Good morning, and welcome to our 2013 first quarter earnings conference call. On the line with me today are Kathy Tesija, executive vice president of merchandising; and John Mulligan, executive vice president and chief financial officer.

This morning, I'll provide a high-level summary of our first quarter results and strategic priorities for the rest of the year, and Kathy will discuss category results, guest insights, and upcoming initiatives. And finally, John will provide more detail on our financial performance, along with our outlook for second quarter and the full year. Following John's remarks, we'll open the phone lines for a question and answer session.

As a reminder, we're joined on this conference call by investors and others who are listening to our comments today via webcast. Following this conference call, John Hulbert and John Mulligan will be available throughout the day to answer any follow-up questions you may have. Also, as a reminder, any forward-looking statements that we make this morning are subject to risks and uncertainties, the most important of which are described in our SEC filings.

Finally, in these remarks, we refer to adjusted earnings per share, which is a non-GAAP financial measure. A reconciliation to our GAAP results is included in this morning's press release posted on our Investor Relations website.

Our first quarter earnings fell short of our expectations, as we faced a choppy and challenging environment caused by unfavorable weather and this year’s payroll tax increase. Our U.S. business generated softer than expected sales and traffic, particularly in our seasonal categories, as we experienced one of the coldest spring seasons on record, following record warmth a year ago.

While we are not satisfied with this quarter’s performance, we remain highly confident in our strategy and our team’s ability to deliver strong results going forward across a broad range of conditions. In the first quarter, our U.S. segment generated adjusted earnings per share of $1.05, down 5% from last year’s outstanding performance.

Our first quarter GAAP earnings per share were $0.77, $0.28 lower than adjusted EPS, driven primarily by $0.24 of dilution attributable to our Canadian segment. As we mentioned in our fourth quarter call, this year there are several notable changes affecting our financial reporting which John will cover in detail in a few minutes.

In the quarter, comparable store sales declined 0.6% from last year’s 5.3% increase. First quarter comparable transactions were down 1.9%, following last year’s increase of 2%, keeping us essentially flat on a two-year basis. In much of the U.S., traffic in our seasonal categories was unexpectedly soft, as guests held off purchasing spring items in the face of cold and wet weather. Our merchandising teams did a great job of reacting to the pace of sales in these categories, retiming receipts and adjusting them downward, so we are still in a healthy inventory position today.

Despite the weather impact on seasonal categories, sales and traffic in our digital channels continued to grow at a robust pace. Overall, first quarter digital sales grew in the high teens, and increased more than 20% net of our most seasonally sensitive categories.

Target's mobile traffic and sales continue to grow at a triple-digit pace, with mobile traffic representing more than 30% of our digital traffic in the first quarter. We're pleased with these results, as mobile is rapidly becoming the key platform for digital commerce across all of retail, and we know that Target guests have a particular affinity for mobile engagement.

After two years of preparation, in March we opened our first 24 Canadian stores in the greater Toronto area, and we're very pleased with the reception we received from our new Canadian guests. We experienced an unexpectedly strong surge in sales as guests were eager to see their newly opened Target store. The mix of sales in home and apparel was even higher than expected, as guests shopped our assortment of stylish owned brands and national brands, responding to the outstanding value we provide on both.

Now that we are beyond the grand opening surge in this first cycle of stores, we're encouraging our new Canadian guests to make Target a preferred destination for categories throughout the store, including food, health, beauty, and household essentials, as these categories play a key role in driving trip frequency over time.

As it is already in the U.S., Red Card Rewards will be a key differentiator for Target in Canada, and we're encouraged that Red Card penetration of sales in our Canadian segment was ahead of plan in the first quarter. Two weeks ago, we opened our second wave of 24 Canadian stores in British Columbia, Alberta, and Manitoba, and we're very pleased with the initial guest response in these markets and the ability of our teams and systems to accommodate the increasing volume of traffic and sales.

We plan to open another 20 stores in Canada later in the quarter, on the way to operating 124 Canadian stores by the end of this year. This means we expect to open more Target stores in our first year in Canada than we opened in our first 10 years in the United States, an incredible accomplishment that has required unprecedented effort by teams throughout the company.

In the U.S., we opened six new stores in the first quarter, including an additional City Target location in Los Angeles. We now operate six City Target locations in four cities, and we continue to be pleased with the results in these stores. Sales have essentially met our expectations and the mix of home and apparel has been better than expected.

Similar to our Canadian stores, we are focused on our City Target stores, on driving sales and visits in our frequency and commodity categories, changing guest habits, and inspiring them to visit us more often for both want and need.

In the first quarter, we also closed the sale of our U.S. credit card receivables portfolio to TD Bank Group and began deploying proceeds to reduce debt and repurchase shares. We're very pleased to have reached the right agreement with the right partner, in a transaction that removed these more volatile assets from our balance sheet. The portfolio continues to perform well, generating meaningful income for Target through our profit sharing arrangement with TD.

As we look ahead to the second quarter and the remainder of the year, we remain cautiously optimistic about both the macroeconomic environment and consumer behavior. Both of these business drivers continue to reflect slow, uneven growth and ongoing cross currents of positive and negative indicators, just as they have for the past few years.

For example, while we're pleased that the housing market has stabilized and jobless claims have been declining, we're mindful that household formation and job growth remain particularly weak among younger demographic groups. In addition, guests continue to face the headwinds of this year's payroll tax increase and a meaningful lack of income growth.

With these considerations in mind, we remain focused on strategies that position our business for profitable growth, both today and in the long term. We continue to invest in initiatives that integrate multiple channels like our recent beta launch of Cartwheel, the result of our collaboration with Facebook, along with tests of same-day delivery with Google and eBay.

And we're testing opportunities within our own supply chain that will leverage our existing store and distribution assets to provide additional services and capabilities our guests value most. We're investing to drive adoption of our 5% Red Card Rewards and Pharmacy Rewards loyalty programs, which have proven to be unique and powerful differentiators and sales drivers for Target. Both of these programs offer guests the opportunity for even greater savings, leading them to shop more merchandise categories more often.

We’re investing in efforts to better serve all of our guests, driving traffic and sales by segmenting our stores and assortments to match local tastes and preferences, and we continue to offer digital innovations that create a link between our stores and social media. We’re continuing to pursue new and differentiated merchandise in all of our assortments, including our recently announced partnership with Warner Brothers and DC Entertainment to feature Justice League merchandise across multiple categories. Kathy will provide more detail on programs like these that create a sense of discovery for our guests while deepening their loyalty for Target.

Beyond the value we provide on exclusive, well-designed merchandise, we continue to invest in everyday low prices, which we reduce even further in our weekly ad. In addition, we stand behind our prices with policy to match local competitor print ads as well as our largest online competitors. And, through Red Card Rewards and Pharmacy Rewards, our most loyal guests have the opportunity to save even more.

Throughout the company, we take a disciplined approach to the deployment of cash, combining strong financial rigor and capital investment decisions with a focus on returning cash to our shareholders through dividends and share repurchases.

And, of course, none of our efforts would be possible without the outstanding work of our more than 360,000 team members who greet and serve our guests every day, carefully manage inventory and expenses in a challenging environment, and proudly represent our brand in the communities where they live.

In spite of first quarter tax increases, unseasonably cold weather, and challenging prior year comparisons, our underlying business continues to be stable and healthy. Our team is focused on driving outstanding results across categories, channels, regions, and guest segments every day, even while we continue to position our business for success with investments in new stores and formats and more flexible ways of serving our guests. We believe that our outstanding team, aligned in support of a well-defined strategy, will drive strong performance, both this year and over time.

Before I turn the call over to Kathy, I want to take a moment to thank Terry Scully, who retired from his role as president of Target’s financial and retail services team in April. Terry has been a valuable member of the Target team for nearly 35 years, and under his leadership the financial and retail services team has played a key role in strengthening guest loyalty and delivering substantial profitable growth for Target. Over the last few years, Terry and his team have worked tirelessly to find the right partner to purchase our credit card receivables portfolio, culminating in this quarter's sale.

And finally, I want to pause to express our condolences to the residents of Moore, Oklahoma, including Target team members, guests, and their families, who were affected by this week's devastating tornado. We have been working with emergency responders, community organizations, and local schools to evaluate immediate needs and ways that Target can help.

And, yesterday we announced that Target is donating $250,000 in support of relief efforts, $200,000 of cash and in kind donations to emergency responders and community organizations including the Red Cross and the Salvation Army, and $50,000 to support rebuilding efforts at the two elementary schools that were badly damaged by the tornado.

Now Kathy will provide more detail on first quarter results and outline initiatives for the second quarter and beyond. Kathy?

Kathryn Tesija

Thanks, Greg. Those of you who have listened to our conference calls over time know that often, when we're asked about weather impacts, we point out that on average the weather is average. This has certainly proven true in the last two spring seasons. Last year, it was an unusually early and warm spring across much of the country. We saw very strong sales in our seasonal weather-sensitive categories.

This year, in the face of a cold and late spring, sales were quite soft in those same categories. And, while we are committed to delivering strong results in all types of environments, we believe it's important to understand the impact of this year's weather on our first quarter sales results.

Specifically, first quarter comparable store sales in weather-dependent categories like seasonal apparel, lawn, patio, and sporting goods lagged the rest of our assortments by 6-7 percentage points. This sales gap was even wider in areas of the country which experienced below-average temperatures and which was much smaller in areas that experienced more normal spring temperatures, like the western U.S.

Looking more broadly at our category results, first quarter comparable store sales continued to be strongest in less discretionary categories such as food, health, beauty, and household essentials, all of which experienced low single digit increases. Our home and apparel category were both down in the low single digits and hardlines saw a mid single digit decline in comps.

Within hardlines, electronics continues to see softness in videogames, along with televisions, particularly early in the quarter as last year's 53rd accounting week moved Super Bowl related sales out of the quarter.

As Greg mentioned, our guest continue to shop cautiously, planning their spending and sticking to shopping lists, and they continue to feel the burden of economic pressures. Recent guest surveys indicate that three-quarters of our guest are aware of this year's payroll tax increase, and among those, the majority have noticed the impact of the tax increase on their paychecks and indicate that it's affected their spending.

Basket data confirms that needs-based trips have been increasing, while wants-based trips focused on discretionary categories have been declining. And notably, recent data from the Conference Board indicates that while sentiment among consumers regarding their current situation has been improving since late last year, consumer sentiment regarding the future has been declining in recent months.

To drive traffic and sales in this environment, we know it's more important than ever to provide value to our guests on a high quality, differentiated assortment delivered through a convenient shopping experience. In the digital space, we continue to apply a test and learn approach when rolling out applications and capabilities so we can determine what works best for our guests.

We're pleased that our digital traffic grew faster than industry benchmarks again this quarter. We continue to explore ways to integrate digital technologies with social media and our stores to provide a unique shopping experience for our guests.

This quarter's beta launch of Cartwheel, which we developed in collaboration with Facebook, is a perfect example. This first of a kind experience gives guests a fun way to save on hundreds of items throughout our stores.

Upon authenticating this application through their Facebook profile, guests receive ten spots to fill with deals of their choice from among hundreds of items throughout our store. Depending on the product, the deals feature a range of discounts and expiration dates, and guests can switch between offers at any time. Deals are redeemed at checkout in our stores, either by scanning a single barcode on a mobile device or a printout from our desktop computer.

Guests can share Cartwheel with their friends on Facebook to show off their latest finds and see what their friends are buying. And the more guests interact with Cartwheel by choosing and redeeming deals and sharing those deals with friends, the more offers they unlock for themselves.

We launched Cartwheel in beta, and we're encouraging guests to provide feedback so we can make ongoing real-time enhancements to the Cartwheel experience. Initial signups for Cartwheel have exceeded expectations. Thousands of guests signed up in the first week, and we saw a meaningful increase when we added a link to Cartwheel on Target.com. More than 10% of guests who have signed up already have redeemed Cartwheel offers in one of our stores.

Also this quarter, we launched a beauty box test to understand our guests' appetite to pay for samples of beauty products. We tested this offer on Target's Facebook Style page and sold through our inventory within a week. In addition, the offer generated favorable media coverage and positive feedback in social media. Based on these results, we will continue to explore ways to surprise and delight guests with box-based offers that support our Expect More, Pay Less brand promise.

In March, we were very pleased to announce our agreement to acquire Chefs Catalog and assets of Cooking.com in two separate transactions. These ecommerce acquisitions are aimed at expanding Target's presence in the growing cooking and kitchenware market. We've combined the assets of Cooking.com with Chefs Catalog to create a new wholly owned subsidiary which will continue to operate the two brands under their current names.

We believe these transactions present a strategic growth opportunity to serve guests who are increasingly looking online for cooking solutions to make their lives easier, from utensils and cookware to recipes. These strategic transactions provide us a great way to address this growing opportunity and provide expanded online options for our guests.

In select markets, we're continuing to test same-day delivery in partnership with Google and eBay. Our focus in these tests is to understand the level of guest engagement and this fulfillment opportunity. These projects, which are still in the test phase, continue to provide valuable information on the store back room capabilities and processes needed to support this offering.

And, as we mentioned last quarter, this year we're launching our own test of flexible fulfillment in the Minneapolis market. This month, we launched a test in which team members are given the opportunity to order online and pick up in store. We will use our team members' feedback to improve the process and experience before the pilot becomes guest-facing later in the year. Two other team member pilots, pay in store to pick up at another store, and pay online and ship from store, are planned for late in the year.

In both our stores and online, we feature great designers and brands and continue to roll out new, unique merchandise that creates a sense of discovery for our guests. Our goal is to show guests that design means more than fashion, and that great design doesn't have to mean high prices.

In home, we continue to be pleased with results from our partnership with Nate Burkus. The collection includes a growing list of products in a wide range of categories, including bedding, bath, accessories, lighting, rugs, and stationery.

We also continue to see great results from the rollout of the Threshold brand, which is replacing Target Home, our largest owned brand. We debuted Threshold last fall, and guests continue to respond to this fully redesigned, high quality collection that's inspiring them to update their homes.

To celebrate this new brand, earlier this month Target constructed a life-sized dollhouse in New York's iconic Grand Central Terminal, where guests could explore a two-story, seven-room dollhouse, decorated with more than 3,500 pieces from the Threshold collection. Select furnishings were tagged with QR codes to be shoppable, right from the dollhouse.

In our stationery category, we're excited about our collaboration with Todd Oldham on the Kid Made Modern collection, which offers creative activity kits and supplies to inspire kids through art. The collection has a clean, simple, and fresh design that's gender-neutral and age-appropriate to inspire all children and parents. We launched this collection of creative design tools late last year, and set a new collection this spring.

Following our successful first quarter partnership with Prabal Gurung and Kate Young, we recently announced our latest design collaboration with Lauren Bush Lauren and the rollout of the Feed USA + Target collection. In late June, we'll feature the lifestyle collection of stylish products in home, sporting goods, stationery, apparel, and accessories.

The collection, which reflects a modern Americana aesthetic while supporting an important cause, includes more than 50 products across a range of price points, with most items less than $25. Each item in the collection has an associated number of meals listed with it, and with each sale, Target will donate the monetary equivalent of that number of meals to Feeding America, the nation's leading domestic hunger relief charity and a partner of Target since 2001. During the time that the products will be available, we expect to provide more than 10 million meals for families across the U.S.

In Canada, we've been very pleased with the results from our partnership with Roots Outfitters, an iconic Canadian brand that offers quality craftsmanship and comfortable styling on a line of apparel for men, women, and kids. And, we're very excited that we recently announced a fall partnership with Beaver Canoe, a member of the Roots Canada family, to offer an exclusive collection of cabin chic apparel and home items in our Canadian stores this fall.

Entertainment had a great first quarter, including the release of our exclusive deluxe version of "The 20/20 Experience" from Justin Timberlake. The strength of the guest response put this release among the top three at target in the last 10 years. We followed this success with releases of exclusive albums from The Band Perry and Michael Buble in April.

In Electronics, we've partnered with Wired magazine to offer a custom curated assortment of consumer electronics and gadgets tested by their editors, featuring their expert tips on usage and key features. And, in April, Target became the exclusive mass retailer to debut the Beats by Dr. Dre Neon Mixer headphones, available in eye-catching green, orange, pink, yellow, and blue.

We've long known the value we can create through segmentation of our stores and assortments based on store location and demographics. We continue to develop tools and processes that allow us to further localize assortments and experiences to match the specific markets where our stores are located. We are focused on providing a deeper presence of locally relevant products and brands across the store, including categories like food, beauty, home, and entertainment. And, we continue to invest in unique, multichannel experiences like Cartwheel that allow guests to choose their own offers and further integrate their target experience into their social networks.

Now John will share his insights on our first quarter financial performance and our outlook for the second quarter and full year. John?

John Mulligan

Thanks, Kathy. As Greg mentioned, we're disappointed with our first quarter financial performance. Sales in the U.S. were softer than expected, even relative to updated guidance we provided in April, causing our reported earnings per share to fall short of our updated guidance as well.

Adjusted earnings per share, which measures the results of our U.S. operations, were $1.05, representing a 5% decrease from last year. First quarter GAAP earnings per share were $0.77, reflecting losses on early retirement of debt, which reduced our EPS by $0.41, EPS dilution related to our Canadian segment of $0.24, and net accounting gains of $0.36 related to the sale of our credit card portfolio.

Before I turn to our segment results, I want to remind you of a couple of factors that will be affecting our financial reporting this year. First, with the sale of our receivables, beginning with the first quarter we are no longer reporting a credit card segment, and we now have two reportable segments, a new U.S. segment and a Canadian segment. In the first quarter, we began recognizing profit sharing payments from TD net of operating expenses within SG&A expense in the U.S. segment.

To provide context, in an April 16 8-K, we provided revised quarterly segment reporting for fiscal years 2010 through 2012, in which credit card revenues net of expenses from our former U.S. credit card segment were recognized within SG&A expenses in the new U.S. segment. In this year's financial reporting, revised 2012 U.S. segment results will be presented as prior year results.

To provide additional context, this year's rate analysis includes a comparison to last year's performance in the historical U.S. retail segment. For simplicity, to the extent that's possible, in my discussions today I will focus only on this year's U.S. segment results, compared with last year's revised U.S. segment results.

Second, as I mentioned in our last conference call, we've made changes to our vendor agreements regarding payments received in support of our marketing programs. As a result, in fiscal 2013 these payments will be recognized as a reduction in our cost of sales rather than a reduction to SG&A expense. This change is expected to create equivalent year over year increases in our U.S. segment gross margin and SG&A expense rates of 20 to 25 basis points, without affecting EBITDA and EBIT margin rates.

With that as context, I'll turn to the first quarter performance in our new U.S. segment. Total sales increased 0.5%, on a 0.6% decline in comparable store sales, combined with the contribution from new stores. Among the drivers of comparable store sales, traffic was down 1.9%, partially offset by a 1.3% increase in average ticket.

Our first quarter traffic decline essentially offset a 2% increase a year ago. As we told you at the time, we believed first quarter 2012 was unusually strong due to the warm weather, and that proved to be the case as full year 2012 traffic was up 0.5%. While we expect traffic will continue to be challenging given our near term outlook for the economy and the consumer, we don't expect to continue to see traffic declines of the magnitude we saw in the first quarter.

With the added pressure on household budges from the recent payroll tax increase, the simplicity and compelling nature of our 5% Red Card Rewards discount is clearly attracting an increasing number of guests. The penetration of sales on Red Cards reached 17.1% in the first quarter, up from less than 12% a year ago.

While discounts from this program continue to put pressure on our gross margin rate, this investment paid back through the benefit of increased loyalty and sales. We continue to see households increase their spending more than 50% on average when they begin using a Red Card. And, in Kansas City, which is a year ahead of the rest of the country, penetration is above 20%, and the rate of increase has shown no sign of slowing down.

Our U.S. segment gross margin rate was 30.7% in the first quarter, up about 50 basis points from a year ago. The change in recognition of vendor payments explained about 20 basis points of this increase. The remainder of the improvement was driven by rate increases within categories, which more than offset continuing gross margin rate pressure from our sales driving Red Card rewards and remodel programs.

Every year, Kathy's team works hard to incrementally improve gross margin rates within categories, and the year over year benefit from these efforts can vary meaningfully from quarter to quarter. In the first quarter, the magnitude of category rate improvement was stronger than normal, and we're expecting to see a more modest benefit in upcoming quarters.

Our first quarter U.S. segment SG&A rate of 20.3% was about 130 basis points higher than last year's revised U.S. segment rate. The primary drivers of this variance are about 50 basis points resulting from lower earnings on the credit card portfolio and about 40 basis points related to technology, including our multichannel efforts. In addition, the change in vendor payments drove the rate higher by about 20 basis points, and of course with lower than expected sales, we saw less overall expense leverage than we anticipated.

On this last point, it's important to note that our first quarter results reflected meaningful store productivity improvements, and the entire organization did a great job controlling expenses. As I mentioned in the last call, we're anticipating incremental expense pressure from technology investments throughout 2013, and we plan to offset that pressure through disciplined expense management across the enterprise as the year progresses.

Also, I think it's important to provide more context for the decline in our earnings from the credit card portfolio, because the portfolio continues to experience outstanding performance. However, there are three separate reasons which drove lower earnings from the credit card portfolio in the first quarter. First, the asset is smaller than a year ago. Second, we're annualizing a $35 million reserve release in the first quarter of 2012. And finally, we began sharing portfolio profits with TD after the sale closed in March.

Notably, among these three reasons, profit sharing drove less than half of the year over year reduction in Target's earnings from the credit card portfolio, and we expect all of these pressures will continue for the next several quarters.

Moving down the U.S. segment P&L, we reported a first quarter EBITDA rate of 10.4%, about 80 basis points lower than last year's revised U.S. segment rate. With about 50 basis points related to our credit card portfolio, that means our U.S. retail operations accounted for only a 30-basis point decline in the EBIT rate compared with last year, which is relatively stable when one considers that sales were unexpectedly soft this year and we were annualizing a 5.3% comp last year.

In our Canadian segment, we generated $86 million in sales from 24 stores that were open, on average, a little more than half the quarter. Whenever we open a new store in the U.S., there is a rush of traffic and sales as curious guests shop it for the first time, but the rush in Canada exceeded our expectations.

The first quarter gross margin rate in Canada was more than 38%, which is much stronger than our long term expectations for a couple of reasons. First, in new stores we experienced a strong initial mix of home and apparel sales, as guests end to shop these categories on their first trip to these stores. In addition, given the short time these stores have been open, they have not yet experienced any meaningful transitions or clearance activity, so this quarter's Canadian gross margin rate didn't reflect the impact of markdowns we'd expect to see over time.

First quarter Canadian segment P&L was dominated by startup expenses related to the 100 additional stores we're preparing to open later in the quarter. For the quarter, Canadian segment operations drove $0.24 of dilution to our consolidated earnings per share.

With the sale of our credit card portfolio in March, we recognized a pretax accounting gain of $391, of which $166 million was cash received in excess of book value and $225 million was related to a beneficial interest asset. This asset effectively represents a receivable for the present value of future profit sharing payments we expect to receive from TD on the credit card balances transferred at the time of the sale.

Going forward, a portion of the profit sharing payments from TD will be applied to unwind the beneficial interest assets. We expect to fully unwind it in three to four years, and expect to reduce its size by about 50% in the first 12 months following the sale.

Also following the portfolio sale, we began deploying proceeds to retire debt and repurchase shares. Concurrent with the sale, we repaid, at par, $1.5 billion in funding that was previously backed by the receivables. We also launched debt tender offers to repurchase another $1 billion in high coupon debt, which led to losses, recorded in interest expense, of $445 million in the quarter. Of course, these tender offers created a meaningful economic benefit not reflected in the accounting for these losses.

During the quarter, we also paid off commercial paper that we had used to provide short term funding following the $2 billion in debt maturities last January. Finally, there is another $500 million maturity in June, which we expect to fund with proceeds from the sale.

We're pleased that with the completion of the sale we were able to remove these more volatile assets from our balance sheet and quickly reduce a meaningful amount of debt that was funding them. Over time, we expect to apply the remainder of the proceeds from the portfolio sale to repurchase shares. In the first quarter, we invested $547 million to repurchase 8.5 million Target shares at an average price of just over $64.

For the full year, we continue to expect to invest more than $2 million to retire shares, and we'll continue to govern the pace of execution in support of our goal to maintain our strong investment grade credit ratings.

We paid first quarter dividends of $232 million, marking the 182nd consecutive quarterly dividend we've paid since becoming a public company. We will recommend that the board approve an increase in the dividend later this year, which would make 2013 our 42nd straight year in which we increased the annual dividend.

Now let's turn to our expectations for the second quarter and the year. In the U.S., we remain cautious about the near term sales environment, given the economic and consumer challenges Kathy and Greg mentioned earlier. Yet with the recent weather challenge behind us, and easier comparison from last year, we expect second quarter comparable store sales will recover into the 2% to 3% range.

So far in May, we've continued to see cautious buying behavior from our guests, but the pace of sale has supported our view of the quarter. In the U.S. segment, we expect the second quarter gross margin rate will be up slightly from last year, driven entirely by the change in recognition of vendor payments.

We expect our second quarter SG&A expense rate will be just over 21%, nearly a full percentage point higher than last year's revised U.S. segment rate, driven primarily by a smaller benefit from credit card income and the change in recognition of vendor payments. This would put our second quarter EBITDA margin rate at about 10.5%, and with expected leverage on [D&A], an EBIT margin rate of 7.5%.

In Canada, second quarter sales will ramp up meaningfully from the first quarter pace, yet startup expenses will continue to dominate the P&L. As a result, for the quarter we anticipate expenses from our Canadian operations, including interest expense measured outside the segment, will create $0.16 of dilution to our earnings per share.

We continue to expect Canadian dilution will come down further in the third quarter, and by the fourth quarter, we expect our Canadian operations will be slightly accretive to our consolidated earnings.

Altogether, we expect second quarter adjusted EPS of $1.09 to $1.19. We expect our GAAP EPS will be $0.19 lower than adjusted EPS, in the range of $0.90 to $1.00, reflecting $0.16 of dilution due to Canada and $0.03 of dilution related to the unwind of the beneficial interest asset related to the receivables sale.

For the year, we have an even more tempered view of sales than we did three months ago. Without some unexpected improvement in the economy and the consumer, our full year comparable store sales will likely grow in the 2% to 2.5% range, somewhat below the 2.7% we outlined at the beginning of the year.

This updated view of sales has also tempered our view of full year earnings per share, causing us to take our expected range for adjusted EPS down $0.15 to the $4.70 to $4.90 range. We expect full year GAAP EPS to be $0.58 lower than adjusted EPS, in the $4.12 to $4.32 range, reflecting Canadian segment dilution, [unintelligible] on early debt retirement, and net gains from the credit card portfolio sale.

Longer term, we continue to feel very good about the health of our business and the steps we are taking to keep our business relevant over time. We continue to invest in our remodel program, loyalty initiatives, technology, the integration of our store and digital experience, the new City Target format, and our Canadian segment.

Yet even with those initiatives, we continue to expect to generate far more cash than we need to invest in our business, giving us the opportunity to return billions of dollars to our shareholders through dividends and share repurchases. As a result, we continue to expect Target will continue to deliver earnings per share of $8 or more by 2017, combined with a dividend of $3 or more that same year.

That concludes today's prepared remarks, and now Greg, Kathy, and I will be happy to respond to your questions.

Question-and-Answer Session

Operator

[Operator instructions.] Your first question comes from the line of Peter Benedict of Robert Baird.

Peter Benedict - Robert W. Baird

Just on the U.S. gross margin performance, can you give us a sense of maybe what that Red Card impact was in the quarter?

John Mulligan

You know, the combination of that with the store remodel program, very consistent with what we've seen in the past several quarters. Somewhere between 25 to 30 basis points of impact.

Peter Benedict - Robert W. Baird

You kind of said for the year you're now thinking 2-2.5. I assume that still has a pretty modest view for comping in the fourth quarter. Is that correct? And then secondly, when you think out beyond, do you guys think maybe 2-3 is the longer term comp profile for the business? Or do you think it could still be north of 3, just when you think of a more normalized environment on an annual basis?

John Mulligan

I think your view of Q4 is right. I think in particular this Q4 will be particularly difficult, given the 53rd week and the calendar shifts this year. You'll recall we're going to lose six business days between Thanksgiving and Christmas this year, which will make the comp feel much more difficult than it otherwise might. I think over the longer term, we continue to think a 3 comp is about the right place to be.

If you look, again, at our company over 15 years or 20 years, if you net out the contribution of new store annualization, we essentially ran pretty consistently a 3 comp over time, through good times and tougher times. So we think, in an economic environment that might just be a little bit better than today, it doesn't have to improve drastically, but a little better than today, we think a 3 comp makes sense.

Peter Benedict - Robert W. Baird

And on the Canadian D&A, what do you think the run rate is for that once you get out? You've opened a bunch of the stores. Once you get those to the end of the year, what kind of run rates were you thinking about for Canadian D&A?

John Mulligan

I think you'll continue to see D&A grow throughout this year as we continue to put significant assets into service. And we'll provide a little bit more color, as we get later into the year and have a little bit more clarity about sales margin and the entire P&L. We'll provide a little bit more clarity about the entire P&L for Canada.

Operator

Your next question comes from the line of Sean Naughton of Piper Jaffray.

Sean Naughton - Piper Jaffray

In terms of just dissecting the comp in Q1, transaction trends, as you mentioned, were relatively stable on a two-year basis, and didn't improve from Q4. But the units per transaction were down 50 basis points, and I think that's the first time since '09. Just wondering what would explain that decline given the increase in the remodel program from Q1 last year.

John Mulligan

Actually, I'm not quite clear on your question. Units per transaction in the first quarter were up year over year. Help me with that again?

Sean Naughton - Piper Jaffray

Oh, I thought that were down 50 basis points, maybe I'm missing something.

John Mulligan

No, selling price per unit was down 60 basis points. Entirely mix. But units were up consistently for some of the reasons you described.

Sean Naughton - Piper Jaffray

And then Gregg, you touched briefly on the price matching. Just curious if you are seeing the number of request for the price match change at all. And has there been any competitive response to that in the marketplace?

Gregg Steinhafel

You know, both the stores with the matching of competitors' physical ads and the online match has been fairly stable, and has not grown materially over the last quarter. So it still represents a very small portion of our transactions, and that's because our everyday price and our promotional prices are so strong. There's generally not much of a gap, if any. So we continue to watch our competitive prices on a day-in and day-out basis, and move where we have to be competitive in the marketplace and so we expect over time this not to change that much.

Sean Naughton - Piper Jaffray

And then just lastly, on digital, you're obviously seeing some nice traction, nice growth outside of the seasonal categories. Can you talk about just the impact on margin for that sale today? Is it dilutive? Or is it accretive to the margin? And how are you planning that over time?

Gregg Steinhafel

First, I start with how we think about this longer term, and we think about, from a longer-term perspective, sales through all of our channels, regardless of the channel, need to generate a return, and a return on investment that's similar to what we see in our current U.S. store base.

What we see today is, honestly we're learning a lot about that channel, and a lot of this depends on how we're going to ultimately [settle on] a share count that our guest wants to interact with us, how much is shipped from store, how much is shipped to store. That will have a significant impact ultimately on the EBITDA margin rates of that particular channel.

But I think once again, depending on where those EBITDA margin rates land, sales or capital will move around, and we feel very confident that we'll get back to a return that makes sense. Having said all that, I think as it relates to the rates embedded within that channel we feel very comfortable that ultimately that can operate at that 10% EBITDA rate that we've said is part of our long-range plan.

Operator

Your next question comes from the line of Matt Nemer of Wells Fargo Securities.

Matt Nemer - Wells Fargo Securities

First, I'm wondering if you can comment on sales in geographic areas that had more neutral weather, like Florida. Were the transactions and the comps positive in those markets?

Kathryn Tesija

You know, we did see better results in areas that had more normal weather. So that would primarily be the west coast. And they were toughest in those seasonal categories where we saw weather off the most, and that would be primarily in the Midwest. So we did see quite a swing between the different geographies.

Matt Nemer - Wells Fargo Securities

And then in terms of the second quarter guidance, do we assume that there's some incremental markdown risk in seasonal categories? You did mention that within categories the rate improvement would be a little softer in the second quarter than in the first quarter. So just wondering what the markdown risk is in seasonal categories.

Gregg Steinhafel

Yeah, like we've said, the teams did a very good job of responding to the sales shortfall and retiming receipts and making cancellations. We're going to know a heck of a lot more in the next 30 days as we see what happens, and how the sales of these categories play out, before we have to take markdowns on the Fourth of July. If we get really good weather, and we have good sell-throughs, then we're going to be right back on plan. If things stay damp and cool for an extended period of time, there might be some risk. But we don't expect to see a significant risk whatsoever. So we're talking about things on the edges right now.

John Mulligan

The other thing I'd add, a little bit hard to see with the inventory on the balance sheet, the inventory per store in the U.S. is essentially flat to last year. All of the inventory build year over year is attributable to Canada. So we feel really good about where the inventory positions are in aggregate.

Matt Nemer - Wells Fargo Securities

And then just lastly, if we look at your operating expenses in the U.S. retail segment, dollar growth accelerated a little bit versus the last few quarters. I'm assuming a lot of that is technology investments. But given the more moderated view of comps for the full year, could we see the dollar growth potentially come back down a little bit?

John Mulligan

Yeah, I think you're right, first of all, that the vast majority of that is multichannel technology, and we've said, you know, a little bit of missed timing here. We expect to offset that on the year with expense savings and improvements we're making in our business, but the investment coming in a little ahead of that.

To your second point, I think that's absolutely right, and it's interesting, we said this last year, when our sales accelerate or decelerate rapidly from our expectations, we tend to see our SG&A lag both directions. It doesn't climb as fast when sales go up, like last year, and doesn't come down quite as quickly when we see sales decelerate. And as we adapt to wherever sales are going to be, you'll see our SG&A settle in at a more appropriate level.

Operator

Your next question comes from the line of Colin McGranahan of Bernstein.

Colin McGranahan - Sanford C. Bernstein

First question on Canada. Understand that the gross margin rate of 38% is not the long run rate. But where do you think that settles out, and was the 38% above where you expected even kind of adjusting for the mix that you saw?

Gregg Steinhafel

Yeah, I would say out of the box the 38% was a little higher than we expected, because the mix was a little bit better than we expected out of the box. Now, whether it's in Canada or the U.S., clearly when we open a new store, we hit a higher gross margin rate. But the mix was even higher than the higher that we expected. So we do expect that to settle down and be slightly higher than what it is in the U.S. because we expect the mix to be a little bit better than it is here in the U.S.

Colin McGranahan - Sanford C. Bernstein

Of course, and as the consumables business ramps up, mix is down, but from a productivity perspective, can you tell anything yet on these first stores that are open in terms of opening expectations relative to what you would have thought? Or was it just too much hoopla that you can't discern anything yet?

Gregg Steinhafel

Well, I wouldn't call it hoopla. I would just say that the guests were very, very excited and we experienced tremendous surges in sales. And it's just very, very early to draw any conclusions and we really wanted to deliver a great experience.

And so to a certain extent, we went in with staffing levels to make sure that we were taking care of the guests at the front end, and we had the right team members there for the supply chain, and we had the right teams on the sales floor. So we know that over time, and in our run safe condition, we have to work hard at making sure that we get our productivity levels where the business model dictates them to be, and we know our gross margins will settle in, and we've got to become more productive and run the business.

Over time, our consumables share will grow, because that's the hardest trip to change with the guest, and so we're going to continue to focus on those frequency oriented categories so that we can not only get the good mix that we're getting, but we want to now start driving more trip frequency into the store.

And we didn't want to come out of the box by hitting those categories too hard, because we wanted to make sure that we led with our strengths, and we wanted to make sure that all the supply chains and the operational disciplines were in place. We feel very confident now that they are, so we're ready to start making those kinds of adjustments in merchandising and supply chain and store operations to start refining the model.

Colin McGranahan - Sanford C. Bernstein

Second, on the credit, I actually thought the contribution of $105 million, while you explained why it was lower, it seemed to me it was higher than I would have expected, especially given the bad debt reserve release last year. Is there anything there that reflects the $105 million profit share?

John Mulligan

I think the one thing I would remind you is we only had a half a quarter's worth of profit sharing with TD. Next quarter we'll have a full quarter's worth of profit sharing with TD.

Colin McGranahan - Sanford C. Bernstein

So the $105 million was really a $210 million quarterly run rate?

John Mulligan

No, because that's net of our operating expenses as well.

Colin McGranahan - Sanford C. Bernstein

And then finally, just coming back to SG&A, the dollars were up I think $233 million. If I x out the credit difference of $35 million, the vendor allowance of $13 million, the technology spend, it still looks like the growth is pretty healthy. John, I know you mentioned that there's a lag, just in terms of how quickly you can get after that if sales are disappointing. Would you also expect some of the expense things you're doing on a longer term basis to impact that? And I guess my question is, can we see better performance out of that line? Because it sounds like the Q2 guidance doesn't get us there.

John Mulligan

No question. And what we're seeing, I think we talked about this a little bit five weeks ago when we were together, you'll see the ramp up in our expense initiatives throughout the year and through next year, actually. Many of them are a little bit longer lead times to pull out expense. You know, all the easy stuff we've done a long, long time ago. So we do expect, through time, SG&A will come down and manage to a level that is more appropriate.

Operator

Your next question comes from the line of Bob Drbul with Barclays.

Bob Drbul - Barclays

I guess the question that I have for you is twofold, but it revolves around traffic. When you look at the initiatives that you have in place, Red Card and Pfresh, and I understand the seasonal piece, Q1 this year versus last year, but when you think conceptually traffic was down in the fourth quarter and that was down again in the first quarter, how do you sort of get us comfortable with essentially the efficiency and the effectiveness of these initiatives over the longer term period? And the second question that I have is the lower comp assumption for this year, can you maybe just break down the traffic component in that new 2-2.5% expectation?

Gregg Steinhafel

The traffic, you know, it was a disappointing quarter for us. We had very, very strong traffic last year. There was pluses and minuses throughout

2012, and we expect traffic trends to get stronger as the year goes on. And we have all of our initiatives designed to not only deepen the relationship but build frequency. So we'll perhaps be a little bit more aggressive on price, to look at the competitive environment. It was a little bit more aggressive than it had been in the past, where there was more emphasis on price and that can, I think, impact it a little bit. But overall, we really expect to be able to generate traffic levels that are flattish, give or take, over normalized periods of time.

John Mulligan

And Bob, the other thing I would add, I don't think we need to run traffic numbers like we did last year in first quarter to generate that 3 comp. I think if you look over the past several years, about a half a point of traffic, combined with ticket, gets us to a 3 comp. And that's about the formula that we feel really good about.

Kathryn Tesija

The only other thing that I would add is this time of year, our seasonal categories can be a big traffic driver for Target, and clearly they weren't in the quarter, and they were last year. So all of the things you mentioned, 5%, Pfresh, help us all year long, but during key seasonal timeframes, we need those categories to drive traffic as well.

Operator

Your next question comes from the line of Deborah Weinswig from Citigroup.

Deborah Weinswig - Citigroup

A lot of conversation regarding mobile and digital traffic. Can you also talk about what conversion was like during the quarter?

Kathryn Tesija

Our conversion has been improving of the prior year. And we were up slightly in this quarter as well. So we're really pleased with improvements that we've made on the site, but I'll tell you, we still feel we have a long way to go with conversion, and we are very committed to continuing to work on our navigation and our search function, the basic functionality of our site, to continue to make big improvements there.

John Mulligan

I think the other thing I'd add there is we have a little bit of a mixed headwind, which is positive from our perspective. Mobile, in general, has a much lower conversion rate than the site, and our mobile is growing much, much faster than the site. We think that's good, because we think that's where things are going, and it also shows that she is spending a lot of time with us on the mobile applications we have, but conversion's just naturally lower there, so it creates a little bit of a mixed number as we look at the aggregate.

Kathryn Tesija

So if you look at conversion on our site, it's up to last year. If you look at conversion on mobile, it's up to last year, but because of the big growth in mobile, to John's point, conversion comes down slightly in aggregate.

Deborah Weinswig - Citigroup

And then maybe just a broader question. Can you just talk about how you're positioning yourself in terms of taking advantage of the Affordable Care Act?

John Mulligan

I think we've said a couple of times the Affordable Care Act, the changes for us will not be material externally. We're still continuing to work through all the regulations and we are hopeful that we will exactly do, but it won't be material changes to what we're doing today, or financially, from a financial perspective.

Deborah Weinswig - Citigroup

And I think Gregg touched on segmentation and how you're looking to match local tastes and preferences. Where are you? I know there was a lot of work done in Canada, but where are you domestically in terms of that?

Gregg Steinhafel

We feel good about where we are. We've been working on this for a long time, and we continue to deploy resources to get better and better at that. This is just a long term initiative that we have to continue to focus on, whether it's in food, whether it's demographics, whether it is ethnic groups. We've just got to continue to get better at our localization efforts. And we think we've made good progress there, and we're going to continue to focus on it.

Deborah Weinswig - Citigroup

Was there anything that you learned from Canada that you could go back and apply to the U.S.? Or was it exactly what you expected, and you're just continuing on the path?

Kathryn Tesija

I would just say it's a little early to learn from Canada and bring that back to the U.S. I will tell you, though, we learned a lot from City Target that we have applied to Canada. So as you know those stores are in dense, urban areas, and so are our Canada stores. So we took a lot of that learning and the testing that we did last year and applied that to what we're doing in Canada. And throughout this year, of course, we'll be reading the Canada results and bringing that back to the U.S. But the same teams work on localization for both countries.

Operator

Your final question comes from the line of Chris Horvers from JPMorgan.

Chris Horvers - JPMorgan

First, on the top line, in the home and apparel categories, can you talk about the stacked comps that you had in the first quarter and broadly how those categories have trended over time, the past few quarters?

Kathryn Tesija

When we looked at the stack comps, we feel a lot better about it, just looking at this quarter. Both were positive, if we look on a stack basis. Going forward, our compare in second quarter is not nearly as difficult as our first quarter, so we would expect our comps to improve. And over time, we want that two-year stack to improve. We're not happy with flat or up slightly. We want to make sure that we're making progress there. But it was, on a two-year basis, better.

John Mulligan

Apparel, for instance, the two-year stack is around a 2. Running that consistently through time, we'd feel really good about running 2s in apparel. And as Kathy said, home is positive, and that's a big improvement from where home has been over the past several years. So on a two-year basis, we feel good about both those businesses.

Chris Horvers - JPMorgan

And then also, in thinking about the EPS pressure from Canada, can you talk about how much of the expenses in the first quarter are one-time in nature, pre-opens and so forth? And as you're thinking about the guide for the second quarter, a similar question. How much of that expense pressure is actually something that goes away in future quarters?

John Mulligan

That's difficult to parse out, and the example I would give you is exactly what Gregg said, where we started with the stores staffed very heavily. We know through time we have to refine that model. That one-time expense, or operating expense, certainly the expenses related to hiring team members early and training them at the next cycle of stores we'll open up, that is all one-time, and will drift away. What I'd tell you through time, we expect ultimately, well down the road, to get to an SG&A rate that makes sense and productivities that are very similar to the U.S. So as I said before, right now expense dominates the P&L in Canada. And as we get more clarity on sales margin, operations later in the year, we'll provide a lot more color about how we expect those stores to operate.

Chris Horvers - JPMorgan

Just in terms of being in the stores, it seems like at times you're actually too thin on inventory in some of the discretionary categories, whether that's home or apparel. What's the internal discussion around balancing rate versus balancing sales? And do you think that you've leaned too far toward the rate side?

Kathryn Tesija

You know, this is something that we are always looking at and adjusting. But I guess I would tell you I don't feel like we've gone too far. Our inventory, as John mentioned, our average inventory per store is flat to last year. It's actually up a bit in apparel given the softer sales in the first quarter. So we're always looking at that. We look as much as out of stocks as we do in stocks in trying to improve those stores. So it's a constant focus for us, and we can always improve. But I feel pretty good about where we are right now in terms of in stocks.