Use these links to rapidly review the document
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 May 4, 2002

Commission file number 1-6049

Target Corporation

(Exact name of registrant as specified in its charter)

Minnesota	41-0215170
(State 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

N/A

(Former name, former address and former fiscal year, if changed since last report.)

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 and (2) has been subject to such filing requirements for the past 90 days.

The number of shares outstanding of common stock as of May 4, 2002 was 907,239,827.

TABLE OF CONTENTS

TARGET CORPORATION

Exhibit Index

PART I. FINANCIAL INFORMATION

CONSOLIDATED RESULTS OF OPERATIONS

TARGET CORPORATION

(Millions, except per share data)

(Unaudited)	Three Months Ended May 4, 2002	Three Months Ended May 5, 2001	Twelve Months Ended May 4, 2002	Twelve Months Ended May 5, 2001
Sales	**$ 9,336**	$ 8,186	**$ 40,264**	$ 36,892
Net credit revenues	**258**	148	**822**	556
Total revenues	**9,594**	8,334	**41,086**	37,448
Cost of sales	**6,322**	5,603	**27,862**	25,635
Selling, general and administrative expense	**2,127**	1,887	**8,701**	8,045
Credit expense	**165**	72	**556**	285
Depreciation and amortization	**289**	256	**1,112**	972
Interest expense	**135**	107	**501**	437
Earnings before income taxes	**556**	409	**2,354**	2,074
Provision for income taxes	**211**	155	**895**	795
Net earnings	**$ 345**	$ 254	**$ 1,459**	$ 1,279
Basic earnings per share	**$ .38**	$ .28	**$ 1.62**	$ 1.42
Diluted earnings per share	**$ .38**	$ .28	**$ 1.60**	$ 1.41
Dividends declared per common share	**$ .060**	$ .055	**$ .230**	$ .220
Weighted average common shares outstanding:				
Basic	**906.4**	899.0	**903.4**	900.6
Diluted	**914.7**	908.5	**911.4**	909.8

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

TARGET CORPORATION

(Millions)	May 4, 2002	February 2, 2002*	May 5, 2001
Assets	**(Unaudited)**		(Unaudited)
Cash and cash equivalents	**$ 445**	$ 499	$ 367
Accounts receivable, net	**3,949**	3,831	-
Receivable-backed securities	**-**	-	1,748
Inventory	**4,565**	4,449	4,294
Other	**1,236**	869	1,029
Total current assets	**10,195**	9,648	7,438
Property and equipment			
Property and equipment	**18,943**	18,442	16,428
Accumulated depreciation	**(5,012)**	(4,909)	(4,391)
Property and equipment, net	**13,931**	13,533	12,037
Other	**1,063**	973	901
Total assets	**$ 25,189**	$ 24,154	$ 20,376
Liabilities and shareholders' investment			
Accounts payable	**$ 3,685**	$ 4,160	$ 3,285
Current portion of long-term debt and notes payable	**1,370**	905	1,442
Other	**1,796**	1,989	1,690
Total current liabilities	**6,851**	7,054	6,417
Long-term debt	**8,943**	8,088	6,174
Deferred income taxes and other	**1,201**	1,152	1,041
Shareholders' investment	**8,194**	7,860	6,744
Total liabilities and shareholders' investment	**$ 25,189**	$ 24,154	$ 20,376
Common shares outstanding	**907.2**	905.2	900.1

* The February 2, 2002 Consolidated Statement of Financial Position is condensed from the audited financial statement.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS **TARGET CORPORATION**

(Millions)

(Unaudited)	Three Months Ended May 4, 2002	Three Months Ended May 5, 2001
Operating activities		
Net earnings	**$ 345**	$ 254
Reconciliation to cash flow:		
Depreciation and amortization	**289**	256
Bad debt provision	**89**	-
Other non-cash items affecting earnings	**66**	18
Changes in operating accounts requiring cash:		
Accounts receivable	**(207)**	-
Inventory	**(116)**	(46)
Other current assets	**(316)**	(279)
Other assets	**(107)**	(82)
Accounts payable	**(475)**	(291)
Accrued liabilities	**(117)**	(140)
Income taxes payable	**(77)**	(40)
Cash flow required by operations	**(626)**	(350)
Investing activities		
Expenditures for property and equipment	**(697)**	(857)
Decrease in receivable-backed securities	**-**	193
Proceeds from disposals of property and equipment	**4**	4
Other	**(1)**	-
Cash flow required by investing activities	**(694)**	(660)
Net financing requirements	**(1,320)**	(1,010)
Financing activities		
Increase in notes payable, net	**311**	774
Additions to long-term debt	**1,000**	500
Reductions of long-term debt	**(8)**	(201)
Dividends paid	**(54)**	(49)
Repurchase of stock	**-**	(14)
Other	**17**	11
Cash flow provided by financing activities	**1,266**	1,021
Net (decrease)/increase in cash and cash equivalents	**(54)**	11
Cash and cash equivalents at beginning of period	**499**	356
Cash and cash equivalents at end of period	**$ 445**	$ 367

Amounts in this statement are presented on a cash basis and therefore may differ from those shown elsewhere in this 10-Q report.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **TARGET CORPORATION**

Accounting Policies

The accompanying consolidated financial statements should be read in conjunction with the financial statement disclosures contained in our 2001 Annual Shareholders' Report throughout pages 28-36. 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 presentation of quarterly operating results are reflected herein and are of a normal, recurring nature.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Due to the seasonal nature of the retail industry, quarterly earnings are not necessarily indicative of the results that may be expected for the full fiscal year.

Extraordinary Items

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." We elected to early adopt this Statement in the first quarter of 2002. Previously, all gains and losses from the early extinguishment of debt were required to be aggregated and classified as an extraordinary item in the Consolidated Results of Operations, net of the related tax effect. Under SFAS No. 145, gains and losses from the early extinguishment of debt will be included in interest expense. Prior year financial statements have been restated to reflect this change. The adoption of SFAS No. 145 has no impact on current year or previously reported net earnings, cash flows or financial position.

Derivatives

During the first quarter we entered into an interest rate swap with a notional amount of $500 million. The swap hedges the fair value of certain debt by effectively converting interest from fixed rate to variable. The fair value of our outstanding swaps is reflected in the financial statements and any "hedge ineffectiveness" is recognized in interest expense. At May 4, 2002, the fair value of our existing swaps is immaterial.

Goodwill and Other Intangible Assets

In the first quarter, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." We have complied with all of the adoption provisions of the Statement. The adoption of SFAS No. 142 reduced first quarter amortization expense by approximately $3 million (less than $.01 per share). Additionally, we have completed our initial impairment test and concluded that our $155 million of goodwill and indefinite lived intangible assets are not impaired.

Per Share Data

References to earnings per share refer to diluted earnings per share.

	Basic EPS				Diluted EPS			
	Three Months Ended		Twelve Months Ended		Three Months Ended		Twelve Months Ended	
	May 4, 2002	May 5, 2001	**May 4, 2002**	May 5, 2001	**May 4, 2002**	May 5, 2001	**May 4, 2002**	May 5, 2001
Net earnings	**$ 345**	$ 254	**$ 1,459**	$ 1,279	**$ 345**	$ 254	**$ 1,459**	$ 1,279
Weighted average common shares outstanding	**906.4**	899.0	**903.4**	900.6	**906.4**	899.0	**903.4**	900.6
Stock options	**-**	-	**-**	-	**8.3**	9.5	**8.0**	9.0
Put options	**-**	-	**-**	-	**-**	-	**-**	.2
Total common equivalent shares outstanding	**906.4**	899.0	**903.4**	900.6	**914.7**	908.5	**911.4**	909.8
Earnings per share	**$ .38**	$ .28	**$ 1.62**	$ 1.42	**$ .38**	$ .28	**$ 1.60**	$ 1.41

Share Repurchase Program

Prior to 2001, our Board of Directors authorized the repurchase of $2 billion of our common stock. Since the inception of our share repurchase program, we have repurchased a total of 40.5 million shares of our common stock at a total cost of $1,186 million ($29.29 per share), net of the premium from exercised and expired put options.

Common stock repurchases under our program have been essentially suspended. Consequently, common stock repurchases did not have a material impact on our first quarter 2002 earnings and financial position.

Long-term Debt

During the first quarter we repurchased $4 million of long-term debt with a weighted average interest rate of approximately 9.7 percent. These transactions resulted in a pre-tax loss of $1 million (less than $.01 per share), which is included in interest expense in the Consolidated Results of Operations.

Also during the first quarter we issued $1 billion of long-term debt, bearing interest at 5.88 percent, maturing in March 2012. Proceeds from this issuance were used for general corporate purposes.

Accounts Receivable

Accounts receivable is recorded net of an allowance for expected losses. The allowance, estimated from historical portfolio performance and projections of trends, was $297 million at May 4, 2002 and $261 million at February 2, 2002.

Pension Benefits

Certain non-qualified pension and survivor benefits owed to current executives were exchanged for deferrals in an existing defined contribution employee benefit plan. The exchange resulted in first quarter pre-tax expense of $20 million ($.01 per share), reflecting $27 million in additional defined contribution plan benefits expense partially offset by reduced net pension expense. The remaining defined contribution plan expense is expected to be offset in the future by lower net periodic pension expense.

Segment Disclosures (Millions)

Revenues by segment were as follows:

	Three Months Ended		
	May 4, 2002	May 5, 2001	% Change
Target	**$ 8,029**	$ 6,771	18.6%
Mervyn's	**863**	871	(0.9)
Marshall Field's	**625**	630	(0.7)
Other	**77**	62	24.4
Total	**$ 9,594**	$ 8,334	15.1%

Pre-tax segment profit and the reconciliation to pre-tax earnings were as follows:

	Three Months Ended		
	May 4, 2002	May 5, 2001	% Change
Target	**$ 678**	$ 502	35.1%
Mervyn's	**52**	48	8.3
Marshall Field's	**32**	23	36.0
Total pre-tax segment profit	**762**	573	32.8
Securitization adjustment (interest equivalent)	**-**	(12)	
Interest expense	**(135)**	(107)	
Other	**(71)**	(45)	
Earnings before income taxes	**$ 556**	$ 409	35.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

TARGET CORPORATION

Analysis of Operations

First quarter 2002 net earnings were $345 million, or $.38 per share, compared with $254 million, or $.28 per share, for the same period last year.

Revenues and Comparable-Store Sales

Total revenues for the quarter increased 15.1 percent to $9,594 million compared with $8,334 million for the same period a year ago. Total comparable-store sales (sales from stores open longer than one year) increased 5.2 percent. Our revenue growth reflected Target's new store expansion and comparable-store sales growth combined with growth in our credit card operations.

Year-over-year changes in comparable-store sales by business segment were as follows:

	Three Months Percentage Change
Target	6.8%
Mervyn's	(1.4)
Marshall Field's	(2.1)
Total	5.2%

Gross Margin Rate

The gross margin rate represents gross margin (sales less cost of sales) as a percent of sales. In the first quarter, our gross margin rate was favorable to the first quarter of last year, reflecting gross margin rate improvement at all three divisions partially offset by the mix impact of growth at Target, our lowest gross margin rate division.

Operating Expense Rate

The operating expense rate represents selling, general and administrative expense as a percent of sales. In the first quarter, our operating expense rate was favorable to the first quarter of last year, benefiting from the overall growth at Target, our lowest expense rate division.

Pre-tax Segment Profit

Our first quarter pre-tax segment profit increased 33 percent to $762 million compared with $573 million for the same period a year ago. Target's pre-tax profit increased 35 percent. Mervyn's pre-tax profit rose 8 percent and Marshall Field's pre-tax profit improved 36 percent. We define pre-tax segment profit as earnings before LIFO, securitization effects, interest, other expense and unusual items. A reconciliation of pre-tax segment profit to pre-tax earnings is provided in the Notes to Consolidated Financial Statements.

Other Performance Factors

In the first quarter, the total of interest expense and interest equivalent was $135 million, representing a $16 million increase from the first quarter of 2001. For analytical purposes, the amounts that represented payments accrued to holders of sold securitized receivables prior to August 22, 2001 are considered as "interest equivalent." After this date such payments constitute interest expense. The increase in interest expense and interest equivalent was due to higher average funded balances, partially offset by the benefit of a lower average portfolio interest rate.

The estimated annual effective income tax rate was 38.0 percent in the first quarter of both 2002 and 2001.

Analysis of Financial Condition

Our financial condition remains strong. We continue to fund the growth in our business through a combination of internally generated funds and debt.

During the first quarter, total gross receivables serviced increased $1,538, or 57 percent, over the first quarter of last year. The growth in receivables serviced was driven by the national roll-out of the Target Visa card in the third quarter of 2001. Inventory increased $271 million, or 6 percent, over the first quarter of last year primarily reflecting new square footage growth at Target. The inventory growth was more than fully funded by a $400 million, or 12 percent, increase in accounts payable.

Capital expenditures for the first three months of 2002 were $697 million, compared with $857 million for the same period a year ago. The 2001 expenditures included the acquisition of rights to 35 former Montgomery Wards stores. Investment in Target stores accounted for 95 percent of current year capital expenditures.

Our share repurchase program is described in the Notes to Consolidated Financial Statements.

Credit Card Operations (Millions)

Our credit card programs strategically support our core retail operations and are an integral component of each business segment. Therefore, included in each segment's pre-tax profit is revenue and expense from its credit card operations.

Credit card contribution to pre-tax segment profit on an accounts receivable serviced basis was as follows:

	Three Months Ended	
	May 4, 2002	May 5, 2001
Revenues		
Finance charges, late fees and other revenues	**$ 244**	$ 175
Merchant fees		
Intracompany	**22**	22
Third-party	**14**	1
Total revenues	**280**	198
Expenses		
Bad debt	**89**	36
Operations and marketing	**76**	52
Total expenses	**165**	88
Pre-tax credit contribution	**$ 115**	$ 110

Total receivables serviced were as follows:

	May 4, 2002	May 5, 2001
Target		
Guest Card	**$ 899**	$ 1,233
Target Visa	**2,053**	111
Mervyn's	**607**	655
Marshall Field's	**687**	709

Quarter-end receivables serviced	**$ 4,246**	$ 2,708
Past due*	**5.0%**	6.0%
Average receivables serviced	**$ 4,143**	$ 2,764

*Accounts with two or more payments past due as a percent of total outstanding receivables.

The allowance for doubtful accounts on serviced receivables was as follows:

	Three Months Ended	
	May 4, 2002	May 5, 2001
Allowance at beginning of quarter	**$ 261**	$ 211
Bad debt provision	**89**	36
Net write-offs	**(53)**	(40)
Allowance at end of quarter	**$ 297**	$ 207
As a percent of quarter-end receivables serviced	**7.0%**	7.6%
As a multiple of current 12 months net write-offs	**1.5x**	1.4x

Store Data

During the quarter, we opened a total of 32 new Target stores, including 19 discount stores and 13 SuperTarget stores. In addition, we closed four Target stores, each of which were relocated and opened as SuperTarget stores. At May 4, 2002, our number of stores and retail square feet were as follows:

	Number of Stores			Retail Square Feet*		
	May 4, 2002	Feb. 2, 2002	May 5, 2001	**May 4, 2002**	Feb. 2, 2002	May 5, 2001
Target	**1,081**	1,053	991	**129,795**	125,203	115,240
Mervyn's	**264**	264	266	**21,425**	21,425	21,555
Marshall Field's	**64**	64	64	**14,638**	14,638	14,584
Total	**1,409**	1,381	1,321	**165,858**	161,266	151,379

*In thousands, reflects total square feet, less office, warehouse and vacant space

Supplemental Information (Millions)

We provide the following supplemental information derived from our financial statements because we believe it provides a meaningful aid to the analysis of our performance by segment. We define segment EBITDA as pre-tax segment profit before depreciation and amortization expense. Our definition of EBITDA and pre-tax segment profit may differ from definitions used by other companies. This presentation is not intended to be a substitute for GAAP reported measures of profitability and cash flow. A reconciliation of pre-tax segment profit to pre-tax earnings is provided in the Notes to Consolidated Financial Statements. Segment EBITDA and the reconciliation of pre-tax segment profit were as follows:

	Three Months Ended		
	May 4, 2002	May 5, 2001	% Change
Target	**$ 899**	$ 686	30.9%
Mervyn's	**81**	80	2.0
Marshall Field's	**64**	57	11.1
Total segment EBITDA	**1,044**	823	26.7
Segment depreciation and amortization	**(282)**	(250)	
Pre-tax segment profit	**$ 762**	$ 573	32.8%

Cash flows provided by / (used for):

Operating activities	**$ (626)**	$ (350)
Investing activities	**(694)**	(660)
Financing activities	**1,266**	1,021
Net increase in cash and cash equivalents	**$ (54)**	$ 11

Outlook for Fiscal Year 2002

For the full year, we believe that we are well positioned to deliver strong growth in revenues and earnings. We expect this growth to be driven by increases in comparable-store sales and contributions from new store growth at Target as well as by continued growth in contribution from our credit card operations, primarily through the Target Visa credit card. For the Corporation overall, gross margin rate and operating expense rates are expected to remain essentially even with 2001.

Interest expense is expected to be considerably higher than interest expense and interest equivalent in 2001 due to higher average funded balances to support expansion of Target stores and credit card receivables.

Forward-Looking Statements

The preceding Management's Discussion and Analysis contains forward-looking statements regarding our performance, liquidity and the adequacy of our capital resources. Those 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, shifting consumer demand, changing consumer credit markets, changing capital markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, investing in new business strategies, achieving our growth objectives, the outbreak of war and other significant national and international events, and other risks and uncertainties. As a result, while we believe that there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. You are encouraged to review Exhibit (99)C attached to our Form 10-K Report for the year ended February 2, 2002, which contains additional important factors that may cause actual results to differ materially from those predicted in the forward-looking statements.

PART II. OTHER INFORMATION

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

a) The Company held its Annual Shareholders' Meeting on May 22, 2002.

b) (1). The shareholders voted for three director nominees for three-year terms. The vote was as follows:

Name of Candidate	For	Withheld
Roger A. Enrico	764,403,417	46,315,903
William W. George	764,465,194	46,254,126
James A. Johnson	760,416,050	50,303,270

There were no abstentions and no broker non-votes.

(2). The shareholders voted to approve the appointment of Ernst & Young LLP as independent auditors of the Corporation for fiscal year 2002. The vote was 792,941,038 for, 12,877,794 against and 4,900,488 abstentions. There were no broker non-votes.

(3). The shareholders voted to approve the amended Executive Short-Term Incentive Plan. The vote was 726,304,219 for, 74,904,824 against and 9,510,277 abstentions. There were no broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(2). Not applicable

(4). 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). Not applicable

(11). Not applicable

(12). Statements re Computations of Ratios

(15). Not applicable

(18). Not applicable

(19). Not applicable

(22). Not applicable

(23). Not applicable

(24). Not applicable

b) Reports on Form 8-K:

Form 8-K filed February 7, 2002, providing the News Release relating to January sales results.

Form 8-K filed February 28, 2002, providing the News Release relating to fourth quarter and fiscal year 2001 financial results.

Form 8-K filed March 7, 2002, providing the News Release relating to February sales results.

Form 8-K filed April 11, 2002, providing the News Release relating to March sales results.

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: June 12, 2002

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

Exhibit Index

(12). Statements re Computations of Ratios

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT (12)

TARGET CORPORATION
Computations of Ratios of Earnings to Fixed Charges and
Ratios of Earnings to Fixed Charges and Preferred Stock Dividends for the
Three Months Ended May 4, 2002 and May 5, 2001
and for the Five Years Ended February 2, 2002

(Millions of Dollars)

	Nine Months Ended		Fiscal Year Ended				
	May 4, 2002	May 5, 2001	Feb. 2, 2002	Feb. 3, 2001	Jan. 29, 2000	Jan. 30, 1999	Jan. 31, 1998
Ratio of Earnings to Fixed Charges:							
Earnings:							
Consolidated net earnings	**$ 345**	$ 254	$ 1,368	$ 1,264	$ 1,144	$ 935	$ 751
Income taxes	**211**	155	839	789	725	577	490
Total earnings	**556**	409	2,207	2,053	1,869	1,512	1,241
Fixed charges:							
Interest expense	**140**	121	519	467	482	465	522
Interest portion of rental expense	**16**	17	68	77	69	63	59
Total fixed charges	**156**	138	587	544	551	528	581
Less:							
Capitalized interest	**(3)**	(12)	(33)	(31)	(16)	(16)	(16)
Fixed charges in earnings	**153**	126	554	513	535	512	565
Earnings available for fixed charges	**$ 709**	$ 535	$ 2,761	$ 2,566	$ 2,404	$ 2,024	$ 1,806
Ratio of earnings to fixed charges	**4.55**	3.88	4.70	4.71	4.36	3.83	3.11
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends:							
Total fixed charges, as above	**$ 156**	$ 138	$ 587	$ 544	$ 551	$ 528	$ 581
Dividends on preferred stock (pre-tax basis)	**—**	—	—	—	29	32	35
Total fixed charges and preferred stock dividends	**156**	138	587	544	580	560	616
Earnings available for fixed charges and preferred stock dividends	**$ 709**	$ 535	$ 2,761	$ 2,566	$ 2,404	$ 2,024	$ 1,806
Ratio of earnings to fixed charges and preferred stock dividends	**4.55**	3.88	4.70	4.71	4.15	3.61	2.93