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Adjustment for prepaid forward contracts																
Net earnings for EPS calculation	\$	<b>483</b>	\$	506	\$	<b>1,821</b>	\$	1,668	\$	<b>480</b>	\$	506	\$	<b>1,810</b>	\$	1,668
Basic weighted average common shares outstanding		<b>845.6</b>		857.8		<b>850.8</b>		863.1		<b>845.6</b>		857.8		<b>850.8</b>		863.1
Incremental stock options, performance share units and restricted stock units		-		-		-		-		<b>5.7</b>		6.6		<b>6.3</b>		6.6
Adjustment for prepaid forward contracts		-		-		-		-		<b>(0.3)</b>		-		<b>(0.8)</b>		-
Weighted average common shares outstanding		<b>845.6</b>		857.8		<b>850.8</b>		863.1		<b>851.0</b>		864.4		<b>856.3</b>		869.7
Earnings per share	\$	<b>0.57</b>	\$	0.59	\$	<b>2.14</b>	\$	1.93	\$	<b>0.56</b>	\$	0.59	\$	<b>2.11</b>	\$	1.92

For the November 3, 2007 and October 28, 2006 computations, 4.3 million and 4.4 million stock options, respectively, were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive. Refer to Note 10 for a description of the prepaid forward contracts referred to in the table above.

**5. Accounts Receivable**

Accounts receivable are recorded net of an allowance for expected losses. The allowance, recognized in an amount equal to anticipated future write-offs of principal, accrued finance charges and fees, was \$532 million at November 3, 2007, \$517 million at February 3, 2007 and \$514 million at October 28, 2006. We estimate future write-offs based on delinquencies, risk scores, aging trends, industry risk trends and our historical experience.

Substantially all accounts continue to accrue finance charges until they are written off. Total accounts receivable past due ninety days or more and still accruing finance charges were \$197 million at November 3, 2007, \$160 million at February 3, 2007 and \$157 million at October 28, 2006. Accounts are written off when they become 180 days past due.

**6. Contingencies**

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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 have a material adverse impact on our results of operations, cash flows or financial condition.

**7. Debt and Derivative Financial Instruments**

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We obtain short-term financing throughout the year under our commercial paper program, a form of notes payable. Notes payable under this program totaled \$578 million and \$955 million at November 3, 2007 and October 28, 2006, respectively, and are included in current portion of long-term debt and notes payable on the Consolidated Statement of Financial Position. There were no amounts outstanding under our commercial paper program at February 3, 2007.

Our derivative instruments are primarily interest rate swaps that hedge the fair value of certain debt by effectively converting interest from a fixed rate to a floating rate. These instruments qualify for hedge accounting, and the associated assets and liabilities are recorded in the Consolidated Statements of Financial Position. The changes in market value of an interest rate swap, as well as the offsetting change in market value of the hedged debt, are recognized within earnings in the current period. Ineffectiveness would result when changes in the market value of the hedged debt are not completely offset by changes in the market value of the interest rate swap. There was no ineffectiveness recognized related to these instruments during the three and nine months ended November 3, 2007 and October 28, 2006. At November 3, 2007, February 3, 2007 and October 28, 2006, interest rate swaps were outstanding in notional amounts totaling \$4.6 billion, \$3.7 billion and \$3.7 billion, respectively. The market value of outstanding interest rate swaps and net unamortized gains (losses) from terminated interest rate swaps was \$79 million, \$(7) million and \$5 million at November 3, 2007, February 3, 2007 and October 28, 2006, respectively.

At November 3, 2007, we also had outstanding interest rate lock agreements with notional amounts totaling \$1 billion that are designated as hedges of forecasted transactions. The fair value of these agreements was not material at November 3, 2007, and the agreements expire within twelve months.

On August 7, 2007 we issued \$500 million of floating rate debt that matures in 2009. The floating rate is 3-month LIBOR plus 0.125%, reset quarterly, with an initial interest rate of 5.485%.

On August 10, 2007, through Target Receivables Corporation (TRC), we borrowed an additional \$1 billion through our Variable Funding Certificate (Certificate), which is backed by credit card receivables, for a total outstanding balance of \$2 billion. The Certificate has a floating interest rate that resets daily, with an initial rate of 5.42%. The additional \$1 billion is seasonal borrowing that will mature within one year.

On October 5, 2007 we issued \$1,250 million of long-term debt at 6.5%, which matures in October 2037.

### 8. Income Taxes

We file a U.S. federal income tax return and income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 1998.

We adopted the provisions of FIN 48 on February 4, 2007. As a result of the adoption of FIN 48, we recorded a \$19 million decrease to retained earnings. As of February 4, 2007, total unrecognized tax benefits were \$379 million, and accrued penalties and interest totaled \$98 million. If the company were to prevail on all unrecognized tax benefits recorded, approximately \$204 million of the \$379 million reserve would benefit the effective tax rate with the remaining \$175 million representing temporary differences or amounts for which offsetting benefits are available in a different taxing jurisdiction. In addition, the impact of penalties and interest would also benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense.





On a quarterly and annual basis, we accrue for the effects of open uncertain tax positions and the related potential penalties and interest. There were no material adjustments to our recorded liability for unrecognized tax benefits during the three and nine months ended November 3, 2007, other than those made in connection with the adoption of FIN 48 that are described above.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a significant effect on our results of operations or our financial position.

## **9. Share Repurchase**

During the quarter ended November 3, 2007, we repurchased 3.0 million shares of our common stock, for a total cash investment of \$172 million (\$57.29 per share), and for the nine months ended November 3, 2007, we repurchased 19.7 million shares of our common stock, for a total cash investment of \$1,196 million (\$60.72 per share). Since the inception of our share repurchase program that began in 2004, we have repurchased 90.7 million shares of our common stock, for a total cash investment of \$4,646 million (\$51.20 per share). In addition, at November 3, 2007, we held long positions in prepaid forward contracts for 2.3 million shares of our common stock, for a total cash investment of \$123 million, or \$54.66 per share. See Note 11 for further information relating to our share repurchase authorization.

## **10. Pension, Postretirement Health Care and Other Benefits**

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We have qualified defined benefit pension plans covering all U.S. employees who meet age and service requirements. We also have unfunded, nonqualified pension plans for team members with qualified plan compensation restrictions. Benefits are provided based on years of service and team member compensation. Upon retirement, 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.

As described in Note 2, we adopted the SFAS 158 measurement date provision in the first quarter 2007. As a result, we recorded a \$16 million decrease to retained earnings, a \$54 million increase to accumulated other comprehensive income, a \$65 million increase to other non-current assets, a \$3 million increase to other non-current liabilities and a \$24 million decrease to deferred income taxes.

Net pension expense and postretirement health care expense consisted of the following:

(millions)	Pension Benefits				Postretirement Health Care Benefits			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006
Service cost of benefits earned during the period	\$ 24	\$ 21	\$ 73	\$ 63	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost on projected benefit obligation	26	23	78	69	2	2	6	5
Expected return on assets	(38)	(35)	(114)	(105)	-	-	-	-
Recognized losses	10	12	29	36	-	-	-	-
Recognized prior service cost	(1)	(1)	(3)	(4)	-	-	-	-
<b>Total</b>	<b>\$ 21</b>	<b>\$ 20</b>	<b>\$ 63</b>	<b>\$ 59</b>	<b>\$ 3</b>	<b>\$ 3</b>	<b>\$ 9</b>	<b>\$ 8</b>

We also maintain nonqualified, unfunded deferred compensation plans for approximately 4,700 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 who are not executive officers, 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 15 current and 49 retired participants. In this plan, deferred compensation earns returns tied to market levels of interest rates plus an additional 6 percent return, with a minimum of 12 percent and a maximum of 20 percent, as determined by the plan's terms.

We control some of our risk of offering the nonqualified plans through investing in vehicles, including 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 change in fair value of contracts indexed to our own common stock recorded in earnings as a pre-tax gain was \$1 million and \$48 million for the three months ended November 3, 2007 and October 28, 2006, respectively, and a pre-tax gain of \$7 million and \$27 million for the nine months ended November 3, 2007 and October 28, 2006, respectively. For the nine months ended November 3, 2007 and October 28, 2006, we invested approximately \$127 million and \$111 million, respectively, in prepaid forward contracts in our own common stock, and these investments are included in the Consolidated Statement 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.

**11. Subsequent Events**

On November 14, 2007 our Board of Directors approved a new share repurchase program totaling \$10 billion that replaces the remaining authorization under the previous program. Through November 29, 2007, we repurchased 14.2 million shares of our common stock under this new authorization, for a total cash investment of \$800 million (\$56.38 per share.)

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

**Analysis of Results of Operations**



Net earnings for the three and nine months ended November 3, 2007 were \$483 million, or \$.56 per share, and \$1,821 million, or \$2.11 per share, respectively, compared with \$506 million, or \$.59 per share, and \$1,668 million, or \$1.92 per share, for the same periods last year. All earnings per share figures refer to diluted earnings per share.

### **Revenues and Comparable-Store Sales**

Sales include merchandise sales, net of expected returns, from our stores and our on-line business, as well as gift card breakage. Total revenues include sales and net credit card revenues. Total revenues do not include sales tax as we consider ourselves a pass-through conduit for collecting and remitting sales taxes. Comparable-store sales are sales from our on-line business and sales from general merchandise and SuperTarget stores open longer than one year, including:

- sales from stores that have been remodeled or expanded while remaining open

- sales from stores that have been relocated to new buildings of the same format within the same trade area, in which the new store opens at about the same time as the old store closes

Comparable-store sales do not include:

- sales from general merchandise stores that have been converted, or relocated within the same trade area, to a SuperTarget store format

- sales from stores that were intentionally closed to be remodeled, expanded or reconstructed

Comparable-store sales increases or decreases are calculated by comparing sales in current year periods to comparable prior fiscal-year periods of equivalent length. The method of calculating comparable-store sales varies across the retail industry.

Total revenues for the quarter were \$14,835 million, compared with \$13,570 million for the same period a year ago, an increase of 9.3 percent. For the nine month period ending November 3, 2007, total revenues were \$43,496 million, compared with \$39,780 million for the same period a year ago, an increase of 9.3 percent. Total revenue growth was attributable to comparable-store sales increases of 3.7 percent and 4.3 percent for the quarter and year-to-date periods, respectively, growth in net credit card revenues, as well as the opening of new stores.

### **Gross Margin Rate**

Gross margin rate represents gross margin (sales less cost of sales) as a percentage of sales. See Note 3 for a description of expenses included in cost of sales. In the third quarter of 2007, our gross margin rate was 31.9 percent compared with 32.4 percent in the same period last year. For the nine months ended November 3, 2007, our gross margin rate was 32.6 percent compared with 32.5 percent in the same period last year. The third quarter decline in gross margin rate resulted from soft sales in higher margin categories. Within the year-to-date gross margin rate, favorability within merchandise categories was largely offset by adverse sales mix. Markup is the difference between an item's cost and its retail price (expressed as a percentage of its retail price). Factors that affect markup include vendor offerings and negotiations, vendor income, sourcing strategies, market forces like the cost of raw materials and freight, and competitive influences. Markdowns are the reduction in the original or previous price of retail merchandise. Factors that affect markdowns include inventory management and competitive influences. The definition and method of calculating markup, markdowns and gross margin varies across the retail industry.

**Selling, General and Administrative Expense Rate**

Our selling, general and administrative (SG&A) expense rate represents SG&A expenses as a percentage of sales. See Note 3 for a description of expenses included in SG&A. SG&A expenses exclude depreciation and amortization, and SG&A expenses also exclude expenses associated with our credit card operations, which are reflected separately in our Consolidated Statements of Operations. In the third quarter of 2007, our SG&A expense rate was 24.1 percent compared with 24.0 percent in the same period last year. For the nine months ended November 3, 2007, our SG&A rate remained unchanged at 23.4 percent compared with the same period last year.

## Other Performance Factors

During the nine months ended October 28, 2006, we adjusted the period over which we amortize leasehold acquisition costs to match the expected terms for individual leases, resulting in a \$28 million cumulative benefit to depreciation expense in that period.

In the three and nine month periods ended November 3, 2007, net interest expense was \$177 million and \$467 million, respectively, a \$28 million and \$46 million increase from the three and nine month periods ended October 28, 2006, primarily due to higher average debt balances, including the debt to fund growth in our accounts receivable.

Our effective income tax rate for the third quarter of 2007 was 38.1 percent compared with 37.4 percent for the third quarter of 2006. This increase was primarily due to the less favorable impact that capital market returns had during the third quarter of 2007, compared to the more favorable returns in the third quarter of 2006, as well as the recognition of specific unfavorable items in the third quarter of 2007 compared with the recognition of specific favorable items in the third quarter of 2006. The year-to-date effective tax rate increased to 38.5 percent in 2007 from 37.9 percent in 2006, primarily due to the recognition of specific unfavorable items in the first and third quarters of 2007 compared with the recognition of specific favorable items in the first and third quarters of 2006.

## Credit Card Contribution

We offer credit to qualified guests through our REDcard products, the Target Visa and the Target Card. Our credit card program strategically supports our core retail operations and remains an important contributor to our overall profitability. Our credit card revenues are comprised of finance charges, late fees and other revenues. In addition, we receive fees from merchants who accept the Target Visa credit card. Effective February 2007, we redefined Credit Card Contribution to Earnings Before Taxes (EBT) to exclude intra-company merchant fees and include the effect of new account and loyalty rewards discounts as expenses of our credit card programs. We have reclassified prior period amounts to conform to the current year disclosure. These changes were made to better facilitate comparison of our credit card results to the performance of other bank card portfolios and to better facilitate comparison of our core retail operations to other retailers who have sold their credit card portfolios to third parties. These reclassifications had no effect on our Consolidated Statements of Operations.

## Credit Card Contribution to EBT

(millions)	Three Months Ended		Nine Months Ended	
	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006
<b>Revenues</b>				
Finance charges	\$ 334	\$ 279	\$ 935	\$ 812
Interest expense	(86)	(72)	(243)	(202)
Net interest income	248	207	692	610
Late fees and other revenues	113	101	311	261
Third-party merchant fees	46	34	118	98
New account and loyalty rewards discounts (a)	(24)	(22)	(72)	(72)
Non-interest income	135	113	357	287
<b>Credit card revenues</b>	<b>383</b>	<b>320</b>	<b>1,049</b>	<b>897</b>
<b>Expenses</b>				
Bad debt provision	130	97	311	278
Operations and marketing	92	85	263	234

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Allocated depreciation charge (b)		<b>4</b>		4		<b>12</b>		11
Total expenses		<b>226</b>		186		<b>586</b>		523
<b>Credit card contribution to EBT</b>	<b>\$</b>	<b>157</b>	<b>\$</b>	134	<b>\$</b>	<b>463</b>	<b>\$</b>	374
As a percentage of average receivables (annualized)		<b>8.6%</b>		8.8%		<b>8.9%</b>		8.3%
Net interest margin (annualized) (c)		<b>13.6%</b>		13.6%		<b>13.4%</b>		13.5%

(a) Primarily consists of new account and loyalty rewards program discounts on our REDcard products, which are included as reductions of sales in our Consolidated Statements of Operations.

(b) Included in depreciation and amortization in our Consolidated Statements of Operations.

(c) Net interest income divided by average accounts receivable.

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<b>Receivables</b>	Three Months Ended			Nine Months Ended		
	(millions)	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006	
Period-end receivables	\$	7,652	\$ 6,148			
Average receivables	\$	7,324	\$ 6,123	\$ 6,908	\$ 6,007	
Accounts with three or more payments (60+ days) past due as a percentage of period-end receivables		3.8%	3.9%			
Accounts with four or more payments (90+ days) past due as a percentage of period-end receivables		2.6%	2.5%			
<b>Allowance for Doubtful Accounts</b>	Three Months Ended			Nine Months Ended		
	(millions)	Nov. 3, 2007	Oct. 28, 2006	Nov. 3, 2007	Oct. 28, 2006	
Allowance at beginning of period	\$	509	\$ 501	\$ 517	\$ 451	
Bad debt provision		130	97	311	278	
Net write-offs		(107)	(84)	(296)	(215)	
Allowance at end of period	\$	532	\$ 514	\$ 532	\$ 514	
As a percentage of period-end receivables		7.0%	8.4%	7.0%	8.4%	
Net write-offs as a percentage of average receivables (annualized)		5.8%	5.5%	5.7%	4.8%	

Our credit card operations are allocated a portion of consolidated interest expense based on estimated funding costs for average net accounts receivable and other financial services assets. Our allocation methodology assumes that 90 percent of the sum of average net receivables and other financial services assets are debt-financed with a mix of fixed rate and variable rate debt in proportion to the mix of fixed and variable rate financial services assets. The majority of our credit card portfolio earns interest at variable rates; thus, the majority of the interest allocation to the credit card business is at rates that are determined based upon our approximate marginal variable rate cost of borrowed funds.

In the three and nine month periods of 2007, our credit card revenues increased primarily due to a 19.6 percent and 15.0 percent increase, respectively, in average receivables. Late fees and other revenue of \$113 million and \$311 million for the three and nine months, respectively, benefited from a change in terms for the Target Card portfolio. In the three and nine month periods of 2007, our credit card contribution to EBT was \$157 million and \$463 million, respectively, a 17.1 percent and 23.7 percent increase over the same periods last year.

### Analysis of Financial Condition

#### Liquidity and Capital Resources

Our financial condition remains strong. In assessing our financial condition, we consider factors such as cash flows provided by operations, capital expenditures and debt service obligations. We continue to fund our growth and execute our share repurchase program through a combination of internally-generated funds and debt financing, including notes payable under our commercial paper program.

Gross receivables at quarter end were \$7,652 million compared with \$6,148 million at the end of the third quarter 2006, an increase of 24.5 percent. This growth was driven by increased issuance and usage of the Target Visa credit card. Inventory in the third quarter of 2007 increased \$949 million, or 12.2 percent, from the same period in the prior year, reflecting the natural increase required to support additional square footage and comparable-store sales growth. The majority of the growth in inventory is due to the shift in our fiscal calendar, which moved our third quarter end one week closer to the holiday season compared with last year, capturing a greater portion of our typical seasonal inventory build.

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Capital expenditures for the nine months ended November 3, 2007 were \$3,418 million, compared with \$3,004 million for the same period a year ago. This increase is primarily attributable to increased investments in new stores.

As described in more detail in Note 7, during the third quarter of 2007, we borrowed \$2,750 million through three separate transactions with varying maturities and interest rates. The borrowings were used for seasonal working capital needs and general corporate purposes.

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As described in Note 7, at November 2, 2007, we had outstanding interest rate lock agreements with notional amounts totaling \$1 billion that are designated as hedges of forecasted transactions. The fair value of these agreements was not material at November 3, 2007, and the agreements expire within twelve months.

As described in Note 8, we have recorded liabilities associated with uncertain tax positions of \$477 million, including interest and penalties, at February 4, 2007. This liability will result in cash payments to tax authorities; however, we are not able to make reasonably reliable estimates of the periods or amounts of cash settlements. For this reason, we have not included this liability in a table of contractual obligations and have not updated the table that was presented in our 2006 Form 10-K.

As described in Note 11, on November 14, 2007 our Board of Directors approved a new share repurchase program totaling \$10 billion that replaces the remaining authorization under the previous program. We intend to complete this new share repurchase program within approximately three years through open market transactions and possibly other means. Under the right combination of business results, liquidity and share price, we would expect to complete half, or more, of this new program by the end of 2008.

### Store Data

During the quarter, we opened 61 new stores. Net of relocations and closings, these openings included 36 general merchandise stores and 18 SuperTarget stores. At November 3, 2007, February 3, 2007 and October 28, 2006, our number of stores and retail square feet were as follows:

	Number of Stores			Retail Square Feet*		
	Nov. 3, 2007	February 3, 2007	Oct. 28, 2006	Nov. 3, 2007	February 3, 2007	Oct. 28, 2006
Target general merchandise stores	1,381	1,311	1,318	170,518	160,806	161,152
SuperTarget stores	210	177	176	37,022	31,258	31,073
Total	1,591	1,488	1,494	207,540	192,064	192,225

\* In thousands, reflects total square feet, less office, distribution center and vacant space.

### Outlook for Fiscal Year 2007

For fiscal year 2007, a 52-week year following a 53-week year, our outlook at the beginning of the year envisioned that earnings per share growth opportunities in the first half of the year would be greater than the second half due to a variety of factors. Consistent with this expectation, we continue to believe that our earnings per share growth in the fourth quarter will be quite modest compared to last year's result. In our core retail operations, we expect comparable store sales in the fourth quarter to increase in the range of 3 percent to 5 percent and total sales to increase sharply lower than our year-to-date growth due to the extra week in 2006. We believe that adverse sales mix will be a less important factor in our fourth quarter consolidated gross margin rate than in our third quarter rate. We expect our 2007 fourth quarter SG&A expense rate to be essentially unchanged from the 2006 fourth quarter rate, despite one less week of sales in the current year period. In our credit card operations, we expect to continue to deliver strong growth in receivables, driving revenue growth and strong contribution to earnings.

For the full year, we expect our effective tax rate to rise modestly from our 2006 rate of 38.0 percent.





## Forward-Looking Statements

This report contains forward-looking statements regarding our performance, financial position, liquidity and adequacy of capital resources. Forward-looking statements are typically accompanied by the words expect, may, could, believe, would, might, anticipates, or words of similar import. The forward-looking statements in this report include the anticipated impact of new and proposed accounting pronouncements, the expected outcome of pending and threatened litigation, the expected resolution of tax uncertainties, our expectations with respect to our share repurchase program and our outlook in fiscal 2007. Forward-looking statements are based on our current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. We caution that the forward-looking statements are qualified by the risks and challenges posed by increased competition (including the effects of competitor liquidation activities), shifting consumer demand, changing consumer credit markets, changing wages, health care and other benefit costs, shifting capital markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, investing in new business strategies, the outbreak of war or pandemics and other significant national and international events, and other risks and uncertainties. As a result, although we believe there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. You are encouraged to review Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007, which contains additional important factors that may cause actual results to differ materially from those predicted in the forward-looking statements.

## 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 3, 2007.

## Item 4. Controls and Procedures.

As of the end of the period covered by this quarterly report, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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

For a description of legal proceedings see Note 6.

The American Jobs Creation Act of 2004 requires SEC registrants to disclose if they have been required to pay certain penalties for failing to disclose to the Internal Revenue Service their participation in listed transactions. We have not been required to pay any of the penalties set forth in Section 6707A(e)(2) of the Internal Revenue Code.

**Item 1A. Risk Factors.**

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

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

The following table presents information with respect to purchases of Target common stock made during the quarter ended November 3, 2007, by Target or any affiliated purchaser of Target, as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased (b)(c)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Program (a)(b)(c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (a)
Aug. 5, 2007 through Sept. 1, 2007	1,242,561	\$ 53.94	88,996,039	\$ 3,458,422,451
Sept. 2, 2007 through Oct. 6, 2007	1,248,380	\$ 59.26	90,244,419	\$ 3,384,440,028
Oct. 7, 2007 through Nov. 3, 2007	505,000	\$ 60.64	90,749,419	\$ 3,353,816,174
<b>Total</b>	<b>2,995,941</b>	<b>\$ 57.29</b>	<b>90,749,419</b>	<b>\$ 3,353,816,174</b>

(a) In June 2004, our Board of Directors authorized the repurchase of \$3 billion of our common stock. In November 2005, our Board of Directors increased the aggregate authorization by \$2 billion, and in June 2007, our Board of Directors increased the aggregate authorization by an additional \$3 billion, for a total authorization of \$8 billion. Since the inception of this share repurchase program, we have repurchased a total of 90.7 million shares of our common stock for a total cash investment of \$4,646 million (\$51.20 per share). See Note 11 and MD&A for a description of the new share repurchase authorization approved by our Board of Directors in November 2007.

(b) In addition to shares purchased under our share repurchase program, we acquire shares of common stock held by team members who wish to tender owned shares to satisfy the exercise price on stock option exercises or tax withholding on equity awards as part of our long-term incentive plans. For the quarter ended November 3, 2007, 6,077 shares were acquired at an average price of \$65.40 pursuant to our long-term incentive plans.

(c) Includes shares reacquired upon settlement of prepaid forward contracts. For the quarter ended November 3, 2007, 0.9 million shares were reacquired through these contracts. At November 3, 2007, we held long positions in prepaid forward contracts for 2.3 million shares of our common stock, for a total cash investment of \$123 million, or \$54.66 per share.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

- (3)A. Restated Articles of Incorporation (as amended May 24, 2007) (1)
  - (3)B. By-laws (as amended through November 11, 1998) (2)
  - (4)A. Instruments defining the rights of security holders, including indentures. Registrant agrees to furnish the Commission on request copies of instruments with respect to long-term debt.
  - (10)A. Amended and Restated Deferred Compensation Plan Senior Management Group
  - (10)B. Amended and Restated SMG Executive Deferred Compensation Plan
  - (10)C. Amended and Restated Director Deferred Compensation Plan
  - (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
  - (99)A. Description of Change of Control Offer applicable to certain debt securities
- 
- (1) Incorporated by reference to Exhibit (3)A to the Registrant's Form 8-K Report filed May 25, 2007
  - (2) Incorporated by reference to Exhibit (3)(ii) to the Registrant's Form 10-Q for the quarter ended October 31, 1998



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: November 30, 2007

By: /s/ Douglas A. Scovanner  
Douglas A. Scovanner  
Executive Vice President,  
Chief Financial Officer  
and Chief Accounting Officer

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>	<b>Manner of Filing</b>
(3)A.	Restated Articles of Incorporation (as amended May 24, 2007)	Incorporated by Reference
(3)B.	By-Laws (as amended through November 11, 1998)	Incorporated by Reference
(10)A.	Amended and Restated Deferred Compensation Plan Senior Management Group	Filed Electronically
(10)B.	Amended and Restated SMG Executive Deferred Compensation Plan	Filed Electronically
(10)C.	Amended and Restated Director Deferred Compensation Plan	Filed Electronically
(12).	Statements of Computations of Ratios of Earnings to Fixed Charges	Filed Electronically
(31)A.	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Electronically
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