

TARGET CORP
Form 10-K
March 11, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

**(Mark
One)**

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 29, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to
Commission file number **1-6049**

TARGET CORPORATION

(Exact name of registrant as specified in its charter)

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

Securities Registered Pursuant To Section 12(B) Of The Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.0833 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Aggregate market value of the voting stock held by non-affiliates of the registrant on July 31, 2010 was \$37,014,234,947, based on the closing price of \$51.32 per share of Common Stock as reported on the New York Stock Exchange Composite Index.

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 March 7, 2011 were 693,063,352.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Target's Proxy Statement to be filed on or about April 28, 2011 are incorporated into Part III.

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PART I

Item 1. Business

General

Target Corporation (the Corporation or Target) was incorporated in Minnesota in 1902. We operate as two reportable segments: Retail and Credit Card.

Our Retail Segment includes all of our merchandising operations, including our fully integrated online business. We offer both everyday essentials and fashionable, differentiated merchandise at discounted prices. Our ability to deliver a shopping experience that is preferred by our customers, referred to as "guests," is supported by our strong supply chain and technology infrastructure, a devotion to innovation that is ingrained in our organization and culture, and our disciplined approach to managing our current business and investing in future growth. As a component of the Retail Segment, our online presence is designed to enable guests to purchase products seamlessly either online or by locating them in one of our stores with the aid of online research and location tools. Our online shopping site offers similar merchandise categories to those found in our stores, excluding food items and household essentials.

Our Credit Card Segment offers credit to qualified guests through our branded proprietary credit cards, the Target Visa and the Target Card. Additionally, we offer a branded proprietary Target Debit Card. Collectively, these REDcards® help strengthen the bond with our guests, drive incremental sales and contribute to our results of operations.

Financial Highlights

Our fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years, rather than to calendar years. Fiscal year 2010 ended January 29, 2011, and consisted of 52 weeks. Fiscal year 2009 ended January 30, 2010, and consisted of 52 weeks. Fiscal year 2008 ended January 31, 2009, and consisted of 52 weeks.

For information on key financial highlights, see the items referenced in Item 6, Selected Financial Data, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

Seasonality

Due to the seasonal nature of our business, a larger share of annual revenues and earnings traditionally occurs in the fourth quarter because it includes the peak sales period from Thanksgiving to the end of December.

Merchandise

We operate Target general merchandise stores, the majority of which offer a wide assortment of general merchandise and a more limited food assortment than traditional supermarkets. During 2009 and 2010 we completed store remodels that enabled us to offer an expanded food assortment in many of our general merchandise stores. The expanded food assortment includes some perishables and some additional dry, dairy and frozen items. In addition, we operate SuperTarget® stores with general merchandise items and a full line of food items comparable to that of traditional supermarkets. Target.com offers a wide assortment of general merchandise including many items found in our stores and a complementary assortment, such as extended sizes and colors, sold only online. A significant portion of our sales is from national brand merchandise. We also sell many products under our owned and exclusive brands. Owned brands include merchandise sold under private-label brands including, but not limited to, Archer Farms®, Archer Farms® Simply Balanced®, Boots & Barkley®, choxie®, Circo®, Durabuilt®, Embark®, Gilligan & O'Malley®, itso™, Market Pantry®, Merona®, Play Wonder®, Room Essentials®,

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Smith & Hawken®, Sutton & Dodge®, Target Home , Vroom®, up & up , Wine Cube® and Xhilaration®. In addition, we sell merchandise under exclusive licensed and designer brands including, but not limited to, C9 by Champion®, Chefmate®, Cherokee®, Converse® One Star®, Eddie Bauer®, Fieldcrest®, Genuine Kids by OshKosh®, Kitchen Essentials® from Calphalon®, Liz Lange® for Target®, Michael Graves Design , Mossimo®, Nick & Nora®, Simply Shabby Chic®, Sonia Kashuk® and Thomas O'Brien® Vintage Modern. We also sell merchandise through unique programs such as ClearRxSM, GO International® and The Great SaveSM. Additionally, we generate revenue from in-store amenities such as Target CaféSM, Target Clinic®, Target Pharmacy® and Target Photo®, and from leased or licensed departments such as Target Optical®, Pizza Hut, Portrait Studio and Starbucks.

Effective inventory management is key to our ongoing success. We utilize various techniques including demand forecasting and planning and various forms of replenishment management. We achieve effective inventory management by being in-stock in core product offerings, maintaining positive vendor relationships, and carefully planning inventory levels for seasonal and apparel items to minimize markdowns.

Percentage of Sales

Sales by Product Category

	2010	2009	2008
Household essentials	24%	23%	22%
Hardlines	20	22	22
Apparel and accessories	20	20	20
Home furnishings and décor	19	19	21
Food and pet supplies	17	16	15
Total	100%	100%	100%

Household essentials includes pharmacy, beauty, personal care, baby care, cleaning and paper products.

Hardlines includes electronics (including video game hardware and software), music, movies, books, computer software, sporting goods and toys.

Apparel and accessories includes apparel for women, men, boys, girls, toddlers, infants and newborns. It also includes intimate apparel, jewelry, accessories and shoes.

Home furnishings and décor includes furniture, lighting, kitchenware, small appliances, home décor, bed and bath, home improvement, automotive and seasonal merchandise such as patio furniture and holiday décor.

Food and pet supplies includes dry grocery, dairy, frozen food, beverages, candy, snacks, deli, bakery, meat, produce and pet supplies.

Distribution

The vast majority of our merchandise is distributed through our network of distribution centers. We operated 37 distribution centers, including 4 food distribution centers, at January 29, 2011. General merchandise is shipped to and from our distribution centers by common carriers. In addition, third parties distribute certain food items. Merchandise sold through Target.com is distributed through our own distribution network, through third parties, or shipped directly from vendors.

Employees

At January 29, 2011, we employed approximately 355,000 full-time, part-time and seasonal employees, referred to as "team members." During our peak sales period from Thanksgiving to the end of December, our employment levels peaked at approximately 400,000 team members. We consider our team member relations to be good. We offer a broad range of company-paid benefits to our team members. Eligibility for, and the level of, these benefits varies, depending on team members' full-time or part-time status, compensation level, date of hire

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and/or length of service. These company-paid benefits include a pension plan, 401(k) plan, medical and dental plans, a retiree medical plan, disability insurance, paid vacation, tuition reimbursement, various team member assistance programs, life insurance and merchandise discounts.

Working Capital

Because of the seasonal nature of our business, our working capital needs are greater in the months leading up to our peak sales period from Thanksgiving to the end of December. The increase in working capital during this time is typically financed with cash flow provided by operations and short-term borrowings.

Additional details are provided in the Liquidity and Capital Resources section in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Competition

In our Retail Segment, we compete with traditional and off-price general merchandise retailers, apparel retailers, Internet retailers, wholesale clubs, category specific retailers, drug stores, supermarkets and other forms of retail commerce. Our ability to positively differentiate ourselves from other retailers largely determines our competitive position within the retail industry.

In our Credit Card Segment, our primary mission is to deliver financial products and services that drive sales and deepen guest relationships at Target. Our financial products compete with those of other issuers for market share of sales volume. Our ability to positively differentiate the value of our financial products primarily through our rewards programs, terms, credit line management, and guest service determines our competitive position among credit card issuers.

Intellectual Property

Our brand image is a critical element of our business strategy. Our principal trademarks, including Target, SuperTarget and our "Bullseye Design," have been registered with the U.S. Patent and Trademark Office. We also seek to obtain and preserve intellectual property protection for our private-label brands.

Geographic Information

Substantially, all of our revenues are generated and long-lived assets are located within the United States.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge at www.Target.com (click on "Investors" and "SEC Filings") as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Our Corporate Governance Guidelines, Business Conduct Guide, Corporate Responsibility Report and the position descriptions for our Board of Directors and Board committees are also available free of charge in print upon request or at www.Target.com (click on "Investors" and "Corporate Governance").

Item 1A. Risk Factors

Our business is subject to a variety of risks. The most important of these is our ability to remain relevant to our guests with a brand they trust. Meeting our guests' expectations requires us to manage various strategic, operational, compliance, and financial risks. Set forth below are the most significant risks that we face.

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If we are unable to positively differentiate ourselves from other retailers, our results of operations could be adversely affected.

The retail business is highly competitive. In the past we have been able to compete successfully by differentiating our shopping experience by creating an attractive value proposition through a careful combination of price, merchandise assortment, convenience, guest service and marketing efforts. Guest perceptions regarding the cleanliness and safety of our stores, our in-stock levels and other factors also affect our ability to compete. No single competitive factor is dominant, and actions by our competitors on any of these factors could have an adverse effect on our sales, gross margin and expenses.

If we fail to anticipate and respond quickly to changing consumer preferences, our sales, gross margin and profitability could suffer.

A substantial part of our business is dependent on our ability to make trend-right decisions in apparel, home décor, seasonal offerings, food and other merchandise. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions may result in lost sales, spoilage and increased inventory markdowns, which would lead to a deterioration in our results of operations.

Our continued success is substantially dependent on positive perceptions of Target, including our owned and exclusive brands.

We believe that one of the reasons our guests prefer to shop at Target and our team members choose Target as a place of employment is the reputation we have built over many years of serving our four primary constituencies: guests, team members, the communities in which we operate and shareholders. To be successful in the future, we must continue to preserve, grow and leverage the value of Target's reputation. Reputational value is based in large part on perceptions of subjective qualities, and even isolated incidents that erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation, can have an adverse impact on these perceptions and lead to tangible adverse affects on our business, including consumer boycotts, loss of new store development opportunities, or team member recruiting difficulties.

In addition, we sell many products under our owned and exclusive brands, such as Market Pantry, up & up, Target Home, Merona and Mossimo. These brands generally carry higher margins than national brand products, and represent a growing portion of our overall sales, totaling approximately one-third of sales in 2010. If one or more of these brands experiences a loss of consumer acceptance or confidence, our sales and gross margin rate could be adversely affected.

We are highly susceptible to the state of macroeconomic conditions and consumer confidence in the United States.

All of our stores are located within the United States, making our results highly dependent on U.S. consumer confidence and the health of the U.S. economy. In addition, a significant portion of our total sales is derived from stores located in five states: California, Texas, Florida, Minnesota and Illinois, resulting in further dependence on local economic conditions in these states. Deterioration in macroeconomic conditions and consumer confidence could negatively affect our business in many ways, including slowing sales growth or reduction in overall sales, and reducing gross margins.

In addition to the impact of macroeconomic conditions on our retail sales, these same considerations impact the success of our Credit Card Segment. Deterioration in macroeconomic conditions can adversely affect cardholders' ability to pay their balances, and we may not be able to fully anticipate and respond to changes in the risk profile of our cardholders when extending credit, resulting in higher bad debt expense. Demand for consumer credit is also impacted by consumer choices regarding payment methods, and our performance could be adversely affected by consumer decisions to use debit cards or other forms of payment.

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If we do not effectively manage our large and growing workforce, our results of operations could be adversely affected.

With approximately 355,000 team members, our workforce costs represent our largest operating expense, and our business is dependent on our ability to attract, train and retain a growing number of qualified team members. Many of those team members are in entry-level or part-time positions with historically high turnover rates. Our ability to meet our labor needs while controlling our costs is subject to external factors such as unemployment levels, prevailing wage rates, health care and other benefit costs and changing demographics. If we are unable to attract and retain adequate numbers of qualified team members, our operations, guest service levels and support functions could suffer. Those factors, together with increasing wage and benefit costs, could adversely affect our results of operations.

Lack of availability of suitable locations in which to build new stores could slow our growth, and difficulty in executing plans for new stores, expansions and remodels could increase our costs and capital requirements.

Our future growth is dependent, in part, on our ability to build new stores and expand and remodel existing stores in a manner that achieves appropriate returns on our capital investment. We compete with other retailers and businesses for suitable locations for our stores. In addition, for many sites we are dependent on a third party developer's ability to acquire land, obtain financing and secure the necessary zoning changes and permits for a larger project, of which our store may be one component. Turmoil in the financial markets may make it difficult for third party developers to obtain financing for new projects. Local land use and other regulations applicable to the types of stores we desire to construct may affect our ability to find suitable locations and also influence the cost of constructing, expanding and remodeling our stores. A significant portion of our expected new store sites are located in fully developed markets, which is generally a more time-consuming and expensive undertaking than expansion into undeveloped suburban and ex-urban markets.

Interruptions with our vendors and within our supply chain could adversely affect our results.

We are dependent on our vendors to supply merchandise in a timely and efficient manner. If a vendor fails to deliver on its commitments, whether due to financial difficulties or other reasons, we could experience merchandise out-of-stocks that could lead to lost sales. In addition, a large portion of our merchandise is sourced, directly or indirectly, from outside the United States, with China as our single largest source. Political or financial instability, trade restrictions, increased tariffs, currency exchange rates, the outbreak of pandemics, labor unrest, transport capacity and costs, port security or other events that could slow port activities and affect foreign trade are beyond our control and could disrupt our supply of merchandise and/or adversely affect our results of operations.

Failure to address product safety concerns could adversely affect our sales and results of operations.

If our merchandise offerings, including food, drug and children's products, do not meet applicable safety standards or our guests' expectations regarding safety, we could experience lost sales, experience increased costs and be exposed to legal and reputational risk. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. Events that give rise to actual, potential or perceived product safety concerns, including food or drug contamination, could expose us to government enforcement action or private litigation and result in costly product recalls and other liabilities. In addition, negative guest perceptions regarding the safety of the products we sell could cause our guests to seek alternative sources for their needs, resulting in lost sales. In those circumstances, it may be difficult and costly for us to regain the confidence of our guests.

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If we fail to protect the security of personal information about our guests, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves the receipt and storage of personal information about our guests. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our guests could lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our credit card products, decline to use our pharmacy services, or stop shopping at our stores altogether. Such events could lead to lost future sales and adversely affect our results of operations.

Our failure to comply with federal, state or local laws, or changes in these laws could increase our expenses.

Our business is subject to a wide array of laws and regulations. Significant legislative changes that affect our relationship with our workforce could increase our expenses and adversely affect our operations. Examples of possible legislative changes affecting our relationship with our workforce include changes to an employer's obligation to recognize collective bargaining units, the process by which collective bargaining agreements are negotiated or imposed, minimum wage requirements, and health care mandates. In addition, changes in the regulatory environment regarding topics such as banking and consumer credit, Medicare reimbursements, privacy and information security, product safety or environmental protection, among others, could cause our expenses to increase without an ability to pass through any increased expenses through higher prices. In addition, if we fail to comply with applicable laws and regulations, particularly wage and hour laws, we could be subject to legal risk, including government enforcement action and class action civil litigation, which could adversely affect our results of operations.

Given the geographic concentration of our stores, natural disasters could adversely affect our results of operations.

Our three largest states, by total sales, are California, Texas and Florida, areas where hurricanes and earthquakes are prevalent. Such events could result in significant physical damage to or closure of one or more of our stores or distribution centers, and cause delays in the distribution of merchandise from our vendors to our distribution centers and stores, which could adversely affect our results of operations.

Changes in our effective income tax rate could affect our results of operations.

Our effective income tax rate is influenced by a number of factors. Changes in the tax laws, the interpretation of existing laws, or our failure to sustain our reporting positions on examination could adversely affect our effective tax rate. In addition, our effective income tax rate generally bears an inverse relationship to capital market returns due to the tax-free nature of investment vehicles used to economically hedge our deferred compensation liabilities.

If we are unable to access the capital markets or obtain bank credit, our growth plans, liquidity and results of operations could suffer.

We are dependent on a stable, liquid and well-functioning financial system to fund our operations and growth plans. In particular, we have historically relied on the public debt markets to raise capital for new store development and other capital expenditures, the commercial paper market and bank credit facilities to fund seasonal needs for working capital, and the asset-backed securities markets to partially fund our accounts receivable portfolio. In addition, we use a variety of derivative products to manage our exposure to market risk, principally interest rate and equity price fluctuations. Disruptions or turmoil in the financial markets could adversely affect our ability to meet our capital requirements, fund our working capital needs or lead to losses on derivative positions resulting from counterparty failures.

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A significant disruption in our computer systems could adversely affect our operations.

We rely extensively on our computer systems to manage inventory, process guest transactions and summarize results. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches and catastrophic events. If our systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process guest transactions, which could adversely affect our results of operations.

In 2011 we expect to migrate our online presence (Target.com) from a platform currently operated by Amazon, Inc. to our own proprietary platform. If this new platform does not function as designed, we may experience a loss of guest confidence, data security breaches, lost sales or be exposed to fraudulent purchases.

Our announced plan to expand retail operations into Canada could adversely affect our financial results.

Our plan to enter the Canadian retail market is our first expansion of retail operations outside of the United States. Our ability to convert the leased locations that we acquire from Zellers Inc. to Target stores depends in large measure upon our ability to negotiate acceptable modifications to existing lease terms, remodel existing assets and recruit, hire and retain qualified team members. In addition, access to local suppliers of certain types of goods may limit our ability to offer a full assortment of merchandise in certain markets. The effective execution of our strategy is also contingent on our ability to design new marketing and promotional programs that positively differentiate us from other retailers in Canada. If we do not effectively execute our expansion plans for Canada, our financial performance could be adversely affected.

Item 1B. Unresolved Staff Comments

Not applicable.

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At January 29, 2011, we had 1,750 stores in 49 states and the District of Columbia:

	Number of Stores	Retail Sq. Ft. (in thousands)		Number of Stores	Retail Sq. Ft. (in thousands)
Alabama	20	2,867	Montana	7	780
Alaska	3	504	Nebraska	14	2,006
Arizona	48	6,363	Nevada	19	2,461
Arkansas	9	1,165	New Hampshire	9	1,148
California	248	32,818	New Jersey	43	5,671
Colorado	42	6,275	New Mexico	9	1,024
Connecticut	20	2,672	New York	66	9,000
Delaware	3	413	North Carolina	47	6,168
District of Columbia	1	179	North Dakota	4	554
Florida	125	17,552	Ohio	63	7,868
Georgia	55	7,517	Oklahoma	14	2,022
Hawaii	3	541	Oregon	19	2,318
Idaho	6	664	Pennsylvania	60	7,822
Illinois	87	11,895	Rhode Island	4	517
Indiana	33	4,377	South Carolina	18	2,224
Iowa	22	3,015	South Dakota	5	580
Kansas	19	2,577	Tennessee	32	4,096
Kentucky	13	1,525	Texas	148	20,838
Louisiana	15	2,108	Utah	12	1,818
Maine	5	630	Vermont		
Maryland	36	4,663	Virginia	56	7,454
Massachusetts	34	4,437	Washington	35	4,098
Michigan	59	7,036	West Virginia	6	755
Minnesota	73	10,456	Wisconsin	37	4,482
Mississippi	6	743	Wyoming	2	187
Missouri	36	4,735			
			Total	1,750	233,618

The following table summarizes the number of owned or leased stores and distribution centers at January 29, 2011:

	Stores	Distribution Centers (b)
Owned	1,500	29
Leased	84	8
Combined (a)	166	
Total	1,750	37

(a)